



FACTORS INFLUENCING TAX COMPLIANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE DURBAN AREA.

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DECLARATION

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 All information used from published or unpublished work of others has been acknowledged.

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DEDICATION

I dedicate this thesis to my late sister (Sindisiwe Dlamini), who taught me how to pray and have faith in God.

To my sibling and niece, let this be an inspiration to you, after all the sacrifices our mother went through to give us a better education, even though she is a single parent.

My mother was the most beautiful woman I ever saw. All I am I owe to my mother. I attribute all my success in life to the moral, intellectual and physical education I received from her.

George Washington

ABSTRACT

It is globally recognised that small and medium-sized enterprises (SMEs) play a significant role in improving a country's economic growth and creating jobs. It is, therefore, in the public interest and in the interests of government to support SMEs. The South African government has recognised and focused on the improvement of SMEs as one of its strategic objectives. Regardless of the significance of SMEs for the country and region, there are numerous difficulties that SMEs face. Therefore, this study was conducted to evaluate factors that influence tax compliance of SMEs in the Durban area, located in KwaZulu-Natal, South Africa. The gravest and tedious difficulty is guaranteeing tax compliance. Taxation is an important source of funding for the government's construction programmes. For many tax authorities, tax compliance is a major concern, and persuading SMEs to comply with tax provisions, particularly as tax laws are often not precise, is a challenging task. South African Revenue Services (SARS) estimates a South African tax gap of R 300 billion per tax year, and also about 40% of local enterprises are not registered for tax purposes in South Africa.

This study employed a quantitative research approach to obtain data from 146 SMEs operating in the Durban area. A total of 230 questionnaires were distributed to SMEs located in Clermont, Morningside, Umgeni, Durban Central and Phoenix, with 157 questionnaires returned. However, only 146 questionnaires were usable. The research outcome revealed that participants' level of education impacts tax compliance, and there is a positive relationship between the tax compliance costs and tax compliance. Attention was drawn to the impact on non-compliance due to complex tax filing and high tax rates. Furthermore, the study indicated that the continuous granting of tax amnesties demotivates compliant taxpayers. The research recommended that the South African government consider reviewing the tax rates and compliance costs and reduce non-compliance by SMEs by improving tax awareness campaigns.

Key words: Small and medium-sized enterprises, Tax compliance, Taxation.

ACRONYMS

BEA	Bureau of Economic Analysis
CIPC	Companies and Intellectual Property Commission
CIT	Corporate Income Tax
CPEC	China Pakistan-Economic Corridor
GDP	Gross Domestic Product
GST	Goods and Services Tax
IRB	Inland Revenue Board
IIER	Institute for International Economic Research
IMF	International Monetary Fund
NDRC	National Development and Reform Commission
OECD	Organisation for Economic Co-operations and Development
SA	South Africa
SARS	South African Revenue Services
SAS	Self-assessment System
SBC	Small Business Corporations
SME	Small and Medium-sized Enterprises
SMME	Small, Medium and Micro-Enterprises
TAA	Tax Administration Act

VAT Value Added Tax

VDP Voluntary Disclosure Programme

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Numerous studies have demonstrated that small and medium-sized enterprises (SMEs) play a vital role in improving a country's economic growth and in creating job opportunities (Atawodi and Ojeka 2012: 87; Junpath 2013: 18; Lekhanya 2016: 1; Nasrallah and El Khoury 2022: 14; Nduruchi, Makokha and Namusonge 2017: 46; Subhan, Mahmood and Sattar 2014: 163; Vadra 2022: 1). A study conducted by Atawodi and Ojeka (2012: 87) showed that the future large enterprises are the SMEs of today because they are the roots of numerous large companies; therefore, SMEs need to be nurtured to ensure their growth. As a result, SMEs are seen as the breeding ground for indigenous entrepreneurship, generating the majority of modest investments that would not have occurred otherwise (Mohammed and Bunyaminu 2022). Carsamer and Abbam (2020) stated that it is in the public and government's interests to support SMEs. Since 1994, South Africa has experienced momentous change, including the emergence of many SMEs. In 1995, the South African government introduced tax administration programmes to make general arrangements for administering and enforcing other tax laws. This included provisions relating to taxation and its payment, exemptions and exemption from tax liability, the right to a refund. However, as a result, most of the SMEs liquidated due to the assumption that if they had to register for tax, they would pay more tax (Davis Tax Committee 2014; Junpath 2013: 12; Kalane 2015: 11). Due to the tax administration that occurred in 1995, SMEs were prosecuted for non-compliance; therefore, there was a greater assumption that they could possibly be inspected by South African Revenue Services (SARS). The liquidation of SMEs resulted in the decrease in tax compliance as per the below statement:

The dramatic deterioration in compliance levels witnessed thus far, if not reversed quickly and forcefully, will gain further momentum and eventually erode, beyond

repair, the integrity of our present income tax system (Graetz and Wilde cited in Yoon, Yoo and Kim 2012: 11).

The decline in tax compliance has certain countercyclical implications for the economy in general, and non-compliance has become a common occurrence in many nations. On the other hand, tolerance of non-compliance may not be a suitable reaction to fiscal issues since it is distorting, inequitable, and, most importantly, hinders the long-term rebuilding of taxation bases. Tax non-compliance among SMEs is a serious problem, which has worried tax authorities and non-governmental organisations worldwide, as argued by Le *et al.* (2020: 209). According to Newman *et al.* (2018: 2), “tax non-compliance has increased over the last decades and, thus, gained attention in policy making and research”. Much research has been conducted internationally and nationally focusing on the different factors affecting tax compliance (Azmi *et al.*, 2016: 170; Engida and Baisa 2014: 433; Fjeldstad, Sjursen and Ali 2013: 1; Jawardane 2015: 131; Kipkoech and Joel 2016: 433; Machogu and Amayi 2013: 12; Serim, Inam and Murat 2014: 19). To name a few authors who conducted research in South Africa on factors affecting tax compliance, they all agreed that tax knowledge plays a vital role in improving tax compliance (Chauke 2016; Junpath 2013; Misra 2004; Oberholzer and Stack 2013; Organisation for Economic Co-operation and Development 2015). Furthermore, for the failure of compliance from SMEs, SARS introduced a tax gap report, which indicates the difference between the estimated and actual revenue generated by tax authorities (Jansen and Calitz 2015: 1; South African Reserve Bank Conference Series 2012). Therefore, the study will examine factors influencing the tax compliance of SMEs.

1.2 Research Problem

The duty of every government is to provide services to its citizens. The government does not manufacture money but relies on taxpayers for its income for all its expenditures. The more taxpayers we have as the country, the more money the government has to spend on service delivery. Every country in the world and every government is reliant on its people paying taxes. If people do not comply with all tax regulations, less tax is collected.

Therefore, the less tax collected, the less service delivery to the citizens. In South Africa, there is a serious problem of tax compliance among taxpayers, especially Small and Medium-sized Enterprises as the main contributors of the GDP. Tax compliance is a massive problem for many tax authorities, and persuading taxpayers to comply with tax provisions, including tax regulations that are often not precise, is a complex challenge (Newman *et al.*, 2018: 1). Slemrod and Bakija (1996 cited in Grove and Burns 2012: 1) said that “the hardest thing in the world to understand is income tax. Nevertheless, it is vital that income tax is understood as it forms a critical element in how a government effects service delivery to its citizens”. Thus, understanding tax impacts tax compliance. Tax compliance is affected by internal and external factors. Indriyarti and Christian (2020: 34) addressed internal and external considerations as reasons why taxpayers may not comply with tax. Internal aspects include taxpayers’ self-perception and judgment of their compliance behaviour as proper, reasonable, or moral. Whereas, external issues that affect compliance are whether the taxpayer thinks the government’s assessments are fair, delivery of public services and how responsible the government is (Appah and Wosower 2016: 2). Internal considerations include confidence in democracy, political virtue, acceptance of the governing party, religious ideology, social and demographic factors, the understanding of what the majority of people think about the individual taxpayers’ attitudes about what others do, and the impact of effective public spending on taxpayers’ perceptions and decisions. External causes considered to be significant include tax inequality, a lack of administrative quality (complex tax laws that change constantly, perpetual tax amnesties, ineffective tax audits, inefficient tax fines, and tax exemptions), and inefficient tax audits (Helhel and Ahmed 2014: 48). The impact of internal and external factors of tax compliance results in the tax gap being a massive problem in South Africa.

There seems to be a tax gap between the tax that could be collected from registered SMEs in South Africa (SA) and the tax that is actually collected. According to Ahmed and Rider (2013: 335), Cilliers (2017: 3), HMRC Revenue and Customs (2014: 4) and National Treasury (2016), non-compliance by SMEs with tax legislation and requirements

is a significant resource for the tax gap. The intention of this study is to examine factors influencing the tax compliance of SMEs in Durban.

1.3 Motivation of the Study

A well-known expression is that the only thing definite in life is death and taxes. However, it is undeniable that taxes are imminent. Individuals may dislike paying taxes and often take various steps to lower their tax obligations. Taxation and the tax system are important for creating an economy. They are needed to create state capacity for significant economic growth. Every revenue authority's primary goal is to increase the amount of taxes and duties due under the statute. That being said, taxpayers are not necessarily willing and motivated to comply with their requirements by statute. Tax compliance is indeed a huge challenge to several tax officials. It is not simple to persuade taxpayers to adhere to tax provisions, even if tax legislation is inaccurate in certain respects. Taxpayers are naturally prepared to lessen their tax burden through tax fraud or tax evasion. This could lead to them erroneously filling in their tax returns and a lack of revenue for the country. An overly complicated regulatory framework and the implementation of tax regimes make tax compliance an enormous opportunity and frequently distorts the growth of SMEs, enticing them to move to structures that give a lower tax rate or no tax burden whatsoever, resulting in a tax system that imposes a high cost to society. A tax scheme that is badly implemented often results in reduced performance, high collection costs and a lack of time for taxpayers. Therefore, significant analysis on the tax compliance of SMEs has been conducted nationally and internationally. However, relatively little has been conducted on factors that affect tax compliance, which is the intention of this study. The key reason for this analysis is to explore factors that affect the tax compliance of SMEs in the greater Durban region.

1.4 Research Aims, Objectives and Design

This research envisioned finding answers to the challenges using the application of a scientific methodology to make certain that the information is reliable and unbiased. The

aim of this study was to examine the factors that influence tax compliance of small and medium-sized enterprises in Durban.

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

- To determine the tax knowledge of SMEs;
- To outline the challenges that SMEs face in order to comply with tax;
- To establish strategies that can be adopted to improve tax compliance by SMEs;
- To determine the consequences of multiple tax amnesty on the government and the SME;
- To analyse the influence of the tax administration programmes on SMEs.

Research Questions:

- What are the strategies that can be adopted to improve tax compliance by SMEs?
- What are the consequences of multiple tax amnesty on the government and the SME?
- What is the influence of the tax administration programmes on SMEs?

1.5 Theoretical Framework

Tax compliance and non-compliance studies are multi-disciplinary in nature. Subsequently, bookkeepers, sociologists, therapists, and financial specialists are intrigued by the investigation of tax compliance and non-compliance (Al-Ttaffi and Abdul-Jabbar 2015: 2). Researchers have inferred that numerous elements impact tax compliance. Accordingly, no single hypothesis can clarify the occurrence of tax non-compliance conduct. Researchers suggest that theories in the humanities and field of economics could clarify tax compliance conduct. For a definitive agreement, the current thesis utilised factors from various sources. Tax non-compliance conduct can be clarified by friendly and mental methodologies (Williams 2020: 2). According to Le *et al.* (2020: 208), there are different types of theoretical frameworks, namely deterrence theories, economic and psychological models, and behavioural models that are normally used in

most tax compliance research; however, this study will focus more on the behavioural theory which is also known as the Social Exchange Theory. The behavioural theory-based technique of tax compliance research might be regarded as a significant advancement in tax compliance studies, and this study will focus more on this theory. The tax compliance of SMEs is affected by the behaviour of taxpayers. Moreover, researchers have integrated new aspects such as psychological, moral, and social factors that impact tax compliance in their models in order to examine tax compliance in more depth. Despite an increase in the number of tax compliance studies, the outcomes have remained inconsistent. One of the essential objectives of tax administration agencies is to accurately identify the elements impacting taxpayer compliance so that suitable actions to combat tax evasion may be adopted (Le *et al.*, 2020: 209). By identifying the characteristics that impact tax compliance among SMEs, providing a research methodology, and proposing policy suggestions to promote tax compliance, this study contributes to the field by filling a vacuum in the literature.

1.6 Conceptual Framework

Somewhere in the range of 1930 and 1980, the proportion of government and federal retirement aid incomes to the Gross Domestic Product (GDP) rose forcefully and stayed at an undeniable level since the 1980s in industrialised countries (Raidt 2022). Typically, rising work pay (and other) tax rates may reduce work supply and increment tax evasion. Hence, work supply and tax evasion (contrasted with the GDP) may have been diminishing and expanding separately. This study will elaborate in terms of tax rate towards tax compliance.

1.6.1 Tax Amnesty and Compliance

Lisa and Hermanto (2021: 228) stated that a tax amnesty is a government programme offered for a certain period to a certain group of taxpayers. The tax amnesty programme permits non-compliant taxpayers the opportunity to willingly reveal unreported or incomplete information and agreeing to settle the outstanding tax liabilities concerning

past contraventions without being penalised and prosecuted (Vicente 2019: 1). According to Junpath (2013: 2), being tax compliance is an obligation for every resident, either corporate or natural, yet not all citizens continuously comply with the law, which leads to a government not providing infrastructure to the citizens.

1.6.2 Tax Compliance Cost

Arewa and Davenport (2022: 114) noted that if an SME is challenged with high compliance costs, it increases the probabilities of avoiding paying taxes; therefore, diminishing the revenue that would have been used by the government for service delivery. It has been argued that Value Added Tax (VAT) is the most effective way of collecting tax, and it has been taken up by 160 countries and used by many in sub-Saharan Africa, too (Kagan and Barnier 2021: para 1; Lockwood and Keen 2007: 6). VAT is meant to be an efficient tax system in terms of tax turnover since revenue collection goes up, but at the same time, deficits are lowered. However, VAT has a wide range of effects on businesses; it raises both startup and ongoing operational expenses, and it has a greater impact on SMEs (Azmi *et al.*, 2016: 2). There is a substantial negative connection between taxes and an enterprise's ability to expand and sustain itself; however, there is a general observation that tax is a significant source of funds for the economy's growth and delivery of social services. In their study, Gichuru and Wahome (2022: 25) found that companies utilising a computerised accounting system usually record greater tax compliance costs than the firms using the manual method. The major reason for this is that many businesses designate expenses associated with computerised accounting systems separately, whereas charges associated with the manual technique are added as part of the various duties that SME managers or owners do.

The tax gap is the difference between what is collected and what should be collected theoretically (Toder 2007). Woellner *et al.* (2007: 717) conducted a study in Australia where it was noted that small and medium-sized taxpayers lacked the necessary tax knowledge to act in accordance with the tax law. Moreover, a study on the New Zealand

tax system conducted by Musimenta *et al.* (2017: 147) showed that small and medium-sized businesses, the self-employed and individuals generally, signify the chief proportion of tax evasion. According to research undertaken by Ahmed and Braithwaite (2005) and Hite, Stock, and Cloyd (1992: 20), around one-fifth of small businesses either misrepresented their taxable income or inflated their tax deductions.

1.6.3 Corporate Income Taxation

Sec 5(1) of the Income Tax Act 58 of 1962 raises the requirement to pay income tax (Government Gazette Extraordinary, 29 May 1962). For tax purposes, Sec 40(6) of the Companies Income Tax Act refers to companies with a turnover of R1 000 000 and below operating in the solid mineral mining, agricultural production, manufacturing, and export trade sectors as SMEs (Government Gazette 2012: 2). At the same time, subsection 8 stipulates that as from 1988, every enterprise engaged in trade or business with a turnover of R 500 000 and below meet the requirements of being SMEs. While several studies have made estimates, there is no official estimate of the cost of international corporate tax avoidance, and there are no official estimations of the individual tax gap. Aronmwan and Okafor (2019: 21) and Planting (2020) stated that the amount of corporate tax avoidance had been projected through a variety of procedures, and not all of them are total avoidance. Enterprises utilise five primary avoidance techniques: moving profits, moving dividends, halfway dependent on internal credits, fictitious interest allowances, benefit moving through intra-firm derivations, and royalty instalments (Aronmwan and Okafor 2019: 21). Nonetheless, research has demonstrated that the yearly shifting of income by international companies from South African shores across numerous financial areas adds up to billions every year. According to Johann van Loggerenberg (cited in Planting 2020), “The illicit trade mainly seeks to unduly capitalise on non- or underpayments of excise, VAT and duties. These schemes are rife and remain a challenge in the sector”.

1.6.4 State of the Economy and Government Accountability

The economics of tax compliance can be regarded as problems of law enforcement, public finance, organisational design, labour supply or ethics (Dom *et al.*, 2022). The problem is that the punishment for tax convictions is negligible from a conventional economic point of view, the likelihood of identification is minor, and thus, the estimated penalty is small. Despite this, most persons pay their taxes. This violates the traditional law enforcement economic model, which holds that persons break the law if the profit surpasses the expected penalty. Behavioural literature offers causes as to why people desire to pay their taxes (Leicester, Levell and Rasul, 2012). For instance, it can be suggested that people conform to a tax payment standard or a more general rule of law-abiding behaviour. The existence of formal institutions that include the rules for taxes is a required prerequisite for tax enforcement. The degree of compliance of these laws and the social standards compelling persons to conform to the rules of taxation are dependent conditions (Rawlings 2011: 84; Stam and Verbeeten 2015: 100).

South Africa (SA) is struggling financially, and the amount received by SARS is not considered enough for the government to fulfil the governmental obligations. In the 2018 budget speech, the Minister of Finance, Mr Malusi Gigaba, announced that VAT would increase from 14% to 15%, and the residents, especially the SMEs, were greatly affected by this decision as they would have an added tax burden (National Treasury 2018). Engelbrech (2018) stated that the main implication that the increase in VAT to 15% will have on SMEs is that they will have to increase their product/ service price. This can be passed on directly to customers, or enterprises can absorb the costs. Beeson, Hemavadi and Jugurnath (2016: 4) stated that few studies had been conducted on tax compliance concerning government expenditure, and they found that one would want taxpayers to be alert to the way the government is using their money. If either spends the money irresponsibly, people will begin to believe the taxpayers are trying to avoid taxation. Kenno (2020: 27) revealed that if the government spends the money collected from the taxpayers irresponsibly, taxpayers will avoid tax; how the government spends money results in compliance fluctuating. In the case whereby taxpayers believe that the

government adequately invests tax money for the benefit of, for example, basic services such as public transport, welfare, schooling and security, then taxpayers are more likely to be loyal (Mohd 2010: 37). SMEs' perceptions towards government accountability determine their tax compliance behaviour (Damayanti *et al.*, 2015: 180).

1.6.5 Demarcation of the Non-Compliance Problems

Residents of South Africa are taxed on their worldwide income, regardless of where it is earned (Expatica, 2021). This is a result of the residence-based system which is used in South Africa. SARS (2012) considers only the non-residents taxed on their income, that is, from the South African source. According to William Louw, director of SA Tax at Sable International 2020, para 3: "You will always submit the tax returns in the country you are not tax resident in first. This way, if you pay tax in the country you are a non-resident in, you can disclose your tax paid in the country that you are tax resident in and avoid a double taxation and instead pay the higher tax amount between the countries".

According to Venter *et al.* (2010: 64), the principal cause of the tax gap in SA is the tax non-compliance of SMEs. However, the Minister of Finance, Tito Mboweni, in his 2019 Budget Speech, delegated the Davis Tax Committee to study the tax gap as no facts pointed to SMEs as the primary cause of the tax gap (National Treasury 2019). However, also at this early stage of the investigation, there was reason to believe that part of the tax gap was triggered by critical tax avoidance and fraud activities. According to SARS (2012: 8), Final Response Document on Taxation Laws Amendment Bill (2017) and Tax Administration Laws Amendment Bill (2017), one of the challenges which prevent SMEs from becoming compliant is fear of past contraventions of the law and the implications that may follow should they decide to enter the formal tax system. Furthermore, the South African revenue framework is viewed as muddled, and only a minority of tax experts can sensibly make sense of it because of the difficulty of understanding tax terminology (Pieterse, Gavin and Kreuser 2018: 8).

1.7 Definitions of Key Terms Used in this Study

This study has a number of key concepts, namely fiscus, Gross Domestic Product (GDP), taxation, tax avoidance, tax compliance and tax evasion. These key terms have been explained below in a manner that serves the purpose of the study.

- **Fiscus** – is defined as the state treasury and is regarded as the financial centre of the Roman Empire where taxes and revenues are kept (Septyana and Suprasto 2019: 211).
- **Gross Domestic Product** – described by the Bureau of Economic Analysis (BEA) as a value of goods and services supplied by a country's economy after subtracting the value of products and services utilised in production. GDP is also considered as the gauge that is typically used to track the country's economy (Dyanan and Sheiner 2018: 4).
- **Taxation** – is explained as an obligatory unrequited payment to the government (Kagan 2020; OECD 2004; OECD 2020:3). In addition, it is the method that is used by the government to fund their expenditures by charging corporate business and citizens.
- **Tax avoidance** – is explained as the legal method that is used by one to reduce tax that is due to the receiver of revenue (Wang *et al.*, 2020: 793). According to this definition, tax avoidance may be legal; however, it lies fairly close to tax evasion. Hence, should taxpayers deliberately ignore the developments of the law and not follow the judicial system, they could be in trouble.
- **Tax compliance** – is not easy to elucidate. Nonetheless, it is defined as fulfilling all the tax obligations as per the requirements stipulated by the law completely and freely (Tuan *et al.*, 2021: 2).
- **Tax evasion** – is defined as the intentional act of non-compliance leading to paying a smaller amount of tax than the actual amount outstanding, which can end in a conviction for tax fraud (Wang *et al.*, 2020: 795).

- **Tax knowledge** – refers to the need for fiscal awareness, comprehension of procedures for tax compliance, and the understanding of legal tax (Newman *et al.*, 2018).

Delineating the Study Questions

Scope

The research focuses on selected SMEs in Durban; nevertheless, KZN intends to do a study of all SMEs in the province; yet, due to time and resource restrictions, undertaking such a study would be a Herculean effort.

Limitations

Although the idea of SMEs is broad, the research will focus on the 146 SMEs in Durban, KZN, which were chosen based on the number of individuals they employ. The SMEs will be picked from Durban's service and retail industries. Because the study mainly looks at SMEs in Durban, the conclusions cannot be applied to SMEs in other cities or provinces because their conditions and features may differ significantly. Furthermore, the Corona virus has infected several continents, prompting the South African government to proclaim a state of national disaster. Due to travel limitations, a number of questionnaires could not be collected from participants, and other SMEs shut down or refused to allow anybody access to their facilities.

Delimitations

The focus of the study is to examine factors that influence tax compliance of Small and Medium-sized enterprises. The study did not consider the entire KwaZulu-Natal province as the research was confined to Durban. The researcher focuses on the Durban area due to travelling costs and familiarity with the area.

1.8 Overview of this Study

Chapter 1: Introduction

This chapter provides the introduction to the problem, background information and significance of the study.

Chapter 2: Literature Review

In this chapter, the literature, models, theoretical framework and relevant research will be presented on the research topic.

Chapter 3: Research Methodology

This chapter focuses on the research methodology applied in the study, particularly considering the dimensions of samples, data collection, survey, and statistical methods.

Chapter 4: Analysis of Data and Discussion of Results

This chapter will present the analysis and interpretation of the findings of the study.

Chapter 5: Conclusions and Recommendations

In this chapter, conclusions and recommendations for future research studies will be provided.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

The first chapter discussed the critical position of small and medium-sized businesses in every economy, including job creation and Gross Domestic Product (GDP) contribution. Furthermore, it introduced tax compliance as the problem statement. This chapter focuses on the literature that assists in understanding the factors that influence tax compliance. According to the current research on tax compliance, several economic and psychological aspects must be taken into account to fully comprehend tax compliance. Internationally, the small business sector is viewed as an important tool for economic growth and job creation (Killian *et al.*, 2008: 16; Nasrallah and El Khoury 2022: 14; OECD 2009: 22; SBP 2013: 4 cited in Anyakide-Danes *et al.*, 2015: 822). In both developed and developing states, small and medium-sized enterprises (SMEs) are seen primarily driving economic growth (Nahida *et al.*, 2014: 283; Venter *et al.*, 2015; Zachary, Kariuki and Mwangi 2017: 134). The significance of the SME enterprise sector in the economic improvement of any country recently must be acknowledged, especially pertaining to innovation, job creation, improved standard of living and financial contribution to the country's GDP. SMEs are key to supporting high employment and income generation, and they are critical for a country's long-term prosperity (International Tax Dialogue 2007 cited in Zachary, Kariuki and Mwangi 2017: 207). Despite its vital role in the economy, this sector has significant challenges due to the complex regulations and laws enacted in the form of tax legislation (Evans *et al.*, 2014: 454; OECD 2010: 5; SBP 2013: 22; Smulders *et al.*, 2016).

Ndlovu, Blumenthal and Papageorgiou (2014: 700) stated that tax compliance is not always bad; it has benefits. Certain studies have shown these benefits, such as cash-flow benefits arising from the use of tax revenues for improving knowledge of financial affairs by using technology, better record-keeping, managerial benefits and improving

business decision making because of requirements regarding tax regulations to maintain records.

According to Gichuru and Wahome (2022: 22), the full payment of all taxes due is tax compliance. Tax compliance, on the other hand, was defined by Aladebe, Ariffin and Idris (2011: 23) as a taxpayer's readiness to obey tax laws and regulations as laid forth by the law many years ago. Dom *et al.* (2022: 18) view tax compliance as a matter of reporting an actual income to the revenue services. Moreover, tax compliance is explained as satisfying all the tax duties as stipulated by the law completely and freely or as the level to which the taxpayer complies with tax regulations and the full payment of all outstanding taxes (Musimenta *et al.*, 2017: 151). Also, Palil and Mustapha (2011: 7) defined tax compliance as how the taxpayers file all the obligatory tax returns by stating all the income precisely and paying the accurate tax liability using the appropriate tax policies. In theory, there are three distinct forms of compliance: filing, payment and reporting. Nevertheless, tax collectors and taxpayers define tax compliance as adhering to the many tax rules that vary from state to state (Chepkurui *et al.*, 2014: 60)

Any discrepancy between the taxes paid and the amount of taxes that are due is known as tax non-compliance. Moreover, Dom *et al.* (2022: 22) defined tax evasion as both purposeful and unintentional non-compliance due to a lack of awareness of tax regulations and calculation errors.

Tax compliance is a significant issue in every economy, and recognising the role revenue collected (in the form of taxation) plays in national development (Folayan and Adeniyi 2018: 85). Low tax compliance levels still categorise developing countries in the face of the various advocacies for voluntary compliance (Dom *et al.*, 2022). Therefore, finding tax evasion behaviour patterns and methods to reduce it is one focal goal of any government's agenda, for them to achieve higher levels of compliance (Leureiro 2014 cited in Folayan and Adeniyi 2018: 86). South Africa decided to change from a tax system that deals predominantly with direct taxation by adopting a mixture of direct and indirect taxation. Individuals' income, trusts, deceased estates, and corporations are all subject

to direct taxes, whereas indirect taxation is levied on transactions that often take the form of VAT or sales tax (Esomeju 2021).

2.2 Summary of Previous Findings on Tax Compliance

The subject of tax compliance is not new, it has been investigated for a long time, and various researchers have arrived at different conclusions. The following table consists of studies that different researchers conducted:

Table 1: Summary of Previous Findings

FACTORS	FINDINGS	SOURCES
The interaction between taxpayers and tax authority.	<ul style="list-style-type: none"> • A contractual relationship between taxpayers and revenue authorities; both bound by obligations and rights for each other. • Keeping the fiscal exchange paradigm among residents and a better tax compliance for the country. • Fiscal struggle on personal income results in slow impoverishment; although remuneration increases, salaries effectively decrease after tax. 	(Allingham and Sandmo 1998; Feld and Frey 2007: 104).
Tax rates and compliance level.	<ul style="list-style-type: none"> • High tax rate results in high tax non-compliance. • Tax payers who underreport are positively associated with a high tax rate. • High tax rate leads to non-compliance. Most SMEs choose to operate in the informal sector, SMEs are disadvantaged. Government could start development projects and provide amenities if funds allow. 	(Allingham and Sandmo 1979; Ha and See 2011; Kirchler and Joel 2016).
Tax audit and compliance level.	<ul style="list-style-type: none"> • OECD countries have low tax audits but a high level of tax compliance. 	(Alm 1991; Alm 1992; Alm 1999;

FACTORS	FINDINGS	SOURCES
	<ul style="list-style-type: none"> • Tax compliance experimentation has shown taxpayers announcing higher levels of revenues than projected by economic deterrence theories. • Tax compliance level is affected by economic and non-economic factors. • The possibility of being detected and audited by tax authorities are found to lessen non-compliance between taxpayers. 	<p>Alm Sanchez and De Juan 1995; Andreoni, Erard and Feinstein 1998; Friedland 1978; Cullis and Lewis 1997; Hyun 2005; Jackson and Milliron 1986; McKerchar 2001; Richardson and Sawyer 2001; Mohd 2011; Torgler 2002; Torgler 2005; Yong 2011:14).</p>
Fines and penalties.	<ul style="list-style-type: none"> • To guarantee tax enforcement instead of compliance, most governments have put tax administration measures in place, e.g., tax audits, rates, and penalties. In some places where authorities decided to impose taxes, enterprises and individuals try to avoid paying them. • The threat of tax non-compliance has long been noticed by tax authorities who have unfailingly tried to find a way to improve the situation thus so far to no avail. • Some African countries are ranked amongst low tax compliance countries. Tax authorities ensure that there is effective and efficient tax administration to guarantee that they improve compliance, leading to more returns. • Penalties increase tax evasion, implying that a high tax rate will just encourage taxpayers to avoid taxes any way they can. 	<p>(Antwi, Inusah and Hamza 2015; Chebusit <i>et al.</i>, 2014; Elfferss Weigel and Hessing 1987; International Tax Compact 2010; Kirchler 2007; Makori <i>et al.</i>, 2013; Oladipupo and Obazee 2016: 3; Sandmo 2003; Togler and Schneider 2007; Webley 2004; Zachary, Kariuki and Mwangi 2017: 208).</p>

FACTORS	FINDINGS	SOURCES
	<ul style="list-style-type: none"> • Some studies show that a rapid increase of fines can have an adverse effect resulting in more tax avoidance. • Most SMEs were forced to hire accountants to file their tax returns as a result of heavier penalties imposed by revenue authorities on SMEs. • Hiring accountants means extra financial burdens for the SMEs; this led to increased compliance costs. 	
Incentives, individual differences – perception of minimal risk.	<ul style="list-style-type: none"> • The black population in SA understand taxation as an element of the apartheid system • Tax returns are believed to be a document that was designed to catch out the taxpayers. 	(Machogu and Amayi 2013).
Level of actual income.	<ul style="list-style-type: none"> • The middle-income group carry the tax burden with little or no opportunity for this being lowered. • The fiscal drag on personal income has led to slow impoverishment. Plus increases in payment, after-tax incomes show a drop. 	(Allingham and Sandmo 1972; Cha and Leung 2009; Feinstein 1998; Kircher 2007; Slemrod 1985).
Risk-taking and taxpayer's education.	<ul style="list-style-type: none"> • One way to help taxpayers to understand the rules is through teaching them. This helps them understand what they have to do, how and what the penalties are as well. 	(Christina, Deborah and Gray 2003 cited in Machogu and Amayi 2013; Kasipillai 2013; Machogu and Amayi 2013; Obid 2007; Rashid et al. Noor 2014).
Tax policy and the growth of SMEs.	<ul style="list-style-type: none"> • An unproductive tax system, one poorly put in place, means high collection charges and low efficiency. It also results in a waste of time for taxpayers (SMEs). Low taxes impact 	(Atawodi and Ojeka 2012; Bouazza, Ardjouman and Abada 2015).

FACTORS	FINDINGS	SOURCES
	<p>a country's resources and services. High tax rates decrease a company's internal funds or source/s of financing.</p>	
<p>Level of education.</p>	<ul style="list-style-type: none"> • Internal tax compliance cost depends on the level of accounting knowledge that the SME's owner/employees have as they are expected to spend less time in understanding tax-related transactions. • Business owners who do not have accounting knowledge have to obtain the services of tax professionals. • Taxation knowledge has an impact on the perceived fairness of tax by the taxpayers. Therefore, tax knowledge is required to complete their assessment accurately. • SMEs dislike tax payments as it limits their economic freedom, and also, tax compliance needs some financial management and accounting knowledge. • SMEs need proper systems to keep records so that they can their taxes timeously. • Some SMEs are not interested in record-keeping because they do not have tax and accounting knowledge. • In conclusion, general education level is critically associated with tax evasion. 	<p>(Ahmed and Braithwaite 2005; Kim <i>et al.</i>, 2005; Glover and Tran-Nam 2005; Noble 2000; McKerchar 1995; Oladipupo and Obazee 2016: 2; Yong 2011: 27; Wallschutzky and Gibson 1993: 522-525).</p>
<p>Government Spending</p>	<ul style="list-style-type: none"> • SMEs believe that government does not use taxpayers' money in an appropriate manner. • Taxpayers do not get their worth for what they pay, for instance, government hospitals, public schools. 	<p>(Coetzee 1993 cited in Grove, Burns and Gray 2012).</p>

FACTORS	FINDINGS	SOURCES
Attitudes of South Africans towards tax	<ul style="list-style-type: none"> • SMEs are influenced to not pay by influences key to them, such as friends or family in the same business. • This influence should be studied more. • Tax authorities' success and efficiency may play an important role in improving tax compliance. 	(Palil 2010).
Tax fairness and tax compliance.	<ul style="list-style-type: none"> • How fair and equal tax is, happens to be crucial to determining voluntary tax compliance. • Outcomes confirmed those who observed tax charges to be fair tend to agree that fair regulations encourage honest tax reporting. • Individuals are more likely to fulfil tax rules if they see benefits from public services. • If taxpayers see the tax system as unfair, they are more likely to not pay taxes. • If taxpayers feel that taxes are unfairly inflicted on them, they will most likely not pay and underreport taxes. • An unfair tax system is likely to increase tax evasion. 	(Alm 1992; Benk, Budak and Cakmak 2012; Bradley 1994; Etzioni 1986; Roberts 1994; Siahaan 2012).

Source: adapted from different sources

The number of factors listed in Table 2 was noted decades ago, and they are still relevant to date. As this study aims to analyse factors that affect SMEs' tax compliance, some of the factors still appear to be the driving forces of tax compliance.

2.3 Tax Amnesty and Compliance

Tax amnesty may be described as an offer of a certain duration only by the government to a specific class of taxpayers to pay a fixed sum in exchange for the remission of a tax obligation from previous tax years and immunity from prosecution (Alm and Soled 2021: 4). In addition, tax amnesty programmes invite tax evaders to join the faithful taxpayers who had shown resilience over the years. Furthermore, the tax amnesty programme permits non-compliant taxpayers to willingly reveal incomplete or unreported information and agreeing to settle the unresolved tax liabilities concerning past contraventions without being penalised and prosecuted (Čebelis 2021: 29). According to Junpath (2013: 2), being tax compliant is an obligation for every resident, either corporate or natural, yet not all citizens continuously comply with the law, which leads to less revenue collection and eventually inadequate service provision by a government to its citizens. Historically, the justification given by governments for the adoption of a tax amnesty scheme was to rapidly boost tax, improve potential tax enforcement and promote flight capital repatriation. Tax compliance is not a new regulation by government, but it was predicted a long time ago, as revealed by the quote, “Our new constitution is now established, and has an appearance that promises permanency; but in this world, nothing can be said to be certain, except death and taxes” (Benjamin Franklin 1789: 40). Franklin’s quote is still relevant to date as all countries are still collecting taxes from their citizens. Even in South Africa, tax collection is an ongoing activity, and SARS has been persistent in collecting taxes.

In South Africa (SA), there has been little research on tax amnesty. This study will provide more information on this subject. In SA, the significance of small enterprises as a leading sector that creates jobs specifically for those with low skills is acknowledged. Small and medium-sized businesses (SMEs) account for 36.1% of the country's GDP and employ 68.2% of the private sector's workers. In SA prior to 1994, most SMEs remained outside the tax system due to the technical hitches in the tax system (Junpath 2013: 11). This was due to the high level of taxes levied on small enterprises, the enormous volumes and complications of tax regulations and the challenging administrative requirements to obey

these regulations. The tax legislature and unsuccessful tax collection permitted taxpayers to transfer large amounts of income to tax shelters and tax havens. A lot of the techniques used were unconstitutional. However, some of them were lawful. In all situations, however, the tax officials were helpless and frustrated. As a result, taxes paid by lower-income taxpayers who were unable to form proper tax arrangements were reduced. The National Treasury (2017a: 38) stated that to resolve this challenge, most countries, including South Africa, have improved their taxation policies and will apply for tax amnesty programmes over the years. As a result, following the 1994 elections in South Africa, a series of legislative changes and a new tax collecting system were implemented. This resulted in the rearrangement of the SA tax system and the appointment of a commission of inquiry on 22 June 1994. This was known as the Katz Commission tasked to look into the particular characteristics of the tax structure. In its provisional report, the Katz Commission made proposals for Tax Amnesty (South African Government Information, 2005 cited in Junpath, 2013: 14).

After its appointment, the Katz Commission recommended that any amnesty should be introduced for valid reasons. One of the reasons was that prior to 1994, under the previous system of government, underprivileged people were not obliged to pay taxes; however, they were encouraged to come forward and register their businesses without being penalised (National Treasury 2017a: 39). This was because the commissions wanted to invite more people into the tax system, which was projected to produce additional revenue for the fiscal period.

The first Tax Amnesty Act was introduced in 1995, and this amnesty provided a clean slate for taxpayers with unsettled tax liabilities before 1994. A tax amnesty is offered for a certain period. It was noted with this one in 1995 that some did not take advantage of it and register their business for tax purposes. Then the second Tax Amnesty was introduced in 1996, which also provided the final relief on tax penalty, interest and an additional Tax Act (Flanagan 2010: 15; The Republic of South Africa 1996). The main idea behind the two amnesties was to provide people who were previously not compliant to come forward and regularise their tax affairs. Businesses benefited from becoming tax

compliant in a variety of ways. For instance, they were no longer in danger of being prosecuted by SARS. In addition, because they obtained a tax clearance certificate, they could access more business (including government tendering) and funding. Moreover, in 2001, SA changed from a source basis of taxation to a residence basis, whereby South African citizens were to be taxed on their worldwide income (South African Government Information 2005). For this reason, the commission introduced the third Tax Amnesty Act which was passed by The Exchange Control Amnesty Act of 2003 (Exchange Control Amnesty and Amendment of Taxation Laws Act 2003). This permitted the people of SA to come forward and resolve their tax issues without fear of facing criminal or civil penalties (Aboobaker, Naidoo and Ndikumana 2021: 162; National Treasury 2003: 5;). The applicants had to reveal both unauthorised and authorised assets held out of the country for the year ending 28 February 2003. Applicants had to ensure that they divulged any investments to the authorities in the near future. The problem was that tax morality remained low amongst South African taxpayers, with causes ranging from unequal and cumbersome taxes, high levels of evasion and weak administration (Schubert 2020). Prior to 2006, most small enterprises, especially the taxi industry, were generally marginalised and not included in the economic mainstream. SARS (2006) stated that the taxi industry operated informally and remained outside of the tax system. Most enterprises wanted to regularise their tax affairs to be compliant; however, there were several challenges, including interest, possible liability for additional tax and prosecution. For this reason, National Treasury (2006: 75) stated that it was more difficult for this sector to enter the tax system. Meanwhile, most enterprises wanted to get into the tax system, and therefore the government introduced a tax amnesty to make sure that the small enterprises could overcome this obstacle. This amnesty was introduced to provide relief to the taxi industry (taxi business) by permitting this sector to regularise its previous non-compliance without facing any prosecution. Nonetheless, this amnesty was extended later to individual taxpayers and the small enterprise sector. Until today, it is unclear whether individual taxpayers and the small enterprise sector took advantage of registering for the tax amnesty and if they are tax compliant.

Therefore, the fourth amnesty programme offered in SA was the Small Business Tax Amnesty and Amendment of Taxation Laws Act. Aboobaker, Naidoo and Ndikumana (2021: 164) stated its objectives as widening the tax base, regularising the tax affairs of small enterprises, improving and increasing tax compliance and facilitating participation in the taxi recapitalisation programme. This amnesty was effective from 1 August 2006 to 31 May 2007. However, it was successively extended to 30 June 2007 by SARS.

In 2010 the Katz commission introduced the fifth tax amnesty, the Voluntary Disclosure Programme [VDP]. This amnesty provides the qualifying taxpayers with relief against additional interest, taxes and penalties resulting from previous defaults. Thus, SARS (2012: 3) defined the VDP as a globally accepted instrument to increase compliance with tax and exchange control requirements. Furthermore, Qamruzzaman, Jahan and Karim (2021: 671) stated that for the taxpayers to participate in the VDP, they must file all their material facts and returns for the period of voluntary disclosure, settle all interest and tax due for that particular period, avail books and records to the revenue authority if they request it, and surrender all rights to appeal for reimbursements for the period under disclosure. The VDP had a worldwide reach to end bank secrecy and allow SARS access to information globally and locally. This initiative was expected to be implemented in the form of a tax amnesty for businesses with overseas assets or unreported taxes. Mr Gordhan, the then Minister of Finance, launched the last amnesty in 2006 to expand the tax base, simplify the normalisation of small business tax affairs, and develop and increase the tax compliance culture of small businesses (National Treasury 2017b: 11).

The VDP caused South Africa's foreign debt to be downgraded to junk status by Standard & Poor's and Fitch ratings agencies in 2016, shortly after Mr Gordhan was dismissed as Minister of Finance (National Treasury 2017b: 11). In layperson's terms, downgrades indicate that ratings agencies believe South Africa will default on its foreign currency loans. Standard & Poor's referred to dull development, work agitation, and a sizeable current record shortage as the reason for the minimisation, expressing that the financial position may become presented to lower-than-anticipated monetary development, pressure from another round of public-area wage exchanges, and expanded spending

needs (National Treasury 2017b). Moody's and Fitch contended that a low credit rating indicates a significant chance of a government's inability or unwillingness to pay its debt service commitments in the future. As a result of the low sovereign rating, investors would demand a high yield in order to participate in the hazardous government bond. As a result, when a country's credit rating is downgraded, sovereign bond rates rise as investors' risk perception shifts (National Treasury 2017b: 11). The ratings agencies, Moody's and Fitch, were worried about South Africa's inability to increase employment and stop the slow growth of economic development, taking note that this powerlessness has not just obliged development and kept the duty base tight; it has also made public accounts progressively redistributive (Mutize and Nkhalamba 2020: 82). As a result, the monetary space narrows, sabotaging a crucial aid to South Africa's financial stability (South African Reserve Bank 2016: 5). A lot of this narrative is due to South Africa's poor financial execution since the beginning of the worldwide monetary emergency very nearly nine years prior. The downsizing of South Africa's sovereign danger evaluations was a result of the enduring effect the worldwide downturn and the financial reaction it provoked has had on South Africa's economy and fiscus. Monetary disease, the drop in world item costs, and the extreme downturn in South Africa's customary exchanging accomplices served to turn GDP development negative, cause huge occupation misfortunes and put expanding strain on open funds (South African Reserve Bank 2014: 6). Only time will indicate whether or not the VDP would be as successful as the 2003 amnesty. However, it seems that very few South Africans officially announced their intention to use the VDP as a matter of national duty. Instead, there was a hushed concern of greater inter-jurisdictional intelligence sharing and international transparency; fear of possible misuse and/or unauthorised dissemination of information that would soon be available to Competent Authorities; and a revival in inquiries regarding foreign citizenship and/or residency (Brunton 2017: 7). The impact of tax amnesties on tax compliance is not yet determined as positive or negative. However, there are other factors that affect the tax compliance of SMEs.

2.4 Small and Medium-Sized Enterprises

SMEs are explained in terms of the number of employees and the annual turnover (Ngubane 2015: 11). Furthermore, the National Small Business Act categorises small enterprises into different groups, namely: micro, survivalist, very small, and small and medium. Therefore, the use of the term SME refers to small and medium. According to Government Gazette (2004: 2), the small business in South Africa is described in Section 1 of the National Small Business Act of 1996 as revised by the National Small Business Amendment Acts of 2003 and 2004 as:

... A separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in Column I of the Schedule 14...

There is more than one definition of SMEs; however, there is no single agreed definition or a role criterion determining small and medium status. Numerous definitions are applied in Organisation for Economic Co-operation Development and G20 countries; however, most of them refer to SMEs as independent economic enterprises, non-subsidiary that is not controlled by large enterprises (The Small Enterprise Development Agency 2016: 5). The yearly turnover, number of workers, and net assets are all common categories utilised in the definition. In addition, the commission defines the small enterprises as having less than 50 employees and a balance sheet of less than EUR 10 million equivalent to 184 056 000 South African Rand, and a microenterprise as the enterprise having less than 10 employees and a turnover below EUR 2 million which is equivalent to R 32 294 million (The Small Enterprise Development Agency 2016).

The Monetary Policy Circular No.22 of 1988 of the Central Bank of Nigeria defines SMEs as having a turnover that is not greater than N 500 000, which is equivalent to R 23 850 million. Bouazza, Ardjouman and Abada (2015: 102) found that SMEs have no standard

definition. The following table shows the definitions of SMEs as they are extracted from different sources.

Table 2: Definition of SME Used by Multilateral Institutions

Country	Maximum Employees	Turnover	Turnover in Rands	Maximum Assets	Author
African Bank Development	50	-	-	< R 2m to R 18m, depending on industry, excluding fixed property	(Leboea 2017: 13).
OECD	20–500	-	-	-	(OECD 2016: 155)
Algeria	10–250	> 20 million euros	> 322, 994 million rands	-	(Mosbah 2014: 37).
China	> 200	300 million yuan	40, 410 million rands	400 million yuan	(Liu 2008: 39).
EU	10–250	400 million euros	6 462 280 million rands	-	

Sources: Authors from different institutions

As depicted in Table 1, there is no standard definition of SMEs. Instead, it is dependent on the geographical area in which they are located. Small enterprises are categorised as small, medium and micro-enterprises (SMMEs) or small and medium-sized enterprises (SMEs). Several factors are used to distinguish these businesses, including turnover, staff count, ownership structure, financial statement, capital base, legal form, and kind of business (Sieberhagen 2008:12). Mutanda (2012: 11) defined small enterprises with 5–100 employees. Child, Karmowska and Shenkar (2022: 2) viewed small enterprises as comprising less than 50 employees. Furthermore, SMEs are defined as an enterprise with 20–50 people and medium SMEs with 51–200 people. This study will adopt (Child, Karmowska and Shenkar's 2022) definition (less than 50 employees) as it is most relevant to a South African classification of businesses.

2.5 Indicators of Voluntary Tax Compliance

Machogu and Amayi (2013: 16) stated that the tax compliance level might only be known by looking at the compliance pointers, including inspecting the percentage of tax revenue to the GDP. The higher proportion of tax revenue concerning GDP implies that tax compliance has improved. Another factor to consider is public opinion. This is how the general public views taxes and the taxation system. The proportion of income reported for tax reasons, as well as the programme effect indicator, is the last criterion.

An additional method is to inspect the pattern in the compliance aspect, for instance, filing of returns, registration, correcting reporting of expenses and income, as well as the payment of the correct amount of tax (Machogu and Amayi 2013: 17). These trends must be compared on a percentage basis, rather than in terms of additional revenue generated, by implementing a specific compliance strategy or examining the percentage of tax revenue collected through enforcement activities such as penalties and fines, audit, to the total revenue collected, paid voluntarily (International Finance Corporation 2007b). Furthermore, the tax compliance level may be measured by examining the tax gap. Tax compliance will be measured in this study based on how taxpayers file tax returns, declare the proper tax liability, and pay taxes owed within the statutory period. This study also looked into how SMEs are aware of their legal and regulatory tax obligations. The taxpayer's attitude toward the tax rules is a good indicator of his or her probable tax compliance.

2.6 Tax Avoidance and Evasion Concepts

There is a significant difference between the legal aspect of tax avoidance and tax evasion. Bailey (2006 cited in Parakh 2017) stated that tax avoidance and tax planning are completely legal procedures to decrease one's tax. However, tax evasion is an unlawful act that includes dishonesty in one form or another. Furthermore, tax avoidance might be legal; however, it lies fairly close to tax evasion. Hence, should the taxpayers disregard the developments of the regulations and cross the line of the judicial system,

they might find themselves on the wrong side of the prison wall. Neha (2021) further defined tax avoidance as the lawful utilisation of the tax act to the taxpayer's own advantage, which includes deferment of a taxpayer's liability for tax by methods that are lawful and within the provisions of the law. The act of avoiding and evading taxes has been in existence for a long time as per the US Supreme court of appeal (1935: 293): "the legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted". Tax avoidance and tax evasion have been a foremost challenge all over the universe with economic consequences (Fjekdstad 2006: 1 cited in Junpath 2013: 22). The former British Chancellor Dennis Healey in 1986 mentioned that "the difference between tax avoidance and tax evasion is the thickness of the prison walls". To elaborate Healey's quote, tax avoiders normally remain on the outside of the prison wall, whereas tax evaders are incarcerated on the inside. Numerous countries are still fighting a battle that started in the early 1930s of tax avoidance and evasion from enterprises. Furthermore, tax evasion may be defined as an unlawful and untruthful activity that includes taxpayers intentionally hiding or misrepresenting the true reflection of their tax affairs to SARS so that they can decrease their tax liability. This might also occur when the taxpayer is not stating the accrued income or by demanding deductions against income that is disallowed. Basically, tax evasion is a deception against the fiscus for which suitable sanctions are provided in the tax legislation. The South African Income Tax Act 58 of 1962 covers a new anti-avoidance provision under Sec 80A and 80L, which substitutes the preceding provision Sec 103(1) as an outcome of a contradictory court decision that made it challenging for the Commissioner to contend several fundamentals of tax avoidance schemes. The Commissioner might utilise the provision to regulate the liability of a taxpayer who engages in a transaction that results in liability. The courts may be able to decide on the taxpayer's default if there are any irregularities in the transaction.

The informal economy, also regarded as the underground, clandestine, or black economy, is a related but distinct term to tax evasion. Several concepts of the informal economy were introduced, involving, in general, a notion of small-scale commercial practices that official authorities do not follow (Slemrod 2018: 10). The informal economy

involves small enterprises that do not report to the tax authority concerned, freelancers that do not file tax returns, etc. Numerous tax evasion practices, such as overstating deductible charitable contributions or establishing a foreign bank account and not disclosing the taxable revenue it produces, are simply not part of the informal economy. In comparison, not every informal business is evading tax; for instance, taxable profits might be technically below the filing level at the very same time as labour and safety regulations are being skirted by a company (Viljoen 2017: 35). It is questionable whether illegal activities should have been included in the context of the informal economy; where they were, it would be important to note that, as witnessed by narco-trafficking, not all such operations are minimal (Slemrod 2018: 10).

Hirsch (2016: 1) pointed out that the former South African Finance Minister, Mr Manuel, mentioned that there was a significant change in reforming the tax policy intended to expand the tax base to make sure that all residents fulfil their tax obligations so that the tax burden is shared equitably and fairly among all residents and the corporate sector. National Treasury (2015) stated that a number of residents benefited from collected revenue by using public goods without paying towards it. This restricts the chances of speeding the tax reform process and facilitates the tax burden. In addition, they state that tax compliance is an obligation and advise that those caught transgressing the regulations would be prosecuted. Furthermore, Mr Manuel's successor, Mr Gordhan, indicated that individuals who try to avoid paying taxes repeatedly will eventually be found since SARS has established the most efficient means of detecting tax evasion cases (Fin24 2010). In addition, the use of unlawful means to decrease one's tax liability, such as suppression of income or deceitful non-disclosure of income, falsification of accounting records is referred to as tax evasion (Huxham and Haup 2011: 454). According to Junpath (2013: 12), tax evasion is a worldwide challenge that almost every country encounters in their economic and societal development system. This issue has become extremely severe for developing countries provided the prompt development of investment in their economies and inadequate experience in resolving the problem. There is an assumption that developing countries lose almost USD 285 billion annually (4 298 142 000 000 South African Rand) as a result of tax evasion in the domestic shadow economy (United Nations

Publications 2019). Thus, tax evasion is significant for numerous reasons as it lessens the collection of taxes, consequently affecting taxes that taxpayers face and the infrastructure that residents receive. Furthermore, according to Neha (2021), tax evasion results in resource misallocations when residents change their behaviour to avoid taxation, resulting in unequal income distribution. Tax evasion is best described as a constituted and illegal criminal offence, leading to severe sanction or imprisonment.

Tax evasion can indeed be exacerbated by the present tax system of a country that plays the most vital function in the cause of tax evasion. The further provisions for those loopholes, the more possible it is for individuals to avoid tax through certain loopholes (Warburton 2020: 274). Moreover, if a country's tax rates are higher, the more tax the taxpayer will pay, encouraging them to avoid paying it. The tax laws in a country are not simple or accurate enough. The more complicated a law, the more likely it is that it will be exploited. In addition, tax honesty and commitment by citizens are lacking, as are excess deductions in the tax return filed by the taxpayer compared to actual expenditures. Yet, tax avoidance is usually caused by the taxpayer's mindset, which forces them to take advantage of tax provisions. Despite their lesser income, taxpayers continually face the risk of paying a higher tax rate (Bardopoulos 2015: 339; Warburton 2020: 300). The research seeks to determine the effect of tax evasion and avoidance as contributing factors to tax compliance.

2.6.1 The Tax Gap

The general indicator of evasion is the tax gap. The tax gap is explained as the "difference between the amount of tax that taxpayers should pay and what they actually pay on a timely basis" (United States Internal Revenue Service 2005). In SA, there is a substantial gap among the amount of tax that is supposedly collectable from economically active individuals and that is essentially collected; this is normally identified as the tax gap (Hendriks and Maposa 2020). Moreover, the tax gap is explained as a combined amount of the definite tax liability levied by the regulation on taxpayers that is not paid voluntarily and timeously. The definite tax liability for any given taxpayer means that all the

appropriate aspects of the tax regulation will be correctly used to the taxpayer's situation in order to determine the amount of tax that will be payable in that particular tax year (United States Internal Revenue Service 2007: 6 cited in Junpath 2013). Tax non-compliance is viewed as the leading cause of the tax gap. Murphy (2019: 7) argued that the tax gap exists due to a taxpayer either submitting tax returns after the due date or not submitting, overstating deductions, exemptions or credits, not stating the full tax liability on the return that was previously submitted and miscalculation of returns. Lastly, SARS also contribute by making miscalculations on the assessments; however, certain taxpayers do not rectify the errors with the tax authorities. The tax gap comprises two different parts, first, failure to register as a taxpayer, second, lack of declaring the correct information. Former Finance Minister, Mr Manuel, at the Annual Conference of The International Bar Association in 2007 stated that the tax gap in SA continued to be excessively high, and it was significant that the number of citizens that are not registered for tax purposes to be reduced to broaden the country's tax base. This will allow the government to reduce tax rates further, leading to a decrease in tax avoidance. Maposa (2016: 2) stated that the size of the tax gap had not been dependably measured; however, research has recognised that the tax gap is substantial. According to studies, the tax gap between developed and developing nations ranges from 10% in developed countries to more than 30% in underdeveloped ones. South Africa, as a developing country, is currently on junk status. In 2012, SARS estimated the SA tax gap to be R 30 billion per tax year, while 40% of local enterprises were not registered for tax purposes in SA (Fourie, Landman and Schombee 2012: 122). Moreover, SARS detailed its starter results toward the beginning of April, which uncovered revenue assortment deficiency of roughly R14.6 billion for the 2018/19 monetary year (Staff Writer 2019: 4). SARS, at this stage, was set to roll out many positive improvements to work on its capacity to gather remarkable assessment revenue. However, the extended income for the 2019/20 monetary year led one to think about whether Treasury was setting an impossible objective for SARS (National Treasury 2019). Moreover, the 2019/20 Budget did not advance any mediations helpful for animating monetary development in the nation, as it did not present much in the method of tax incentives that could assist with developing

business and, likewise, the taxpayer base. Not surprisingly, the heft of the tax revenue that SARS intends to gather is relied upon to come from corporate and individual annual income taxes, which may likewise demonstrate tricky as far as its objectives (National Treasury 2019). During the 2019 Budget Speech, Treasury declared that it would raise extra income from individual personal income tax to the tune of around R 12.8 billion by not changing assessment sections and depending on the financial drag to wrap up (National Treasury 2019). Nonetheless, this accepts that citizens will get inflationary or above-inflationary compensation expands in 2019. There are few guarantees that this will happen in a struggling economy. If the economy continues on its current path, taxable income for SMEs will certainly suffer as well. SARS reported that PAYE filing compliance dropped from 83.9 per cent in 2008/09 to 68.9 per cent in 2018/19 (National Treasury 2019). Over the same period, VAT filing compliance decreased from 79 per cent to 61.7 per cent. Tax compliance in South Africa has likewise seen a slump, which highlights how taxes in the nation have arrived at their cutoff and that further tax increments are probably going to see revenue collections decline. Historically, the tax gap was investigated by the two tax commissions in South Africa: the Katz Commission (1994: S5) and the Margo Commission (1986: S27). According to the Margo Commission (1986), the tax gap is caused by tax avoidance and tax evasion.

Tax compliance can be differentiated as follows: dedicated compliance being the taxpayer's preparedness to pay their taxes without criticisms; capitulative compliance as unenthusiastically giving in and paying taxes; and creative compliance as an arrangement to lessen taxes by taking advantage of opportunities to redefine income and deduct expenditure within the brackets of the law (Maposa 2016: 24). As much as there may be different types of tax compliance, the pillars are the same, for registration for tax purposes, filing tax returns, declaration of accurate and complete information, and settlements of taxation duties timeously.

2.6.2 Tax Knowledge and Tax Compliance Among SMEs

According to Newman *et al.* (2018), a drop in tax compliance could have some countercyclical impacts on the economy. In many nations, tax non-compliance has become an acknowledged problem. Continuing not to pay taxes is not a suitable reaction to financial difficulties since it hampers the remaking of the tax assessment base over the long haul. Tax non-compliance among SMEs is a significant issue, which has stressed tax specialists, the scholarly community and non-governmental associations worldwide. As contended by Kastlunger *et al.* (2013: 37), “tax noncompliance have increased over the last decades and, thus, gained attention in policy making and research”.

Tax compliance has also been affected as the global economy has been affected by the Coronavirus (COVID-19) outbreak on nearly every level, needing government intervention to alleviate the consequences. The consequences of COVID-19 have reverberated across the global economy, affecting both public and private businesses (The National Law Review 2021). SMEs have been damaged on both the supply and demand sides of the economy, perpetuating the cycle. Illnesses, quarantines, and a shortage of childcare have limited the quantity of labour resources available to SMEs on the supply side (The National Law Review 2021: para 3). The supply chain was affected early in the pandemic, resulting in shortages of raw materials, components, and commodities needed by SMEs to create their goods or services. When compared to bigger companies, SMEs have a limited number of suppliers (The National Law Review 2021). Finding a substitute supplier for a small business may be more difficult than for a bigger company. On the demand side, household spending fell sharply, resulting in a significant drop in income for SMEs. A decrease in revenue might make it difficult for a small business to meet its obligations and borrow money to stay afloat. As a result, SMEs may be unable to meet tax obligations.

Moreover, on the whole, tax knowledge is a comprehension of the tax policy concepts fundamental assessment strategy ideas actualised inside a country (Fauziati *et al.*, 2016). The consistency of a country's tax system is determined by SMEs' understanding of its

tax regulations. SME tax knowledge is a critical component of purposeful tax compliance, particularly in determining a precise tax liability (Baru 2016: 40). As Newman *et al.* (2018) suggested, tax knowledge is a key component of a deliberate compliance tax system, in particular, in determining accurate tax liability. Loo *et al.* (2014) and Loo (2016) found that tax knowledge has been the most convincing element in determining citizens' compliance behaviour under the self-assessment system in Malaysia. This was confirmed by observation and backed up by a few other studies, including one that found that having a good understanding of taxes leads to greater compliance rates (Kasipillai 2013: 3). The findings showed that 97% of the participants knew about taxes and that SMEs in Malaysia are willing to follow tax legislation. Inasius (2019), who studied tax knowledge among SMEs, separated tax knowledge into two categories: information received through normal or formal schooling and information expressly directed at possible tax evasion options. This study seeks to evaluate the impact of tax knowledge towards tax compliance.

2.6.3 Tax Compliance Cost

Tax compliance is defined as an emotional tax agreement between residents and tax authorities (Abd Hamid *et al.* 2019: 77). Naicker and Rajaram (2019: 95) stated that SMEs are discouraged by high taxation regulatory costs. As a result, this is considered that microbusinesses are reluctant to enter the formal economy since it requires them to pay taxes. Because many businesses operate on a cash basis with no 'paper trail', making compliance more difficult to enforce, this is perceived as a loss to the economy and state revenue. Sebele-Mpofu (2020) stated that informal small enterprises do not believe there were advantages in registering for tax purposes. According to Smulders *et al.* (2017: 134), the cost of tax compliance includes the time spent by business owners, employees, and management in learning about and executing tax rules and regulations, furthermore, record-keeping costs, which are costs incurred in compiling the required receipt and the costs incurred in the preparations of tax returns; incidents costs refers to postage, telephone calls and travelling cost when meeting with the tax authorities and advisers, and the payment of qualified advisors, such as consultants, lawyers and accountants.

Okpeyo, Musah and Gakpetor (2019) stated that being compliant with the tax laws generates costs, and for this reason, business and revenue authorities are now keen at computing and assessing the tax compliance costs. Tax compliance costs demotivate enterprise start-ups, reduce productivity, and deplete enterprise resources without raising government income, resulting in the waste of economic resources and lowering citizens' living standards (Amanamah 2016: 5). Furthermore, these costs impact enterprises' and taxpayers' economic behaviour and affect the level of compliance, which may lead to the increase of tax evasion. Therefore, tax compliance cost is one of the components of a tax burden.

Tax compliance requirements and the tax system present difficulties to SME development in SA. One of the directors of the South African Enterprises Forum (SABEF) confirmed the problems small businesses in SA faced regarding taxation, saying:

Overall, it is quite clear that our current [tax] system is biased against one of the most important sectors in the economy being small businesses. At a time where it is difficult for people to gain employment, they should be encouraged to start their own ventures and not be punished when they do (Qabaka 2011: 17).

Regarding SME tax incentives initiated by SARS in 2005 and their impact on SME's tax system, Qabaka (2011: 15) said, "While such incentives may have resulted in some limited relief ... the actual structure of South Africa's current tax system is so heavily biased against small businesses that any such relief is negligible".

2.6.4 Different Types of Tax Compliance Costs:

2.6.4.1 The Internal Costs

This relates to the business staff members' time spent preparing and maintaining the information required by the certified advisors, completing tax forms, and dealing with SARS on issues relating to queries, complaints, and appeals. Hoffmann (2021: 6) stated that the internal costs refer to the cost of time dedicated to tax activities; time spent by

the owners of SMEs, the internal bookkeeper or manager or other staff dealing with taxes or relatives or unpaid associates learning and understanding tax laws and regulations or the time spent in obtaining documents and data that is required for the completion of tax returns. Two studies conducted on tax compliance costs sustained by small enterprises in SA revealed that internal costs rise as the size of the enterprises and its revenue increase (Jayawardane 2015; Smulders *et al.*, 2012, 185).

2.6.4.2 External Costs

According to Musimenta (2020: 6) external costs arise from payments incurred when acquiring accountants, investment advisers, and lawyers from outside the business. Being tax compliant means complying with the tax rules and regulations and filing annual tax returns as a requirement of SARS. Comparing the internal cost to external cost, the external cost is easy to recognise, and they are quantifiable. The internal cost is not easy to quantify as it includes fairly subjective apportionment of other costs and overheads. All these costs affect the tax compliance of SMEs significantly.

- **Regulatory Costs**

Abdul and Wangâ (2018) noted that the regulatory costs are the time taken to register, complying with laws and regulations and bookkeeping costs. Most tax returns are due for submission on a monthly basis adding to the enterprises' expenses as they will be required to employ bookkeepers to ensure that books are up to date. Many SME entrepreneurs have high administrative costs due to hiring experts to manage the VAT returns, income tax returns and employees' tax returns (compliance burden) and late payments by debtors (cash-flow problems); as a result, SMEs will tend to not comply with tax.

- **Computation Costs**

Computation costs arise from maintaining and compiling relevant data periodically in advance to be ready to prepare vital documentation required by the revenue authorities

on report submission time (Van der Geest and Jacob 2019). Therefore, the computation cost is the unavoidable item for any enterprise, and this cost is non-discretionary in nature.

- **Planning Costs**

The planning cost is a discretionary item associated with the tax minimising efforts of an enterprise to manage its tax-related issues (Surbhi, 2018). This cost is avoidable because planning includes efforts to mitigate and legally avoid taxes. However, these costs will be covered if the Board of Directors, in its discretion, chooses to minimise tax.

- **Self-Assessment System and Initial Compliance Costs**

The self-assessment system (SAS) started in 2001 and is viewed as an honest and fair reporting of tax liability. SARS requires taxpayers to keep appropriate records and to exercise reasonable care in the submission and reporting of returns influencing their tax liability (Wadesango *et al.*, 2018). These measures require taxpayers to incur initial costs in addition to their regular costs.

- **Initial Costs**

This cost has two elements: costs incurred in implementing the new tax regulations and costs relating to the learning process. Should there be any significant change to the existing SAS, they would incur new compliance costs. When tremendous changes occur to the SAS, it is vital for taxpayers to get things right the first time, or at least be as precise as is humanly possible. Preparing for the new system possibly will require a sizeable amount of initial irregular costs liability (Wadesango *et al.*, 2018). The initial costs of fulfilling the tax provisions will lead to lower costs in the future as the taxpayers get used to understanding the matters relating to the new alterations.

- **Regular Costs**

Ghani *et al.* (2020) stated that the regular costs are sometimes called ongoing compliance costs; these are costs incurred by taxpayers, who are used to the tax systems. Therefore, periodically, the taxpayers that comply with tax requirements incur such costs.

2.7 Corporate Income Taxation

Popova (2019: 61) stated that in a number of countries, the taxation of SMEs under corporate and personal taxes would vary on its enterprise form; normally, incorporated SMEs are taxed first at the corporate level, whereas unincorporated SMEs are taxed only at the personal level. In single-level income taxes, the income of a small business is taxed solely at the personal level of the owner or owners (Maposa 2016). This category includes single proprietorships with or without employees, as well as businesses with two or more owners, such as general partnerships or limited partnerships (Maposa 2016). In both instances, the net business revenue normally flows over to the owner, and it is taxed at the personal level according to the appropriate personal income tax structure (Maposa 2016: 23). Commonly, double taxation applies to incorporate SMEs where the discrete legal status of the business confers a distinction for tax purposes. Such as, in both double-level taxation and single-level taxation, the most vital factor is the tax rate of SMEs. According to the research conducted by Bozdoganoglu (2016: 177), Maposa (2016: 24) and OECD (2008: 9), 14 countries have a lower corporate income tax rate for SMEs. According to SARS, Small Business Corporations (SBC) financial year ending on any date between 1 April 2020 and 31 March 2021, the tax rate ranges from 0% to 28% depending on the annual revenue of the enterprise (JCS Business Consulting 2020). The more the business earns, the higher the tax rate. As a result, a number of businesses increase/inflate their expenses in order to reduce tax. For SARS to correctly apply corporate income taxation to a business, they consider the annual taxable income level and tax relief.

2.7.1 Effect of Standard Legislative Provisions

Enza (2019) noted that the corporate tax system has a provision that is not favourable towards SMEs due to their character. Because business interest payments are tax deductible, standard legislation states that they should encourage debt financing. Funding of debts favours large businesses that qualify for bank loans. When the firm is subject to corporation tax and the stakeholders are subject to personal income tax on dividends, this results in double taxation of entrepreneurial earnings. As a result, the tax burden on dispersed earnings is larger than on retained profits. Some OECD nations' tax regimes encourage firms to keep their profits rather than share them as dividends. Furthermore, retained earnings receive preferential treatment over new equity funding. This effect results from the imposition of zero rates in some cases (or lower tax rates) on capital gains at the individual level. This may serve to lock profits in corporations and make it problematic to redistribute funds from well-established businesses to fast-growing start-ups, which will have no choice but to rely on outside sources of funding, as well as limit how long they can carry their operating losses backwards and forwards while profits are taxed without exemption (Tee, Boadi and Opoku 2016: 119). As a result, certain SMEs choose to operate in the informal sector due to oppressive legislation towards their growth.

2.8 Government Accountability and Perception of Politics

Kemme, Parikh and Steigner (2020) noted that this is one of the psychological factors affecting compliance behaviour. Tax morale is described as a moral duty to settle taxes and a belief in contributing to the general public in the form of paying taxes. Furthermore, tax morale is linked to taxpayer ethics, which is the code of conduct that governs citizens' interactions with the government as taxpayers. Moreover, Elffers (2000: 184) indicated that "the gloomy picture of massive tax evasion is a phantom". Whereas, Pyle (2005: 173) disparaged the perception that citizens are maximisers of amoral utility, stating:

Causal observation suggests that not all individuals think quite like that. Indeed, it seems that whilst the odds are heavily in favour of evaders getting away with it, the vast majority of taxpayers behave honestly.

This section focuses on government accountability in relation to tax that is collected from SMEs as this affects the tax morality. Given the interplay between tax and ethnicity, it is necessary to be clear on the term 'ethnicity'. According to Hutchinson and Smith (1996), "Ethnicity refers to a sense of kinship, common culture, and self-identification with an ethnic group". The ethnic group is explained as a "collectivity within a larger society having real or putative common ancestry, memories of shared historical past" (Basu 2006: 582). Whereas the ethnic business is "a set of connections and regular patterns of interaction among people sharing a common national background or migratory experiences" (Aldrich and Waldinger 1990: 112).

According to Suharti and Rachmania (2019: 286), ethnicity affects not only tax evasion decisions but also the taxpayer's enthusiasm to pay taxes. Due to intergroup prejudice, ethnic groups are willing to pay taxes to fund public spending that benefits their own group solely, although they are hesitant to incur the economic burden for other groups. When the recipients are from their own ethnic group or if they support the ruling political party, SMEs, for example, boost their support for welfare expenditure. Furthermore, the higher the divisions among groups, the more likely non-compliance is. As a result, it is critical to have a thorough grasp of citizens' preferences for public expenditure. (Casal *et al.*, 2016: 142) showed that when taxpayers vote on how taxes are used, compliance is higher than when there is no voting option. That is, there is a strong link between tax contributions and the provision of public goods.

Residents are willing to disclose their income honestly even if they do not get a complete public good comparable to tax payments, according to Castañeda, Doyle and Schwartz (2020: 1176), as long as the political process is seen to be genuine and equitable. Government spending habits in SA have been a key source of worry, according to Leshora (2017: 2). According to policy guidelines, SA government expenditures must be

controlled so that they do not outpace economic development. This suggested that the more residents are contributing, the more revenue will be available, although as it was noted that SA government spending has been high. The International Monetary Fund (IMF) indicated in policy recommendations that most nations with large budget deficits opted to explore cutting government spending. SA is still grappling with the huge budget deficit that contributed to the global financial crisis in 2008. In 2009/2010, the government's budget deficit was expected to reach 3.9 per cent of GDP, which was unusually high when compared to the budget surplus of 0.6 per cent of GDP in the previous year (National Treasury 2013). The deficit lingered until the 2015/2016 fiscal year due to continued weak economic growth, which maintained revenues at low levels (National Treasury 2016). Nevertheless, certain SMEs are fully committed to paying taxes.

The economics of tax compliance can be regarded as a challenge of law enforcement, public finance, organisational design, labour supply or ethics (Stam and Verbeeten 2015: 99). South Africa is struggling financially, and the SARS amount is not considered enough for the government to fulfil its obligations. In 2018, the Minister of Finance, Mr Malusi Gigaba, in his budget speech, announced that VAT would increase from 14% to 15%, significantly affecting residents, especially the SMEs, given the added tax burden (National Treasury 2018). Engelbrech (2018) stated that the main implications that the increase in VAT to 15% will have on SMEs are that they will have to increase their product/ service price. This can either be passed on directly to customers, or enterprises can absorb the costs. Beesoon, Soondram and Jugernath (2016: 4) stated that few studies had been conducted on tax compliance concerning government expenditure. The studies revealed that if the government spends the money collected from the taxpayers irresponsibly, taxpayers will avoid tax-different levels of compliance resulting from how the government spends money. The perceptions of SMEs are significant in determining compliance behaviour.

In terms of taxpayer's observation towards government spending and tax compliance, if taxpayers observe that the government is properly investing tax income in public

infrastructure, it is likely that voluntary tax compliance will increase. However, if people believe the government is wasting taxpayer money on things that are unnecessary, they will try to avoid paying taxes. Rashbrooke (2018: 2) also emphasised that taxpayers' voluntary tax compliance behaviour depends on the government's ability in providing public goods and services. As a result, governments at all levels must carefully use taxpayers' money, give maximum benefits in exchange for citizens' contributions, dividing resources appropriately.

Rashbrooke (2018: 8) declared that in the meantime, taxes are collected by the government, tax payments are generally related to these sentiments: “despair, outrage, frustration, suspicion, hope, anger, defiance, disdain and deterrence”. These emotions encourage some SMEs to evade taxes by overstating their deductible expenses or understating their taxable incomes.

Many studies have been conducted on the fiscal exchange between government and taxpayers, and whether government spending tax revenue in terms of taxpayers' desires had an effect on compliance (Alm *et al.*, 1993; Spicer and Becker 1980; cited in Yong 2011: 29). Taxpayers' willingness to pay taxes is based on their observations of government as fair or unfair. Furthermore, if the government trusts the taxpayers, the taxpayers will be rewarded with increased trust in return, which will improve tax morale. Taxpayers can be encouraged to comply if they are rewarded for their honesty, as long as tax authorities can inspire taxpayers to comply by supporting and trusting them to do the right thing rather than simply enforcing tax regulations. Some tax authorities have been reported to be extremely helpful to some businesses while being entirely unhelpful to others, with some SME owners expressing severe dissatisfaction with the tax system and tax rates (Ngoepe 2016: 1). To determine if taxpayers are motivated to comply, the government should acquire information from them about their interactions with tax officials via a tax enquiry or audit. SME owners in many countries, according to prior studies, are worried about the vast range of taxes paid, and they view the tax system as unfair (Inasius 2019). Most SME taxpayers feel excluded from the tax system when compared to bigger enterprises, and they acknowledge paying less than their fair share

of taxes, which leads to a reduction of tax compliance. In South Africa, SARS is also likely to cause a clash with SMEs through fines, which will later result in a decrease in tax compliance.

According to Jayawardene (2015: 134), the governing party's governmental firmness in a state can have a significant impact in influencing tax evasion behaviour. Should taxpayers opt to support the present governing party, they may choose to comply because they feel the ruling party is efficient, trustworthy, and fair. Understandably, taxpayers that pay high tax amounts are sensitive towards government spending and tax compliance. Roberts, Hite and Bradley (1994 cited in Jayawardane 2015: 135) stated that taxpayers would likely avoid and attempt to evade tax if government is spending on unnecessary items. Numerous studies have proven that many educated taxpayers have a clear understanding of tax liabilities and the main aim of government policies and understand the sanctions imposed on non-compliant taxpayers. It is noted that should the individual understand tax laws; this will positively shape their disposition to comply. The sensitivity of political government responsibility can be classified as public spending, social norms, moral tax and perceived fairness of the tax system. Normally the manner in which government spends tax revenue determines tax attitudes. Furthermore, norms and attitudes are significant determinations of tax compliance. There is a close link between tax compliance and political affiliation. It is proven in previous studies that if the public favour a certain ruling political party with social democratic values, they usually comply more compared to the citizens that are voting for opposite parties.

Research has been conducting on ethical standards, societal, personal and social norms, involving tax behaviour, where they develop standards that will regulate their tax (Wenzel 2003–2004 cited in Jayawardane 2015: 132). The theory of personal norms shows that 'personality', including religious belief, moral reasoning, values, evades tax compliance. In contrast, a leaning toward altruism improves tax compliance. Honesty is a personal value. Standards of behaviour such as religious beliefs, norm dependency, and altruism usually have a high relationship with high tax ethics and preparedness to comply with personal norms. In general, social norms reflect the community's behaviour pattern. If a

group of people believes that non-compliance is unacceptable, then non-compliance is likely to diminish.

The relationship between taxpayer, SARS and tax legislation indicates the integrated cultural standards of societal norms. It is possible to achieve mutual understanding among the taxpayers and the tax authorities. Research has shown that taxpayers who do not predict guilt and shame when it comes to violating norms are more compliant than taxpayers with strong establishment values, i.e., obeying the rules. Sigala, Burgoyne and Webley (1999 cited in Jayawardane 2015: 133) show that social norms are an important forecaster of tax compliance. People with strong attachments to society, community and family have strong social norms and high compliance. It is noted that individuals with a high sense of civic duty follow tax laws; due to genuine self-motivation and do not wait for penalties or tax audits resulting in tax compliance.

2.8.1 Tax Morality

The study acknowledges that tax morality is a factor that influences tax enforcement from a socio-economic perspective. In addition, Martinez and Coelho (2019: 4) discussed the existence of clear evidence that tax morality influences the actions of people in terms of paying taxes. Addressing the contributing factor of tax morality will add to the struggle about tax evasion. As a result, the debate on tax morality has gained even more international attention, particularly in terms of how it can help to understand which aspects have an impact on tax morality. On a more comprehensive basis, researchers have studied complex economic models that aim to understand the reasons that drive taxpayers to stop paying taxes but do not describe the excessive level of tax compliance (Williams and Krasniqi 2017: 817). This matter of tax morality has been in the research domain for a long time. Becker (1968) developed an economic model of crime. Becker's study noted sanctions to be the key aspect of enforcement in the fight against tax evasion. The reference to Becker's study increases the need to consider the presence of inherent factors in tax compliance, provided that conventional methods have not been adequate to justify tax evasion actions. Neha (2021) considered another paradigm, tax evasion,

and their key point of analysis was to deter tax evasion by imposing penalties. While considering other cultural, behavioural and sociological considerations, it is crucial to consider the importance of tax morality when analysing the extent of tax compliance (Martinez and Coehlo 2019: 5). Torgler, Schaffner and Macintyre (2007) aim to diagnose the factors behind tax compliance and reinforce the view that the prevailing determinants of tax morality need to be investigated. Torgler, Schaffner and Macintyre's (2007) research considers that tax morality is an important condition for tax compliance, provided that the findings show a clear negative association between tax morality and tax evasion. According to them, people should not feel obligated to pay taxes in countries where widespread inequality and government expenditure is neither open nor accountable. Other research shows that the older the taxpayer, the more they will avoid tax evasion (Biljiga 2020: 24). Alternatively, individuals who are divorced or apart have fewer tax morals than self-employed employees do. However, devotion to the church is associated with a higher tax morality. As a result, it concludes that tax morale is an important factor in determining tax compliance and evasion. Torgler, Schaffner and Macintyre (2007: 4) examined how a high tax burden, when combined with widespread corruption, can distort people's expectations of tax compliance and lead to a rise in tax evasion. According to their study, an administrative agency's authority over the distribution of public money will strengthen the risk of diverting funds and thereby increase corruption. Certain taxpayers use evasion as a means of demonstrating their frustration.

This view was substantiated by Barone and Mocetti (2009: 5), who referred to the rise in tax morality as the taxpayer perceives that public resources have been well handled and are used in an optimal manner. On the other hand, Bătrâncea, Nichita and Bătrâncea (2012: 103) discussed another determining factor in tax morality, the religious values of the taxpayer. This analysis reveals that being a religious person can be a significant determinant of the tax compliance view of taxpayers. The aim is to perpetuate the principle that the more religious an individual is, the greater their propensity toward tax enforcement would be, provided that ecclesiastical teachings appear to advise people to think morally of what is wrong and what is right. Pope (2010) further discussed the

position of faith in tax responsibilities, as religious people are supposed to have more robust moral standards.

2.9 Demarcation of Non-Compliance Problems

Due to the residence-based system, South African corporate residents are taxed on their universal revenue, regardless of where the money is derived (Mans 2021). According to SARS (2012), only non-residences are taxed on their income from the South African source. According to the budget speech delivered by the Finance Minister, Mr Gordhan (South African Government 2012), most South African citizens contribute to the fiscus by paying excise duties, paying VAT and the fuel levy on the goods and services they consume. The main cause of the tax gap in South Africa is the non-compliance of SMEs (Venter *et al.*, 2010: 64). According to SARS (2012: 8), Final Response Document on Taxation Laws Amendment Bill (2017) and Tax Administration Laws Amendment Bill (2017), one of the main challenges which prevent SMEs from becoming compliant is fear of past contraventions of the law, which includes possible liability for additional tax, interest and prosecution, this fear makes SMEs decision to enter the formal tax system difficult.

A number of perceptions can be used to approach tax compliance, for example, law enforcement, public finance, ethics, labour supply, organisational design or the combination of each. In terms of traditional economics, the punishment for tax sanctions is probably small. The likelihood of detection, on the other hand, is negligible, and the punishment will be little. Individuals who pay their taxes, despite this, exist. This runs counter to the standard economic model of law enforcement, which states that taxpayers break the law if the benefit exceeds the expected penalty. As a result, the behavioural literature provides an explanation for the inclination to pay taxes; people adhere to tax payment norms. The establishment of official institutions that supply taxation laws is a necessary prerequisite for tax compliance. In order to improve tax compliance, it is advisable to have a formal institution that develops tax rules and regulations and social norms, furthermore encouraging SMEs to obey those rules and regulations.

2.10 Summary

According to previous surveys, SMEs account for more than 95% of all businesses. SMEs employ a substantial percentage of the workforce and contribute considerably to global and national economic growth. As a large and important component of all national economies, SMEs, however, frequently face challenges to their viability and expansion, some of which are caused by market failures, compliance costs, and capital market inefficiencies.

Preferably, a state tax system is advisable to be neutral in terms of impact on enterprise decisions, including the form, creation and growth of SMEs. Nevertheless, the OECD's research highlights that most tax systems are examined to provide incentives to incorporate and distribute income in the form of capital gains.

The regulatory requirements and cost of tax compliance have a disproportionately high impact and effect on SMEs. Nevertheless, certain tax compliance requirements appear to be fairly neutral for all different business sizes. However, the fixed cost in relation to tax compliance represents an excessive cost for SMEs as the percentage of income and sales have a greater adverse effect upon SMEs than larger enterprises.

One more vital issue affecting SMEs is restricted access to finance for expansion and growth. With restricted access to equity funding, SMEs encounter extensive restraints in terms of debt financing. The governments offer support to small business by offering non-tax programmes, for example, credit programmes, special tax rules, including simplification measures for SMEs and tax preferences. These procedures include reduced corporate tax rate, tax exemptions or tax credits, more generous tax deductions, preferences that apply to the owners directly, issuing relief for opening investment for ongoing income or on the disposal of the SME's assets and exceptional simplification rules, including special presumptive tax regimes for SMEs. Although the introduction and design of these special SME tax rules are intended to support a small business's profitability and growth, they may have distortive effects by incentivising enterprises to

stay small or split up into different enterprises to continue to benefit from preferential tax treatment. Therefore preferences have to be designed carefully and meet the purpose of overcoming tax difficulties identified. It is noted that certain SMEs struggle to understand tax amnesty and how beneficial it is for them to take advantage when the government offers it to them.

The taxation of small businesses is an issue with which many countries' economies are grappling. Special tax rules should be included in the design of government programmes for SMEs that address market failures and the high compliance costs that small businesses face. As governments want to support the growth of SMEs and creative innovation, they must consider the variety of the SME sector and the many challenges SMEs and their owners face when designing taxes rules. The following chapter will explain in detail the research methodology of the study.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The literature review, which is the most important source of information for completing a conceptual framework on study areas, was described in the previous chapter. Chapter three presents the research methods and approaches used in the study. In this chapter, research design, sample, population, sample techniques, data collection, and analysis are further discussed in detail. Furthermore, it identifies the tools that are required in collecting data and the approach used to test the reliability and validity of the instruments used to collect data. Lastly, ethical considerations in the scope of the research will be discussed.

The study proposed to examine factors affecting tax compliance of small and medium-sized enterprises (SMEs). This study is descriptive in nature, and questionnaires were used to collect data.

3.2 Research Design

According to Rutberg and Bouikidis (2018); Haven and Van Grootel (2019), the research design is the plan that allows the researcher to ascertain what to observe and analyse and what methods to use. George, Walker and Monster (2019: 813) confirm this by stating that a research design is a study strategy that also specifies how the strategy will be carried out. It specifies the methods and procedures for gathering, measuring, and analysing data. Thus the research design is the what, why and how. During the study's conceptualisation phase, the study's objective was determined, as well as the data collecting procedure and data validation.

3.3 Research Methodology

3.3.1 Quantitative Research

This study employed quantitative research. According to Ahmad *et al.* (2019), the advantages of quantitative research are as follows:

- Questionnaires are used as the tool for gathering numerical data;
- Characteristics of the research are prudently planned before the actual collection of data;
- The investigator knows in advance what he/she intends to achieve;
- Objective pursues detailed measurement and analysis of target concept, for example, surveys;
- The investigator tends to remain subjective from the subject problem;
- It allows the research to test the hypotheses; is more efficient, but it might miss contextual elements;
- Collected data is mainly in the form of statistics and numbers.

3.4 Research Setting

The research was conducted in SMEs in the greater Durban area. The sample comprised SMEs that are located in Durban metropolitan municipality, i.e. Clermont, Morningside, Umgeni, Durban Central and Phoenix. The sectors which participated in the study were retail and service businesses. The researcher distributed questionnaires to the SMEs who have less than 50 employees in the Durban area. Due to financial constraints, safety and time constraints, the researcher focused on the Durban area.

3.5 Target Population

According to a study that was conducted by Snyder (2019: 336), the target population is a group of people for whom the researcher wishes to draw conclusions based on statistical samples. According to Johnson and Christensen (2012: 257), to simplify the

results of a single study, the researcher must first identify a target group of persons, time, settings, outcomes, and treatment changes, and then pick a sample representative of these groups at random. This study's target population was SMEs who have less than 50 employees. Furthermore, a national disaster due to Coronavirus imposed a limitation to the study in terms of time and travelling.

3.6 Sampling

Most studies concentrate on two sampling designs, namely: non-probability and probability sample. In non-probability sampling, most of the members of the population are left out from the sample (Berndt 2020: 225). This study employed a stratified sampling technique to draw a sample of 322 SMEs from a population of excess 2 000 SMEs in Durban as per the financial year 2019–2020 SEDA report. Stratified sampling is a method of probability sampling and a type of random sampling under which the population can be divided according to one or even more typical attributes into multiple classes (strata). The reason for choosing stratified random sampling was because the researcher intended to reduce the sampling error and guarantee a higher degree of representation. According to Sekaran and Bougie (2016), if the sample size is greater than 30 and less than 500, it is appropriate for most research.

With reference to Sekaran and Bougie (2016), 322 respondents will provide a satisfactory scientific conclusion on the research outcomes (See Appendix C). As per Sekaran and Bougie (2016) and Ullah *et al.* (2020: 809) sample size calculation, 2000 subjects can answer the questionnaire to establish a sample size of 322 since this is considered representative enough (See Appendix C). The study's sample was chosen using stratified and simple random sampling procedures. Stratified sampling was employed to categorise SMEs, and a simple random sample approach was used to choose respondents from different strata (Zachary, Kariuki and Mwangi 2017: 212).

Sample Size Determination:

Table 3: Sample Size of a Given Population Size

N	S	N	S	N	S
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	175	2000	322

Source: Adapted from Sekaran and Bougie (2016)

N - Number of participants S - Sample size

Furthermore, this study adopted probability sampling as per Table 4, which differentiates between probability and non-probability sampling.

Table 4: Difference Between Probability and Non-Probability Sampling:

Probability Sampling	Non-probability Sampling
Probability sampling is usually used in a fundamental study whereby the aim is to generalise the outcome.	Often utilised in action research projects when the goal is to study a class without simplifying.
They use parametric or inferential statistics.	Non-parametric or non-inferential or statistics are used.
For inferential purposes, they usually use the observations data.	For generalisation purposes, they do not use observation data.
All individuals of the population have equal probability of being in the sample.	There is no possibility of selecting any individual.

Probability Sampling	Non-probability Sampling
It is also possible that it is indicative of the entire population.	It is available for free distribution.
It refers to the sample and population.	There is no idea of population.
There is a possible risk of drawing conclusions.	There is no possible risk for drawing conclusions.
This is centred on the law of probability sampling, i.e. Law of Inertia of the Large Sample and Law of Statistical Regularity.	This is not centred on the law of probability sampling.

Source: Adapted from Pandey and Pandey (2021: 46) *Research Methodology: Tools and Techniques*.

This study adopted probability sampling motivated by the benefits, which are indicated in Table 3.

3.6.1 Sampling Frame

According to Berndt (2020: 225), in the sample frame, the small group is nominated as representative of the entire population. Its goal is to collect trustworthy and accurate information on the population with the least amount of money, time, and effort possible and to define the accuracy boundaries of such estimates. It allows for more extensive and intensive study with less material, money, and effort. The researcher elected to use Sekaran and Bougie's 2016 Table (See Appendix C), which assisted in nominating a small group as representative of the entire population, thereby minimising expenses.

3.7 Data Collection Instruments

Data is defined as the confirmation that a researcher obtains information using tools such as a survey. Ullah *et al.* (2020: 810) explained secondary data as the data that is available and not gathered by the researcher. Secondary data can be found in statistics bulletins, official publications, and data from prior studies (Kaladin 2016: 63). This study employed

a primary source of data. Close and open-ended questionnaires were used to collect primary data. The closed-ended questions were created using the Likert scale, including options such as "Agree" and "Disagree" as well as "Yes" and "No".

According to Berndt (2020: 226), there are numerous approaches to collecting data that can be adopted when employing a quantitative research design. However, it is vital to choose an approach that will assist in collecting rich data, assisting in achieving the study's objectives. Therefore, the questionnaire was deemed most appropriate for this study. A questionnaire is a collection of questions sent to a random sample of the population from which data is sought (Whitaker and Fitzpatrick 2021).

The questionnaire, according to Pandey and Pandey (2021: 48) is a pre-written set of questions to which participants respond. When the researcher knows exactly what is needed and how to measure the variables of interest, questionnaires are an efficient data collection instrument (Ogunsola 2017). A number of researchers usually use questionnaires for explanatory or descriptive research. Therefore, it is an appropriate approach to data collection for this particular study.

3.7.1 Administration of the Questionnaire

The questionnaires, together with the consent letter, were personally distributed to the owners/managers of SMEs. The reason for providing the consent letter was to ensure that the respondents understood the aims and objective of the research study (See Appendix B).

The letter clearly stated that should the respondents feel uncomfortable participating, they may withdraw at any time, and the information supplied will be treated in the highest strictest confidence. Questionnaires were collected using the same method when they were distributed. Once collected, they were safely stored in a box to prevent any tampering awaiting the time of analysis. Some questionnaires were sent electronically to the 50 owners. They were allowed to complete the survey at their homes or office,

allowing them to have privacy. This was because some businesses preferred to work online whilst others wanted hardcopies.

3.7.2 Layout of the Questionnaire

Pandey and Pandey (2021: 58) stated that the appearance of the questionnaire is vital. The questionnaires have to look attractive, interesting and easy rather than unclear, forbidding, complicated and boring. Kaladin (2016: 66) and Sekaran and Bougie (2016) stated that the design of a questionnaire could be one of three types, closed questions, open-ended questions and structured questions. With open-ended questions, respondents are free to develop their unique responses to the questions posed. The majority of the questions in this study were closed. For the closed-ended questions, alternative responses were given, and respondents were asked to select the category that best described their response. Categories that contained 'other' or 'please explain' were provided to accommodate any response.

The questionnaire comprised 3 sections and 11 questions as per Appendix C. From question 1 to question 9, these questions are categorised as close-ended questions, whereas questions 10 and 11 are open-ended questions. It is noted that there were more close-ended type questions as most respondents do not have enough time to complete open-ended questions. There were also numerous Likert scale questions. It allowed participants to scale from strongly disagree (1); disagree (2); neutral, (3) agree (4) and (5) strongly agree.

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

Section A: Biographical details of the respondents – in this section, respondents had to answer closed questions regarding the years the business has been in existence, the field the business falls under, annual turnover and the person who prepares the business' tax returns.

Section B: Tax amnesty and tax compliance – this section comprised closed questions that gathered information from respondents on whether or not they applied for small business tax amnesty or Voluntary Disclosure Programme (VDP) offered by the South African government and their perceptions regarding the amnesty programme and tax compliance.

Section C: Corporate income taxation – Section C comprises both closed and open-ended questions. This aims at gathering the knowledge and understanding that the SMEs have on corporate income taxation and their take on corporate tax avoidance.

According to Junpath (2013: 61), open-ended questions are the questions that are more challenging for respondents to complete as the questions need more effort from respondents to provide the answer. Therefore, closed have a high response rate compared to open-ended questions (Smith 2010: 128). Panneerselvan (2004: 24 cited in Junpath 2013: 59) stated that most of the answers provided in answering open-ended questions were unconventional, which were very hard to be understood by the researcher. From section C, there were open-ended questions, and respondents were encouraged to express themselves or provide their opinions.

Closed questions are described as they have two formats: first, questions with several responses in which the responder is allowed to select one or more choices; second, questions with rating scale responses (Junpath 2013: 60). This study comprised closed questions that focused on biographical details, tax amnesty and compliance, tax compliance, and corporate income taxation.

3.8 Pilot Study

The pilot study and the statistical test aimed to check if there was a need to amend, add or delete particular questions. Furthermore, a pilot study assisted in determining the validity and reliability of the questionnaires and aided in determining the valuable outcome of the questionnaires (Ghazali 2016: 148; Saunders, Lewis and Thornville 2012). To enhance the final version of the questionnaires, a pilot test was conducted. In

doing so, the researcher minimised the challenges that the responder may encounter in answering the questions (Kaladin 2016: 68).

The pilot study was tested on five owners/managers of SMEs who formed part of the sample population and had similar characteristics to managers who formed part of the same population. This played a vital role in clarifying and preventing questions that were confusing or ambiguous. The questionnaires which were used as the pilot study were revised.

3.9 Data Analysis and Interpretation

This part specified how the data was structured and summarised to relate to the research problem. Pandey and Pandey (2021) stated that this section clearly stipulated the analysis of data that was used. This study opted to use the binomial test and chi-square tests. In mathematics, the binomial test is a reliable test of the statistical importance of deviations in two groups from ideally predicted distributions of observations, whereas Chi-Square analysis is a measurement for categorical variables with statistical significance.

3.9.1 Statistical Analysis

This section concentrated on gathering, analysing, creating, and presenting data. It necessitated the division of data into constituent components for analysis. The research draws conclusions regarding the difference and relationship in data analysis obtained in the study result (Kipkoech and Joel 2016: 19). Meanwhile, the information gathered was quantitative, and descriptive statistics were used to summarise the information. This study used correlation and cross-tabulation as the method for data analysis.

3.9.2. Presentation of Quantitative Data

The quantitative findings are presented in Chapter 4 in the form of bar charts, graphs and tables.

3.9.2.1 Tables

Sandmo (2010: 57) defined tables as a means of organising data in rows and columns. Tables are used through data analysis, research and communication. It has been noted that tables appear in architectural ornamentation, computer software, and print media. Grove and Burns (2012) stated that tables assist the researcher in demonstrating different information clearly and concisely, recognising deviations in information, creating associations between variations, and interpreting the text. This study employed the use of tables for data presentation.

3.9.2.2 Graphs

This study employed bar graphs and pie charts in presenting data. According to Kaladin (2016: 73), graphs are described as showcasing findings vertically and horizontally. According to Grimmer *et al.* (2014: 13), data is represented in graphs by a sequence of rectangles drawn next to each other with space between them, each reflecting a distinct data category. Because pie charts include 360 degrees in a circle, the entire circle may be utilised to represent 100% of the population (Das and Kumar 2011: 270).

3.9.3.3 Cross-Tabulation

According to Kaladin (2016: 73), frequency distribution of answers on two or more sets of variables, cross-tabulation is one of the simplest ways of displaying sets of connections.

3.10 Reliability and Validity of the Study

3.10.1 Reliability

Nayak and Singh (2021: 24) stated that validity is knowledge of measuring what the study design aims to measure. The reliability test outcome will be the same for the test conducted under different conditions and by different people. According to Ahmad and Ahmad (2018: 46), the researcher is required to conduct a pilot study and statistical test

to find any problems during the study. The researcher in the present study conducted a pilot study to ensure reliability and validity, and the questionnaires used as the pilot study did not form part of the 147 questionnaires that were analysed at the end.

3.10.2 Validity

Validity in a study refers to the size or degree to which the study instrument can demonstrate the amount of precision and authenticity required to measure what it is intended to assess by demonstrating the degree to which the findings produced are trusted (Nayak and Singh 2021: 26). Validity may be divided into four categories: content validity, face validity, concurrent and criterion validity.

When measuring what is supposed to be measured, every measuring device must be legitimate. For example, an intelligence test designed to assess IQ should solely measure intellect, and questions should reflect this (Pandey and Pandey 2021).

3.11 Limitations of the Study

The study was confined to Durban-based SMEs. There was a significant quantity of data available because the subject area relates to the whole world, not simply Durban or KwaZulu-Natal. Respondents were delayed in completing the questionnaires; some were not available in their offices upon collecting questionnaires due to the national state of disaster.

3.12 Ethical Considerations

Numerous studies focus on human beings, and the researcher had to seek informed consent and respect the confidentiality and anonymity of the research participants (Leboea 2017: 90; Ryan *et al.*, 2017: 7). Therefore, the researcher of this study had to ensure participants participated voluntarily and no harm happened to them.

3.12.1 Covering Letter

The cover letter is the most important aspect of any study; before the prospective respondents attempt to answer the questionnaire. The cover letter is required to clarify what is expected from the respondents. The covering letter of the questionnaire covered the following aspects:

- introducing the researcher and the institution in which they are studying;
- stipulating the aim of the study;
- describing the relevance of the research;
- providing clear guidelines on what is expected;
- clearly stating that participation in the study is voluntary, should any of the respondents want to withdraw from participating, they have a right to withdraw;
- assuring responders that the information they supply will remain anonymous;
- ensuring that the return address and email to return the completed questionnaires is clearly stated, and
- expressing appreciation to the participants for their participation in the research.

3.12.2 Consent Letter

A consent letter, Ahmad and Ahmad (2018: 124) is the procedure by which a knowing individual, without pressure, freely and intelligently grants consent regarding their participation in the study. In research, obtaining informed permission is critical because it prevents needless invasions of respondents' privacy and safeguards their liberty. The free and informed consent letter must incorporate and explain the research and its purpose, as well as give further clarification regarding the study subject selection and processes that were followed.

The participants were well informed of the adopted methods for the research, which were incorporated to protect anonymity and confidentially and stipulated a person with whom they could discuss the study. The participants were assured that their participation was

completely voluntary and that there would be no negative consequences if they chose to withdraw at any stage of the research process.

3.13 Summary

This chapter provided procedures and detailed the stages involved in carrying out the research design and methodology for this particular research. It defined the method of ascertaining the sample required for the study and stipulated the method by which the research mechanism was initiated to elicit the required information from the participants. Furthermore, it stipulated the statistical package applied for data analysis. The next chapter presents and evaluates the outcome of the research.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

The previous chapter presented the framework for data collection. This chapter provides the analysis of the data gathered from questionnaires and discusses the findings obtained. Data was obtained by distributing questionnaires to small-medium enterprises (SMEs) in the Durban area. The data was analysed to achieve the objectives of the study, which were to analyse factors that affect the tax compliance of SMEs. SPSS version 26.0 was used to analyse the data collected from the participants. The information will be provided in the form of cross tabulations, graphs, and other figures as descriptive statistics. Correlations and chi-square test results are examples of inferential methods. The p-values are used to understand the chi-square values. The statement of statistical significance is compulsory when reporting findings using the traditional approach. Traditional research aims to make broad generalisations about a small number of variables in order to provide problem-solving answers. A test statistic is used to calculate the p-value. The substantial result is shown with 'p < 0.05'. There are two vital aspects of precision, which are validity and reliability. The aim of the study is to analyse the factors that affect the tax compliance of SMEs in the Durban area.

4.2 Reliability and Validity

4.2.1 Reliability

The reliability shows the scope of error-free on a measure. The instrument's stability and consistency in measuring the notion are referred to as reliability, and it assists in assessing the utility of a measure (Sekaran and Bougie 2016). For computing reliability, several measurements are used on the same subjects; the reliability coefficient of 0.60 or higher is measured as acceptable as per Table 5

Table 5: Cronbach Alpha Score

Reliability Statistics	
Cronbach's Alpha	N of Items
0.607	11

This is in reference to section C of the questionnaire (See Appendix C). All of the sections' reliability scores are higher than the recommended Cronbach's Alpha of 0.607. This indicates that the scoring for this section of the research is satisfactory and trustworthy. Acceptable ratings indicate a high degree of consistency in findings.

According to Pandey and Pandey (2021), measurement accuracy is referred to as validity. Validity indicates how well a test is matched to a certain circumstance. The research is genuine if the findings correspond to the researcher's scenario, explanation, and prognosis. If the measuring procedure is dependable, the findings will be accurate. Validity is considered a useful and vital concept in all forms of study because its aim is to increase the usefulness and accuracy of findings which provides greater confidence in the research's outcome. The questionnaires were structured carefully to draw the required data from the respondents. The findings of the study might appear accurate. However, it contains errors. Therefore, safety measures have to be taken to minimise errors. Hence it was necessary to determine the Cronbach's Alpha.

Internal consistency is measured by Cronbach's Alpha. The coefficient reveals how features in a set are positively connected to one another, and it is a technique for assessing inter-item dependability and consistency (Sekaran and Bougie 2016). The Cronbach's Alpha for the dependent and independent variable has an average of 0.70 and above is acceptable in most research studies.

4.3 Questionnaire Response Rate

Two hundred and thirty questionnaires were hand-delivered to different SMEs in the Durban area. Furthermore, the researcher created online questionnaires as per the

suggestion of the participants. The online questionnaires were forwarded to 50 participants via email. Only seven participants completed the online questionnaires.

A total of 230 questionnaires were dispatched, and 157 returned, giving a 68% (157/230 = 68%) response rate. From the total of 157 questionnaires received, 149 were deemed complete and usable. In fact, 322 questionnaires were supposed to be administered; however, the researcher distributed 230 questionnaires due to unforeseen circumstances.

4.4 Presentation of Findings

The study instrument comprised 29 items, with a level of measurement at a nominal level. These findings are discussed according to the three sections in the questionnaire section, as follows:

- Section A: Biographical details of the participants;
- Section B: Tax amnesty and tax compliance;
- Section D: Corporate Income Taxation (CIT).

The discussion keeps the research objectives in mind and draws on the literature review.

4.5 Factor Analysis

Factor analysis is a statistical approach that is used chiefly to reduce data (Ramrakhiani 2017: 80). In research, when the researcher wants to provide a large number of questions with a limited number of theoretical elements, factor analysis is employed.

Table 6: Rotated Component Matrix

Q8	Component			
	1	2	3	4
Effective revenue authority promotes tax compliance among citizens	-0.128	0.620	0.405	-0.035

Q8	Component			
	1	2	3	4
Paying taxes is a moral responsibility of being a good corporate citizen	- 0.03 0	0.62 0	- 0.2 23	- 0.2 31
Manual tax filing is easy to complete	0.07 2	0.12 0	- 0.0 27	0.8 77
Tax rate which is perceived as unfair and inequitable, discourages taxpayers to comply with the tax rules and regulations	- 0.16 7	0.71 1	0.0 49	0.0 92
Continuous granting of amnesty reduces tax compliance	0.49 2	0.49 9	- 0.1 80	0.1 52
The tax amnesty awareness campaigns launched by SARS promotes tax compliance	0.08 5	0.56 5	- 0.0 92	0.0 86
Tax compliance costs are a hindrance to SME's growth	- 0.04 7	- 0.18 9	0.5 40	0.4 75
A poorly executed tax system leads to high collection charges and waste of time for taxpayers	0.16 6	- 0.11 5	0.7 10	0.0 36
The high tax rate is most crucial factors influencing SME's failure to pay tax in South Africa	0.27 8	0.09 1	0.6 88	- 0.0 59
Publication of the names of tax offenders will assist taxpayers to comply with tax laws	0.72 1	- 0.08 0	0.0 24	0.2 31
High tax compliance rates promotes tax evasion	0.79 0	- 0.04 6	0.2 54	- 0.1 16
As the size of the enterprises increase, the absolute internal tax compliance cost also increase	0.69 2	- 0.06 7	0.4 09	- 0.1 06

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 7 iterations.

Table 6 indicates the number of questions that have a small number of theoretical factors in terms of the study. The principal component analysis was adopted as the extraction approach, and the rotation method was Varimax with Kaiser Normalisation. This is an

orthogonal rotation approach that reduces the number of variables on each component with high loadings. It makes interpreting the components easier. Factor analysis indicates the inter-correlations between variables, as highlighted in Table 5. It reveals an examination of the content of items loading such as the highlighted items above 0.5 and using the higher or highest loading in instances where items cross-loaded at greater than this value effectively measured along with the various components.

4.6 Section A: Biographical Data

This section presents the characteristics of the participants’ business based on the biographical information of the study. Grekousis (2020: 10) stated that descriptive statistics is defined as the branch of statistics that involves methods of organising and summarising data. The biographical information explored in this study were: year in operation, type of business, the turnover of the business per annum and the person who prepares the tax return of the enterprise. Figure 1 represents the number of years the SMEs has been in operation.

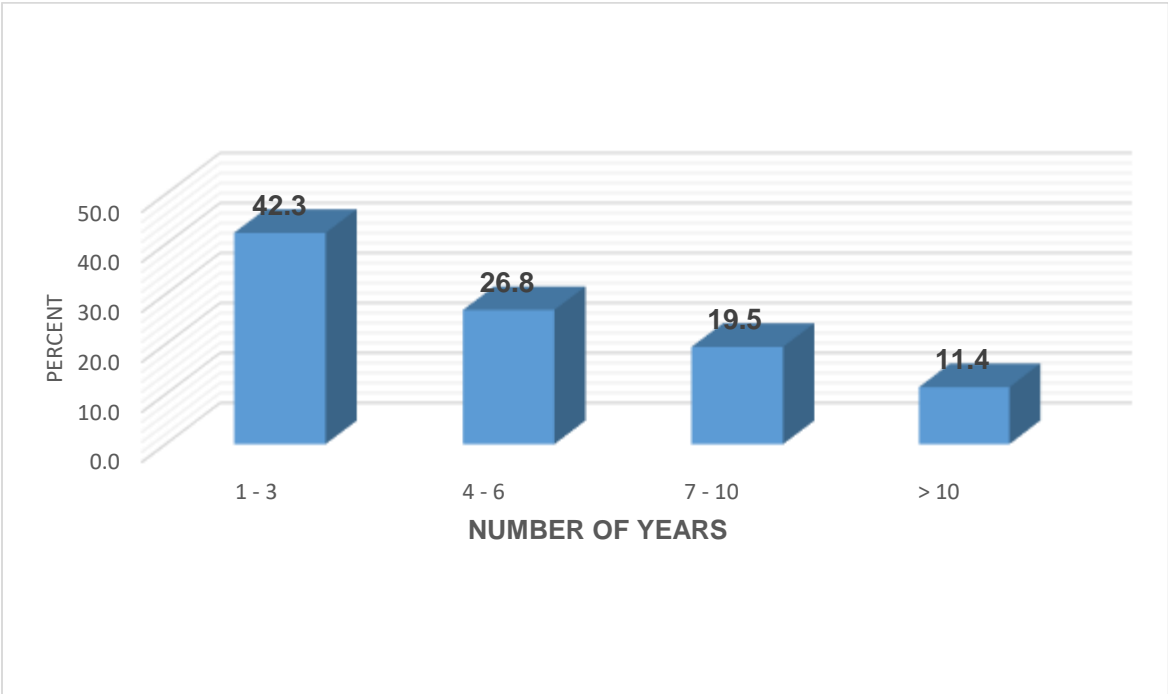


Figure 1: Years in Operation

Figure 1 shows that the majority of the SMEs have been in operations for more than three years (< 0.001). It shows that 11.4 % has been in operation for more than 10 years. These figures indicate that participants have a clear understanding of the business sphere. As more than half of the SMEs have been in operation for some time, it indicates that they are successful and have adapted to tax changes. However, 42.3% of SMEs have been in the industry for less than three years. Some of those businesses were still learning the sector in which they were operating. To complicate things further, they have to learn and understand taxation, and as a result, they need to comply with tax rules and regulations. Furthermore, tax compliance may be a challenge they face, resulting in failure to comply with tax rules and regulations. Figure 2 indicates types of enterprises.

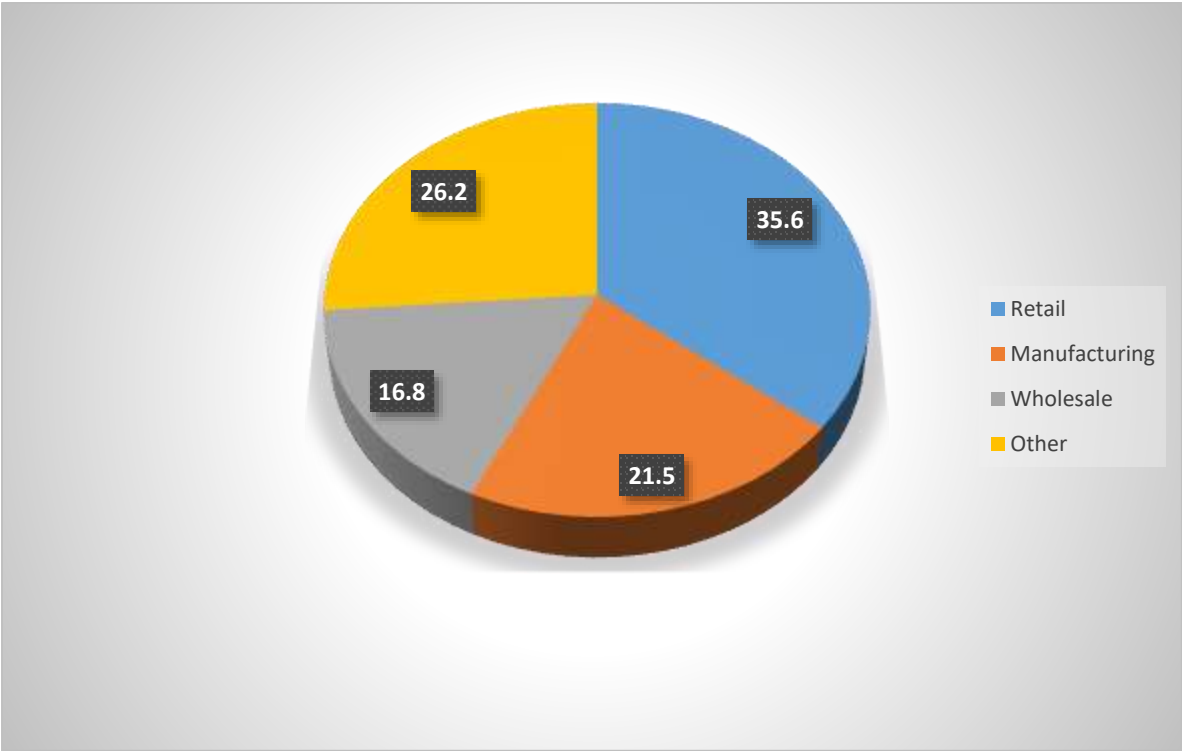


Figure 2: Type of Enterprises

Figure 2 represents the type of enterprises, and the results indicate that more than a third were retail (35.6%) while (16.8%) represented wholesalers and approximately half were

either manufacturing (21.5%) or other (26.2%). Regardless of the sector, all enterprises are to comply with tax as it is a regulatory requirement.

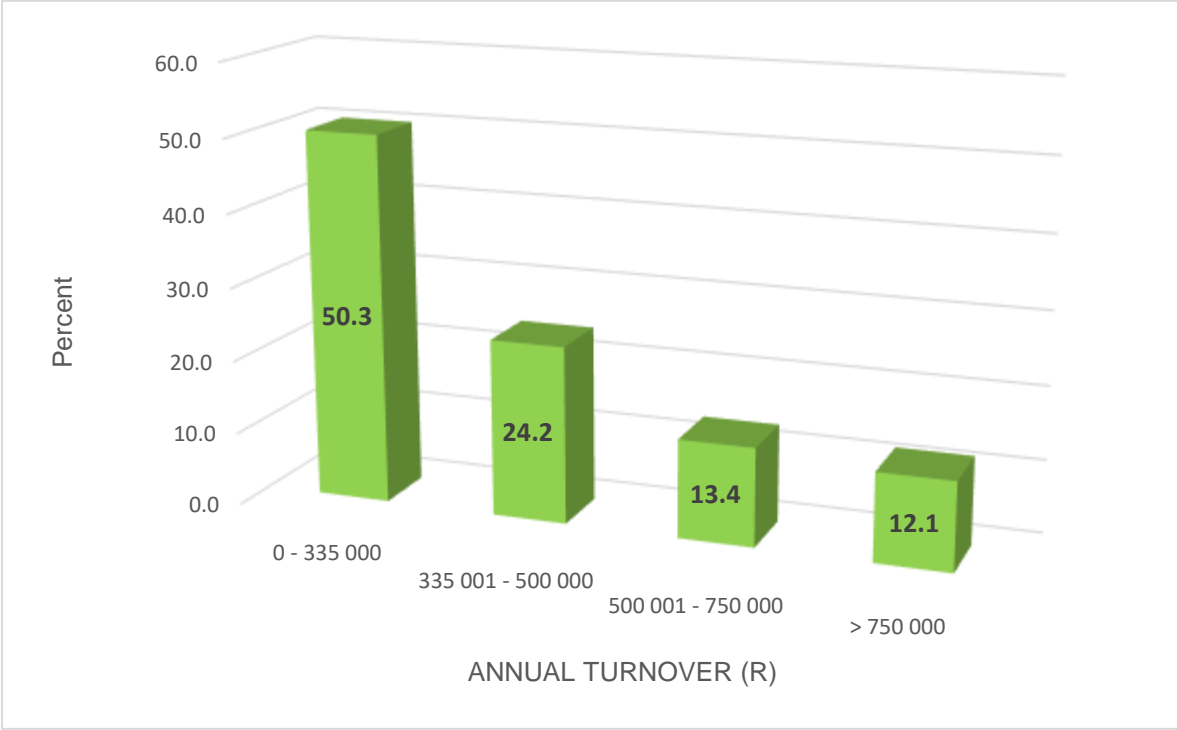


Figure 3: Annual Turnover of the Enterprise

Figure 3 represents the annual turnover of the enterprises. The results indicate that more than half of the businesses (50.3%) turnover was at most R 335 000 ($p < 0.001$). A quarter of the businesses (24.2%) showed that their turnover was between R 335 001 and R 500 000. Whilst, 12,1% indicated that their annual turnover was greater than R 750 000, which indicates a small fraction of the respondents. As per Figure 3, SARS (2012) receives the most revenue (50.3%) from businesses making makes a turnover between R 0 to R 335 000. Figure 4 indicates the person responsible for the completion of the tax return.

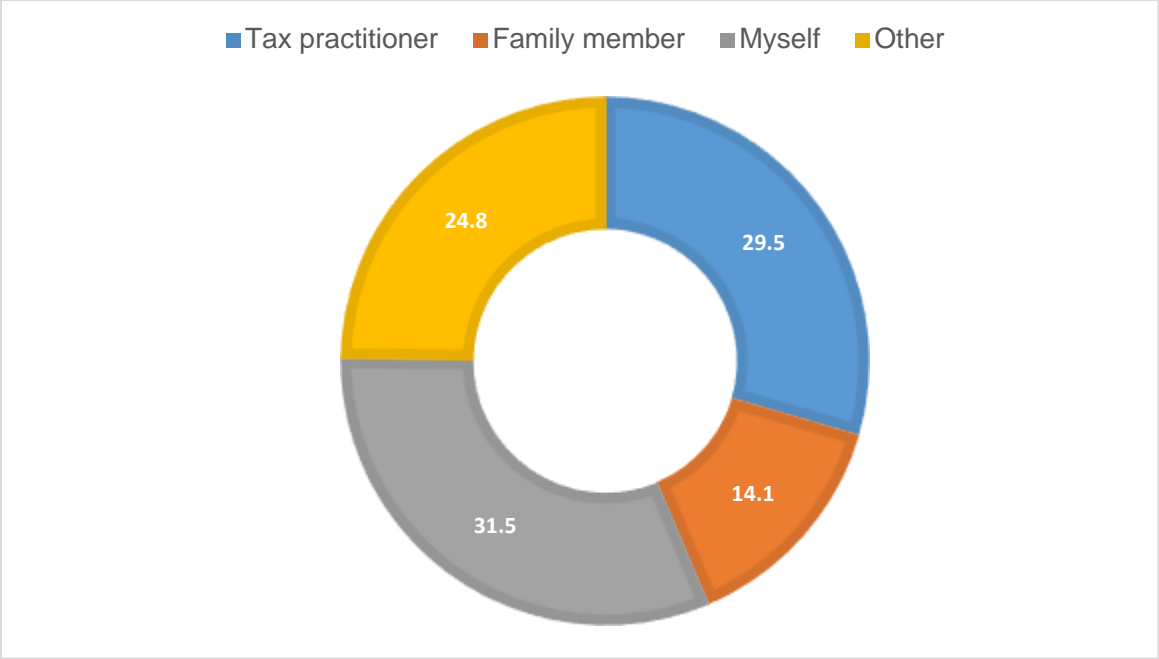


Figure 4: The Person Who Prepares the Tax Returns of the Business

Figure 4 represents a third of the respondents (31.5%) who indicated completing the tax returns by themselves, while 14.1% were assisted by family members. The possibility of not outsourcing the service of completing tax returns could be a way of avoiding spending money on paying for accountants. The findings further indicate that (30%) of respondents outsourced filing tax returns ($p = 0.012$). Some enterprises prefer outsourcing because of a shortage of staff or lack of competent staff. It is assumed that the tax practitioners speed up the service delivery and guarantee high-quality results. In addition, the tax practitioner offers different qualities that make them more reliable. They use modern tax calculation software, which is an advantage to the enterprise. Tax practitioners were preferred by 29% of the respondents because they have access to software. Whilst some respondents chose practitioners due to their own limited tax knowledge and time constraints.

4.7 Section B: Tax Amnesty and Tax Compliance

According to Čebelis (2021: 30), a tax amnesty is a time-limited chance for a specified group of taxpayers which allows them to pay a certain amount in return for relief from what they owe on tax and penalties from a previous tax cycle without facing criminal charges. However, should the tax authorities investigate and find previous outstanding taxes, the amnesty automatically expires. An increase in the proportion of small businesses selected for comprehensive audits resulted in a higher number of non-compliant taxpayers that were to be penalised. In some instances, when the legislation extends amnesty, it imposes harsher punishment on the SMEs eligible for that particular amnesty but did not take it.

The South African government aimed to introduce the tax amnesty to increase the tax revenues and tax base as the voluntary compliance strategy. Tax amnesty waives the taxpayer's tax liability, and for that, it is considered a unique voluntary compliance strategy (Tax Resolution Professionals 2020: para 3). For government to raise the state treasury tax revenue, they had to encourage SMEs to take advantage of tax amnesties (National Treasury 2017b).

Tax compliance, according to Bătrâncea *et al.* (2019: 3), is the extent to which taxpayers satisfy their tax duties by reporting accurate income to SARS and paying their tax dues honestly and freely. As per SARS (2012: 4), most taxpayers follow the law and take responsibility by paying their fair share in the economy. Table 6 indicates the participants who are registered taxpayers.

Table 7: Registered Taxpayers

Are you a registered taxpayer?

	Frequency	Per cent
Yes	126	84.6
No	23	15.4
Total	149	100.0

As Table 7 reveals, almost 85% (84.6%) of the respondents indicated that they were registered as taxpayers ($p < 0.001$). Possibly 15.4% of the respondents were not aware that being tax compliant was an advantage in SA. This could be the main reason for non-registering as taxpayers. SARS (2012) stated that its objective is to decrease the tax gap by increasing the number of taxpayers on the tax register. The level of growth is influenced by the tax policies, tax-base broadening, economic conditions, legislative amendments and the general compliance climate. The tax register consists of enterprises, VAT, PAYE and individuals. It is stipulated by Section 67 of the Income Tax Act in SA (Republic of South Africa 2009: 340) that every individual who is liable to submit a tax return should apply to the commissioner to register as a taxpayer. Figure 5 shows the level of tax knowledge among SMEs.

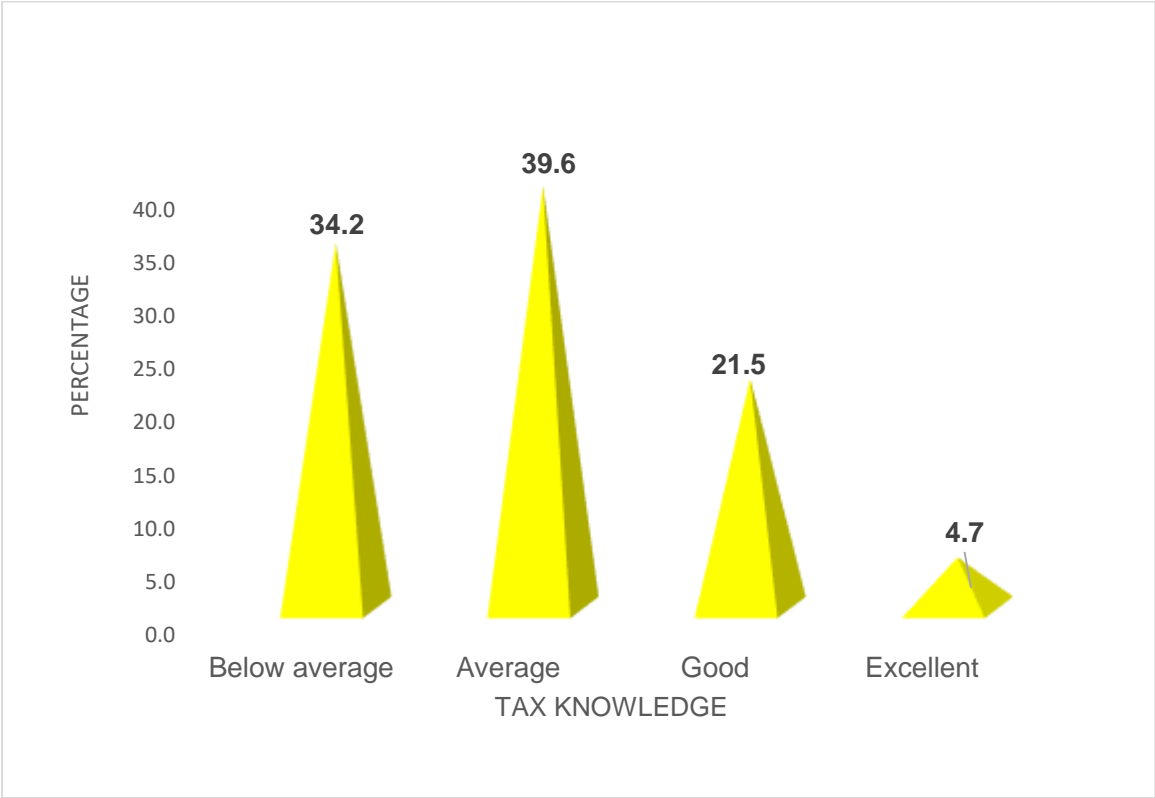


Figure 5: Level of Tax Knowledge – How would you rate your tax knowledge?

Figure 5 represents the level of tax knowledge. Almost three-quarters of the participants (73.8%) indicated that their tax knowledge was at best at an average level ($p < 0.001$).

Nearly 5% (4.7%) indicated that they have an excellent knowledge of taxation, while 21.5% of respondents indicated that their level of understanding taxation was good. Therefore, an increase in tax compliance can be assumed due to SMEs having a better understanding of taxation. Figure 6 indicates how many businesses have defaulted tax returns.

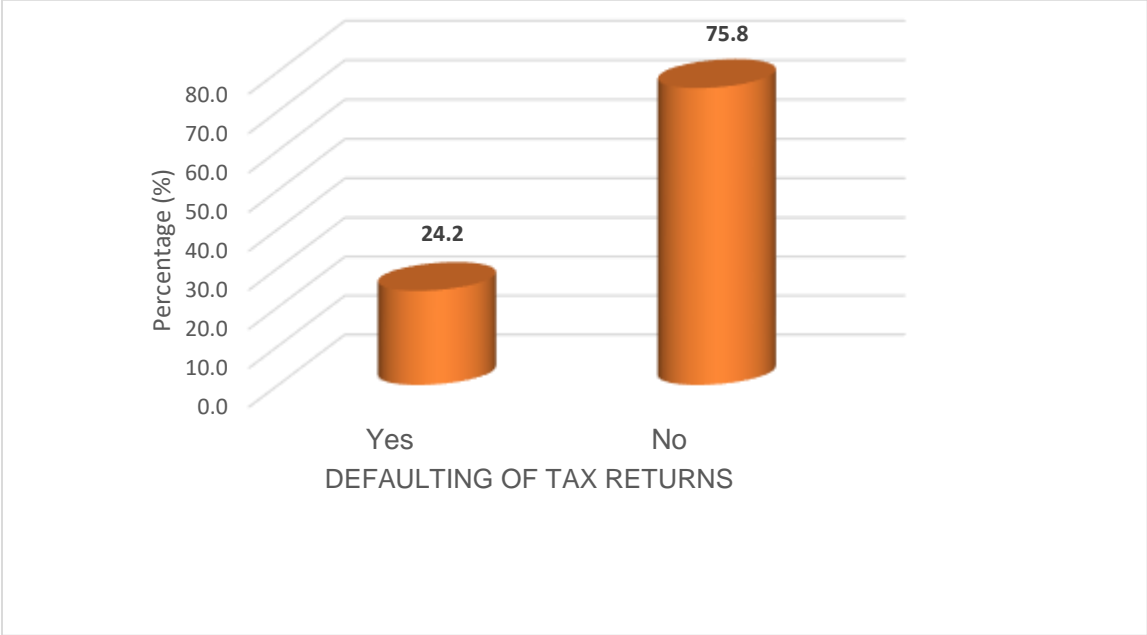


Figure 6: Defaulting of Tax Returns – Have you ever defaulted on your tax returns?

Figure 6 represents 75.8% of participants who indicated what they did not default on their tax returns ($p < 0.001$). In contrast, 24.2% of participants indicated that they had defaulted on tax resulting in SARS receiving less revenue. However, the findings of this study contradict the outcome of the study that was conducted by OECD (2004) on Turkish SMEs, which indicated that SMEs were suffering consequences of low level of technology, poor access to finance, policy inconsistency and many more, this leads to SMEs to default their tax return.

Table 8: Moral Responsibility of a Good Corporate Citizen

Paying taxes is a moral responsibility of being a good corporate citizen * Who does your tax return? Crosstabulation						
		Who does your tax return?				Total
		Tax practitioner	family memb	Myself	Other	
Paying taxes Strongly Disagree	Count	9	4	6	11	30
	% within W	20.5%	19.0%	12.8%	29.7%	20.1%
Disagree	Count	5	4	14	12	35
	% within W	11.4%	19.0%	29.8%	32.4%	23.5%
Neutral	Count	12	10	15	12	49
	% within W	27.3%	47.6%	31.9%	32.4%	32.9%
Agree	Count	10	2	12	1	25
	% within W	22.7%	9.5%	25.5%	2.7%	16.8%
Strongly Agree	Count	8	1	0	1	10
	% within W	18.2%	4.8%	0.0%	2.7%	6.7%
Total	Count	44	21	47	37	149
	% within W	100.0%	100.0%	100.0%	100.0%	100.0%

Table 8 represents the moral responsibility of citizens. The findings indicate that 32.9% of the participants have a neutral view concerning the statement “paying taxes is a moral responsibility of being a good citizen”. Furthermore, 27,3% of SME’s tax returns are prepared by tax practitioners. This indicates that the owners of SMEs are not directly involved in the process of filing tax returns. Finally, 4.8% of participants believe that they are morally obliged to comply with the law and pay a fair share to the government. Possibly, some participants monitor the government spending, and they decide whether they will still pay taxes given the following:

Paying tax is a social obligation. It is the price we pay for being part of a civilised society and one defining characteristic of such is its willingness to support those who are not considered to be economically productive (Kellett 2013, para 5).

4.8 Tax Knowledge

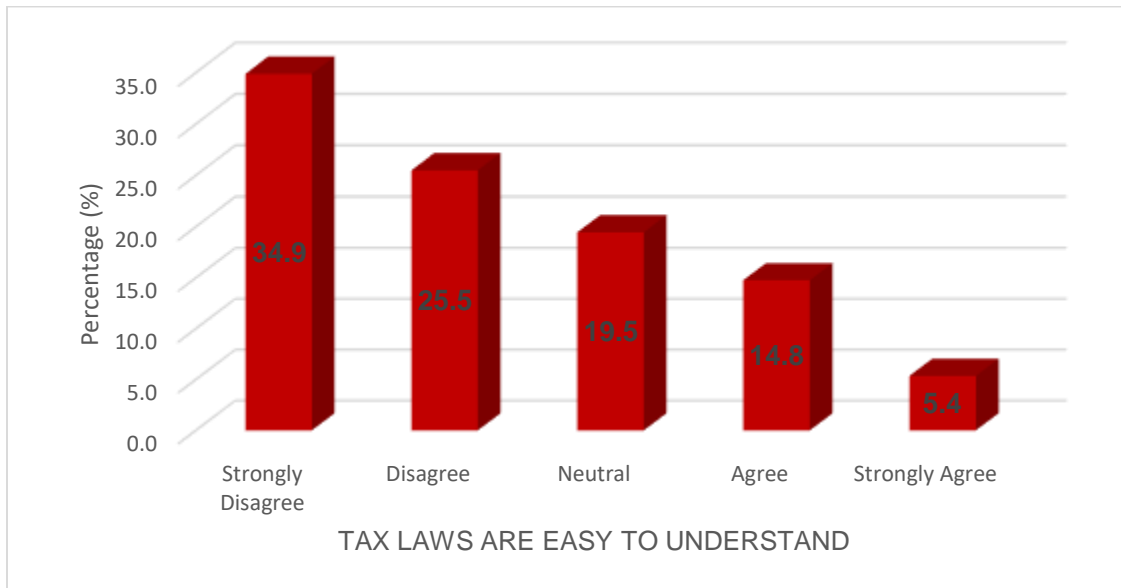


Figure 7: Understanding of Tax Laws

Figure 7 indicates that most respondents (60.4%) disagree that tax laws were easy to understand. A minimal number of respondents (5.4%) agreed that tax laws were understandable. Tax language is considered to be complex. Furthermore, there are different categories of taxation, and each has different rules and regulations which requires SMEs to understand and apply thoroughly. Due to the lack of such knowledge, most SMEs prefer to outsource the filing of tax returns. Only 20.2% of participants believe that tax laws terminology and application were understandable.

Table 9: Tax Returns Preparation

Tax laws are easy to understand * Who does your tax return? Cross-tabulation

		Who does your tax return?				Total
		Tax practitioner	Family member	Myself	Other	
Tax laws are easy to understand	Strongly Disagree	13	9	14	16	52
	Count					

Tax laws are easy to understand * Who does your tax return? Cross-tabulation

	% within Who does your tax return?	29.5%	42.9%	29.8%	43.2%	34.9%
Disagree	Count	14	5	10	9	38
	% within Who does your tax return?	31.8%	23.8%	21.3%	24.3%	25.5%
Neutral	Count	8	5	11	5	29
	% within Who does your tax return?	18.2%	23.8%	23.4%	13.5%	19.5%
Agree	Count	3	2	10	7	22
	% within Who does your tax return?	6.8%	9.5%	21.3%	18.9%	14.8%
Strongly Agree	Count	6	0	2	0	8
	% within Who does your tax return?	13.6%	0.0%	4.3%	0.0%	5.4%
Total	Count	44	21	47	37	149
	% within Who does your tax return?	100.0%	100.0%	100.0%	100.0%	100.0%

Table 9 represents the person responsible for tax returns preparations concerning the comprehension of tax laws. The primary findings showed that 29.5% of the participants indicated that tax practitioners completed their tax returns due to failure to understand tax laws. For this reason, it shows why some SMEs prefer to outsource the filing of tax returns. Figure 8 indicates the impact of tax rates in relation to tax compliance. It is noted that the high tax rate is the most crucial factor influencing SMEs' failure to pay tax in South Africa.

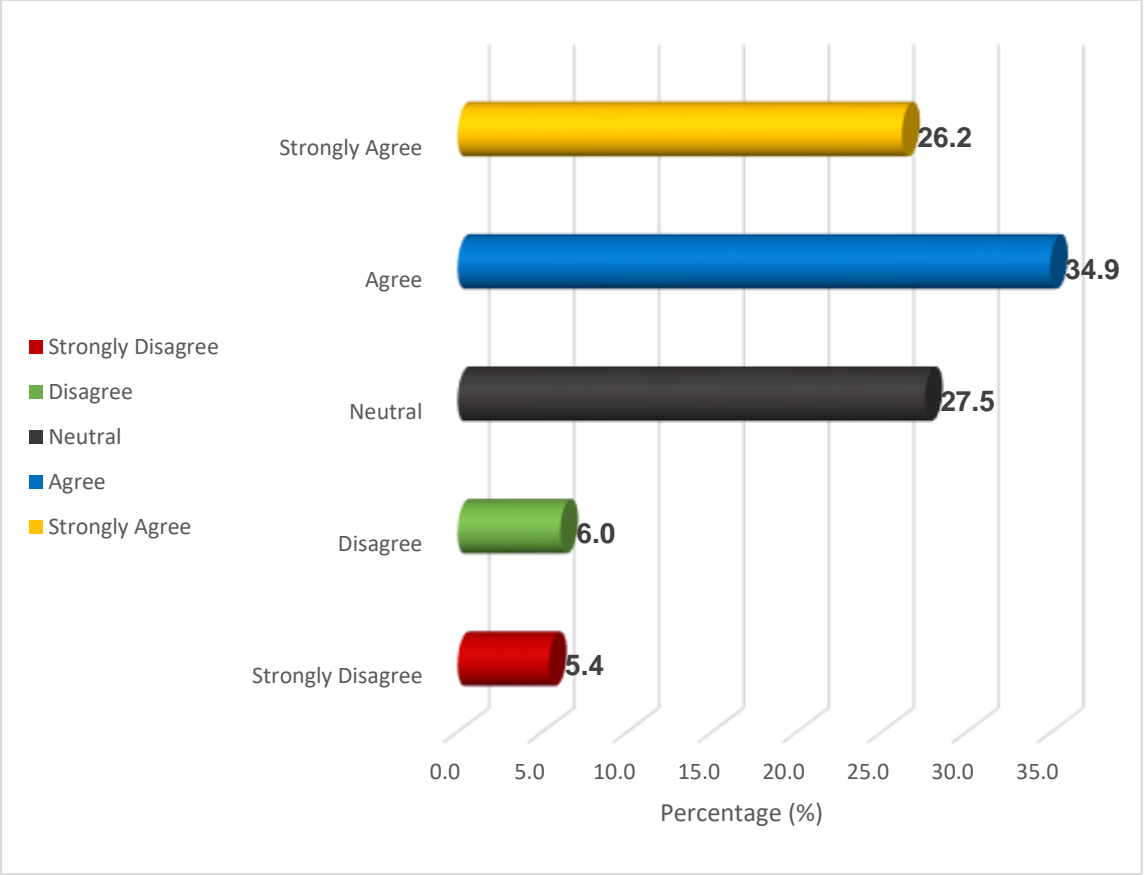


Figure 8: Impact of Tax Rates

Figure 8 indicates that (61.1%) of participants agreed that the tax rate is one of the factors that hinder the growth of SMEs. Only 5.4% of the participants stated that tax rates had no effect on SME’s growth. SMEs are obliged to pay income tax, regardless of these enterprises making losses. The higher the tax rate, the less tax compliance (Inasius 2019). According to the study's findings, there is a negative relationship between tax rates and tax compliance. The principal goal for any SME is profit maximisation nevertheless is not always achieved as the greater percentage of the SMEs are unable to attain this goal. The income tax administration contributes significantly to the revenue collection and profitability of all businesses.

Murphy (2008 cited in Wangeci and Kaplelach 2018: 872) stated that if the government increases the tax base, this will cause the majority of the SME’s tax burdens to increase.

Furthermore, it has been noted that the tax administration system is poor, business tax liability is established on estimations, as there are incomplete records of businesses, and some enterprises are omitted completely, which leads to tax being overcharged and greater penalties (SAIPA 2019: 7). As a result, the growth of each enterprise is affected and may hinder the growth of the enterprise because taxes are paid from profit (Wangechi and Kaplelach 2018: 873). The study that was conducted decades ago indicated that the effect of tax rate on tax compliance is mixed depending on the nature of the entity (Whitte and Woodbury, 1985). Furthermore, the outcomes of this study show that an increase in tax rates strengthens the motivation to disclose less income in order to pay less taxes. In other words, respondents believe there is a negative association between tax compliance and tax rate. Kirchler (2007: 104) discovered no association between tax compliance and tax rate in his study many years ago. According to most empirical research, the link between tax rate and tax compliance is negative. Table 9 indicates the participants' views relating to manual tax filing.

Table 10: Manual Tax Filing

Manual tax filing is easy to complete		Frequency	Per cent	Valid Per cent
Valid	Strongly Disagree	19	12.8	12.8
	Disagree	26	17.4	17.4
	Neutral	57	38.3	38.3
	Agree	35	23.5	23.5
	Strongly Agree	12	8.1	8.1
	Total	149	100.0	100.0

Table 10 represents 30.2% of participants who disagreed that manual tax filing is easy to complete. According to the research, having tax knowledge and a better grasp of the tax system may improve taxpayers' perceptions of fairness and attitudes toward compliance. Table 9 reveals that 31.6% of respondents indicated that manual tax filing is easy. Mei Tan and Chin-Fatt (2004: 44) contradict the idea that more tax knowledge has a significant influence on people's outlook on fairness and tax compliance. Table 11 indicates the tax amnesty awareness campaigns.

Table 11: Tax Amnesty Awareness Campaigns

The tax amnesty awareness campaigns launched by SARS promote tax compliance		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Strongly Disagree	9	6.0	6.0	6.0
	Disagree	37	24.8	24.8	30.9
	Neutral	63	42.3	42.3	73.2
	Agree	31	20.8	20.8	94.0
	Strongly Agree	9	6.0	6.0	100.0
	Total	149	100.0	100.0	

Table 11 reveals that 26.8% of the participants agree that tax awareness campaigns launched by SARS to promote tax compliance were sufficient. At the same time, 30.8% indicated that tax awareness campaigns were not serving the intended purposes. Le Borgne and Baer (2008: 56) stated that tax amnesty programmes had produced different outcomes in terms of gross revenue collection. Furthermore, the tax awareness campaigns have to be improved by ensuring a sufficient advertisement so that the public will be aware of small business tax amnesty campaigns. SARS has to conduct training workshops to educate taxpayers regarding tax amnesty programmes to promote compliance.

4.9 Challenges Faced by SMEs

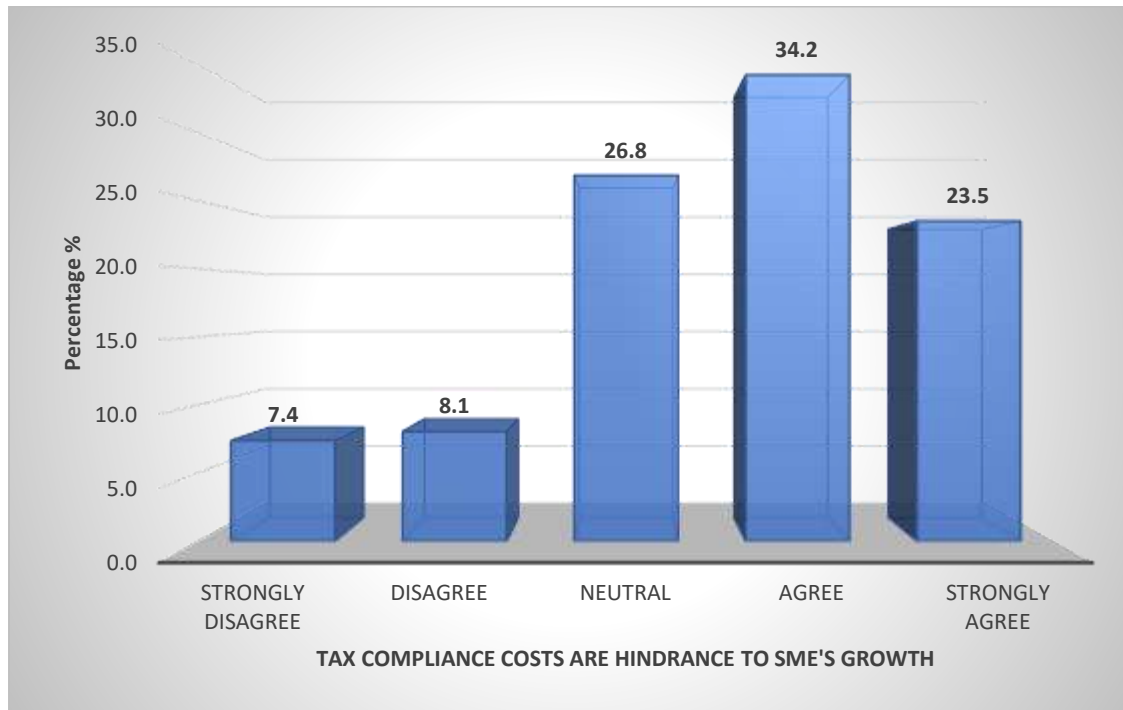


Figure 9: Tax Compliance as the Hindrance of Business Growth

Figure 9 represents 57.9% of the participants who agreed that the resources they used towards tax compliance would have been used for facilitating future growth through saving. Numerous challenges hinder SMEs and delay their growth. Certain challenges are peculiar to a particular country. It is noted that the tax system is complicated, and they have to incur additional costs for them to be compliant, and it puts uneven pressure on small enterprises. Thabani and Richard (2020) stated that SMEs were discriminated against in the regular tax system because tax compliance, tax rates and tax compliance costs are the same for both large and small businesses. Reducing tax rate and tax compliance costs will increase the SME's profit margin. This has a positive impact on government tax revenue, from when provisions for SMEs historically reduced the number of non-complying registered taxpayers and the size of the shadow economy. Moreover, SMEs typically operate in an overbearing regulatory atmosphere with the excess of multiple taxes, regulatory agencies and high tax penalties that continuously apply a

serious burden on their growth and operations (Anye and Makebo 2019: 192). Several enterprises have to deal with numerous agencies at a high cost.

As mentioned earlier, as the business size is different, so is the method they use for record-keeping, which then affects the tax compliance cost. Additional factors bedeviling SMEs growth are high tax collection charges, time spent by staff in preparing tax returns and little amount of taxes received from SARS, weak tax planning, double taxation, high taxation cost and deviation of optimal allocation of resources. Figure 10 indicates the effect of publications of the names of tax offenders towards tax compliance. Publication of the names of tax offenders will assist taxpayers to comply with tax laws.

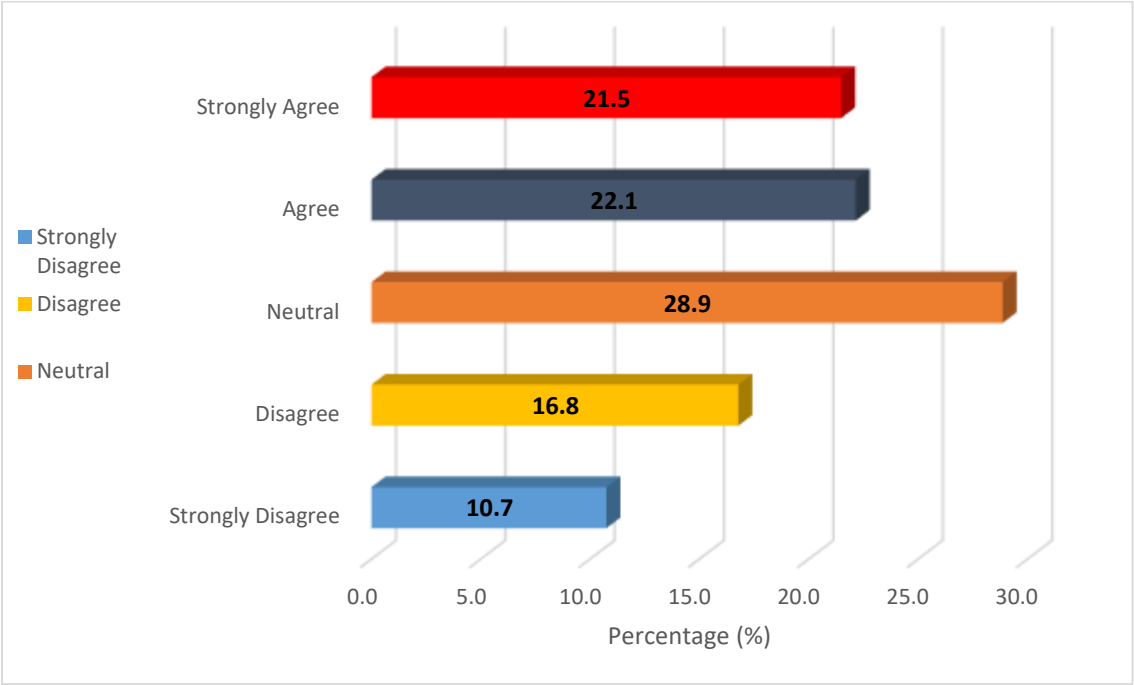


Figure 10: Publication of Names of Tax Defaulters

Figure 10 represents 27.5% of participants who disagreed that publication of tax offenders will not have a positive effect on tax compliance, while 43.6% agreed that this would assist as taxpayers will not want to see their business listed (under tax compliant defaulters). Section 146 of the Tax Administration Act 1994 allowed the commissioner to publish the names of tax defaulters. This was intended to improve tax compliance in

South Africa. However, in 2005, Section 146 of the Tax Administration Act was amended, and the requirement for the commissioner to publish names of tax defaulters was removed. This section was deemed to be extremely harsh on some taxpayers. The rules were strict in both their application and scope. This section has only one method of punishment, regardless of the degree of the offence. This has resulted in no ability to tailor the sanction to either the magnitude or type of crime. Nonetheless, publishing of names of the offenders had some good results. The benefits were greatest in cases where the commissioner or court imposed the sanction. Figure 11 shows the relationship between tax compliance and tax evasion. High tax compliance rates promote tax evasion.

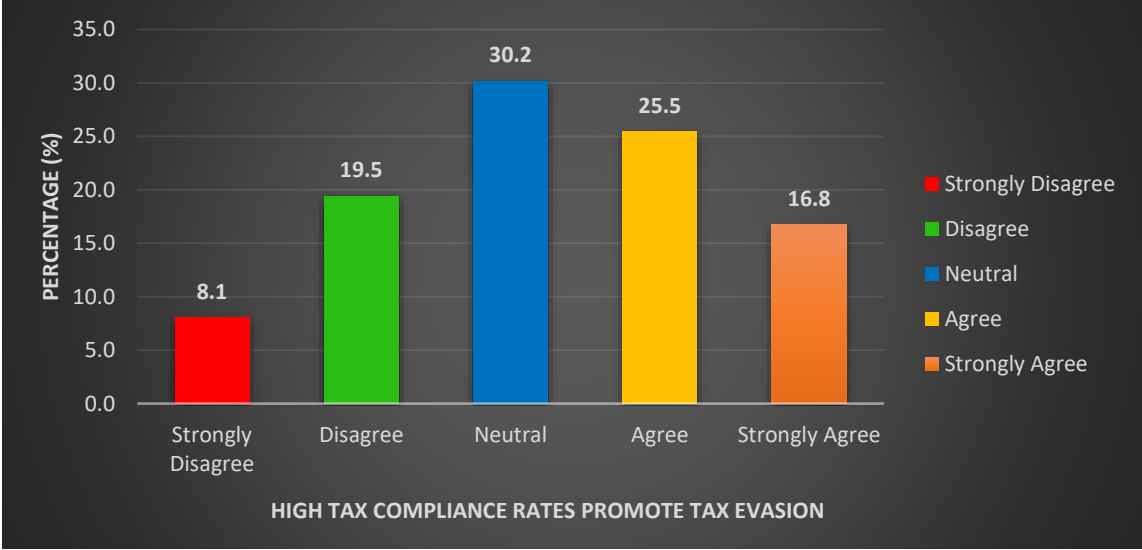


Figure 11: Impact of Tax Rates Towards Tax Evasion

Figure 11 represents 42.3% of participants who indicated that the higher the tax rates, the more likely increase in tax evasion. In other words, instead of high tax rates increasing tax collections, tax increases can also result in a decline. Only 8.1% of participants stated that high tax compliance rates have no positive impact on tax evasion. In addition, 30.2% of participants were neutral. Tax evasion is difficult to observe by its nature. Lower tax rates prompted taxpayers to raise their tax compliance standards. In a study conducted by the University of London in 2015, it was argued that perhaps the highest per capita rate of tax evasion is related to the presence of a high rate of taxation (Kopczuk *et al.*,

2013). It is noted that tax evasion and tax rates are important issues for every country. With reference to a study conducted by the University of Mauritius in 2016, it was argued that perhaps the highest per capita rate of tax evasion is related to the presence of a high rate of taxation (Aumeerun *et al.*, 2016). Numerous models have been developed to incorporate tax evasion; however, none provided the prediction relating to the uniform effect of tax rates on evasion. The findings of this study by the University of Mauritius correspond to a study that was conducted even further back by Allingham and Sandmo (1972), which indicates that there is a positive relationship between tax evasion and tax rates; however, this is determined by specific assumptions of risk aversion and the penalty for tax evasion. Hypothetical estimates of the impacts of tax rates on evasion are mainly sensitive to modelling assumptions. Moreover, even if the impact of tax rates towards tax evasion might be signed, there will be a need to assess the extent of the effect. Therefore, empirically observing the impact of the tax rate on tax evasion would be most beneficial from the perception of both policy and theory. However, measuring tax evasion is a difficult and complicated task. Fiscal policy suggests that if, for example, tax rates were reduced or the income tax was replaced by the consumption tax, the tax compliance issue would disappear. High marginal revenue tax rates are one globally acknowledged justification for the size and growth of unreported income. The main reason for the increasing gap in compliance is that inflation pushes individuals into increasingly higher tax brackets and increases the pressure to cheat (Graetz and Wilde 1985: 13; Kukk, Paulus and Staehr 2020: 365).

4.10 Strategies to Improve Tax Compliance

Table 12: Fear of Prosecution

Fear that you will be prosecuted		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	1.00	54	36.2	36.2	36.2
	2.00	30	20.1	20.1	56.4
	3.00	24	16.1	16.1	72.5
	4.00	18	12.1	12.1	84.6

5.00	23	15.4	15.4	100.0
Total	149	100.0	100.0	

Table 12 represents more than half of the participants (56.3%) who indicated that they are tax compliant because they will be prosecuted if they default on their tax returns. It is noted that the South African government had been prosecuting tax defaulters, for example, the case of Malema v Commissioner for the South African Revenue Service (2016). The government had mentioned that going forward, the enforcement will be strict to ensure tax compliance. Because of the significant and confusing roles played by several third parties, the issue of tax compliance is different from other 'crimes'. The third party involves lawyers and accountants who counsel and also isolate people on tax issues from criminal penalties, bankers, brokers and those who gather substantial information on their client's financial interests, assessors whom taxpayers pay to estimate amounts that have significant tax implications. In order to solve the tax compliance issue, the presence of these third parties in the tax compliance sense could well entail additional developments in principle. OECD (2004:37), stated that threats of prosecutions and financial penalties might have a time-limited impact on the tax compliance behaviour of taxpayers.

Table 13: Obtaining Information from Third Party

Knowing that revenue authority has the authority to receive certain information about you from 3rd parties

	Frequency	Per cent	Valid Per cent	Cumulative Per cent
2.00	30	20.1	20.1	51.7
3.00	24	16.1	16.1	67.8
4.00	22	14.8	14.8	82.6
5.00	26	17.4	17.4	100.0
Total	149	100.0	100.0	

Table 13 represents 31.5% of participants who agreed that they comply with tax because they are aware that a third party may report them to SARS, while 17.4% disagreed. The third parties are referred to as investments firms or banks, which permit SARS to have access to businesses' information in relation to income that might have been accrued. In

a study conducted by Alabede, Ariffin and Idris (2011: 94), taxpayers' perception of the tax system was categorised as the vital factor affecting individual tax compliance behaviour. According to SARS (2012:1), Mr Pravin Gordhan, the then Minister of Finance, stated that all society should work together to improve a moral society with honesty, integrity and equality as its core value. Nonetheless, 27.5% of participants indicated that the above statement has a positive impact on tax compliance.

4.11 Consequences of Multiple Tax Amnesty

It was found that the continuous granting of amnesty reduces tax compliance.

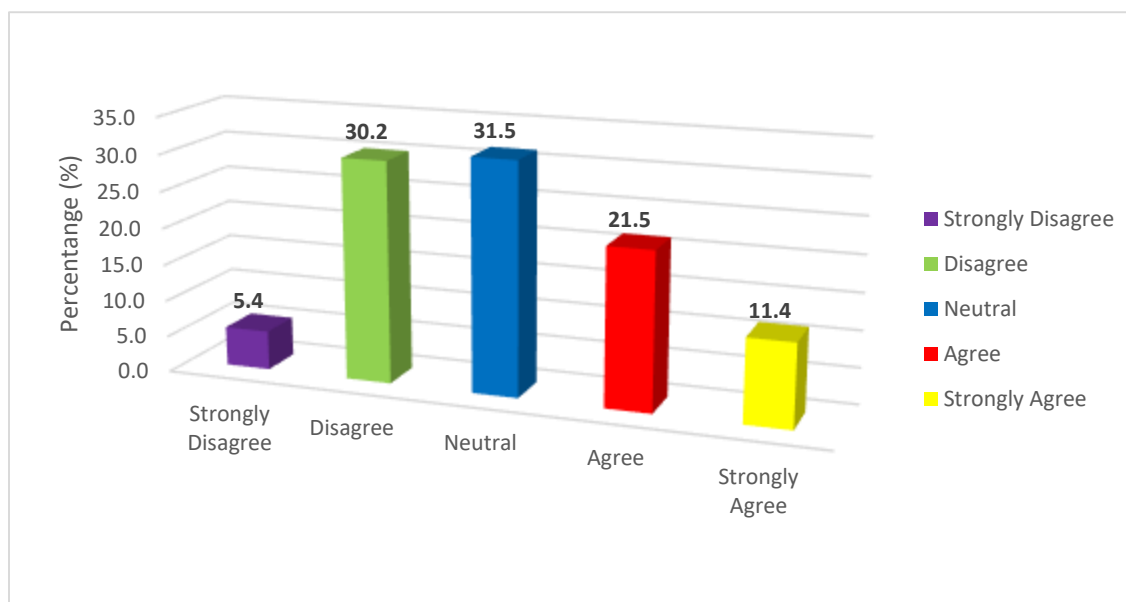


Figure 12: Continuous Granting of Amnesty

Figure 12 shows that 35.6% of participants believe the government should continue to issue different tax amnesties, while 32.9 % believe that giving several amnesties does not assist complying taxpayers. In addition, 31.5% of participants were neutral; they did not indicate the effect it had on their businesses. Tax amnesties are sometimes seen as a costless tax because participation is optional. When the tax amnesty is offered, a non-compliant business may rejoin the amnesty without any fear of the penalties of the law. Should the business decide to rejoin the amnesty, additional tax revenue will be raised.

This will assist government to provide better public goods, enabling them to settle the public debts. The outcome shows that tax compliance may not be successful by offering several tax amnesties, which may negatively impact the compliant tax levels of taxpayers. If people feel that only non-compliance firms profit from tax amnesties, this may cause tax compliant citizens to lose faith in the SA government. This may result in honest taxpayers losing trust in the SA government. Regarding Indonesia, the policy decision to grant tax amnesty was deemed controversial because the policy undermined the confidence of taxpayers who were loyal and paying their taxes. Reviewers also claimed that the tax amnesty programmes might damage SMEs' tax compliance in the long term since they would not feel obligated to pay taxes in the first place and would only do so if the government gave a tax amnesty (Said 2017: 4). The tax amnesty programmes have not worked effectively in certain countries. Government-targeted outcomes have not been achieved.

The Voluntary Disclosure Programme (VDP) will encourage SMEs to take advantage thereof and become tax compliant.

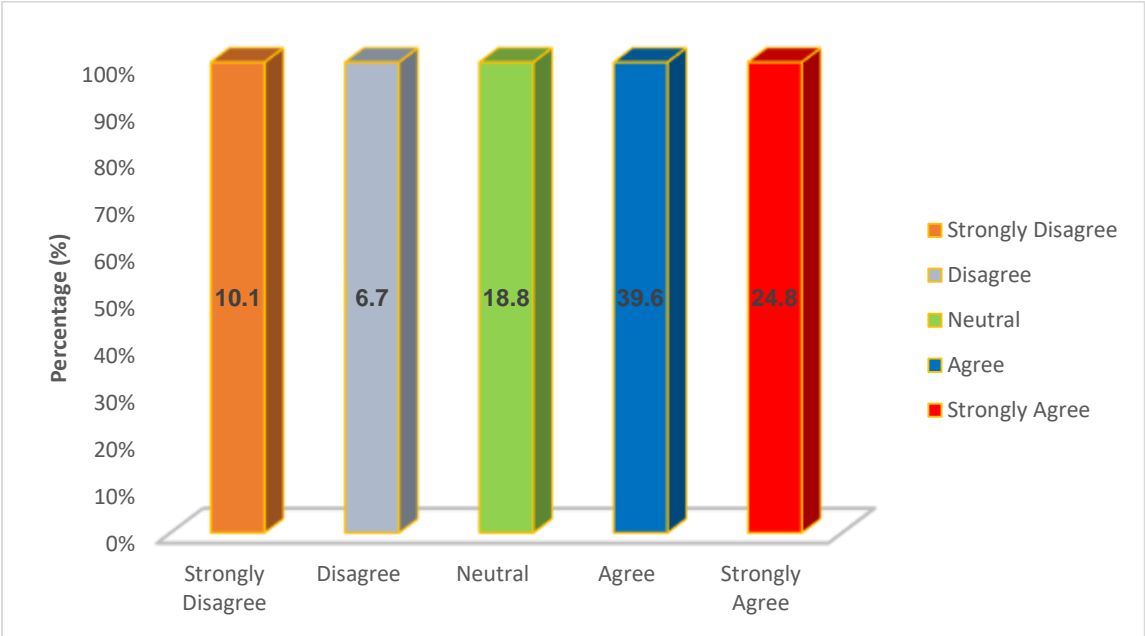


Figure 13: Voluntary Disclosure Programme

Figure 13 represents 10.1% of participants who indicated that the introduction of VDP did not have any positive impact on being compliant, while 24.8% agreed that VDP encouraged SMEs to take advantage of becoming tax compliant. SARS introduced the VDP. It is administered under the Tax Administration Act, 2011 (Act No. 28 of 2011). This programme allows non-compliant businesses to be compliant. However, some participants were not even aware of such amnesty, and others were not interested in any of the amnesties.

4.12 Tax Administration Programmes

Table 14: The Introduction of Multiple Amnesties

The introduction of multiple amnesties is beneficial to all SME's					
		Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid	Strongly Disagree	19	12.8	12.8	12.8
	Disagree	39	26.2	26.2	38.9
	Neutral	54	36.2	36.2	75.2
	Agree	34	22.8	22.8	98.0
	Strongly Agree	3	2.0	2.0	100.0
	Total	149	100.0	100.0	

Table 14 represents 28.9% of the responses from participants who indicated that the introduction of multiple amnesties is beneficial to all SMEs, while 44.9% of participants disagreed with the statement. Since the rapid increase in the tax gap, the SA government introduced the tax amnesties to improve the taxpayers' compliance. It is noted that most enterprises did not take advantage and apply for amnesty as was expected. The introduction of tax amnesties generated a slight short-run income and declined incentives for compliance as a tax gap continued to be visibly high in the small business sector. Moreover, an ongoing increase in SME tax liabilities and tax debt was recorded after

introducing amnesty programmes. Some businesses speculated a better future amnesty and did not take advantage of the current amnesty, and as a result, it reduced the level of tax compliance. The tax amnesty programmes caused friction between tax administration and taxpayers as they feel cheated by the fiscal programme, leading to an increase in the level of non-compliance by SMEs in the long run resulting in a low level of revenue collection.

Corporate Income Tax (CIT) is defined as the amount of money paid by the business from their enterprise's profit to government. Taxes paid by the SMEs to government remain as the prime source of revenue for them, more especially in developing countries. The OECD (2014) reported that nationwide the corporate tax rates have decreased. In South Africa, there is a high demand for public services offered by government to the public, and SARS has announced the tax gap, leaving the government to increase the CIT rate to finance public expenditures. A problem has been that tax morality amongst South African taxpayers is indeed low, for reasons ranging from unequal and costly taxes, high levels of evasion and weak administration (van der Walt 2014). The following table shows the effect of government spending on CIT.

Table 15: Corporate Income Tax

Corporate Income Tax (CIT rate is expected to rise as the government expenditure increases)						
		Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	1.00	48	32.2	32.2	32.2	
	2.00	39	26.2	26.2	58.4	
	3.00	17	11.4	11.4	69.8	
	4.00	18	12.1	12.1	81.9	
	5.00	27	18.1	18.1	100.0	
	Total	149	100.0	100.0		

Table 15 represents 18.1% of participants who indicated that the more the public demands services from the government, CIT is expected to increase. The government needs funding to provide public services. Participants believe that government has only one method of financing its expenditures. However, 32.2% of participants indicated that

the effect on interest rates could be very minimal whether government spending is funded by extra taxes, leaving the fiscal deficit or surplus unchanged. On the other hand, if the additional expenditure is not financed by additional taxes but rather raises the fiscal deficit, the deficit should be funded either by issuing government bonds or by the production of additional high-powered cash (monetary base). This shows that certain participants understand tax administration in terms of government spending.

4.13 Summary

Chapter four covered the descriptive statistics used, analysis of data and the interpretation of the findings using tables and graphs. The results of this study indicate that behaviour towards tax plays a vital role in tax compliance. The following chapter will present the research conclusions and recommendations according to the research objectives.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The previous chapter presented the primary findings, which were presented in tables and graphs. Secondary findings were also incorporated to substantiate the findings. This chapter will include an outline of the study as well as conclusions based on the study's objectives. Furthermore, any constraints identified throughout the study will be discussed, as will future research prospects. Finally, the chapter will conclude with an assessment of the study's value.

5.2 Overview of the Study

This study investigated the factors that are influencing the tax compliance of SMEs in the Durban area. This research is premised on the fact that the tax gap in South Africa is projected to be 30% of the current year's (2020) tax collections. According to SARS, the target revenue collection was R 1 081 trillion for the year ended 29 February 2016; however, the estimated tax gap was R 300 billion for the 2016 tax year (SARS 2016). The principal cause of the tax gap is non-compliance by SMEs and SMMEs (United States Small Business Administration 2011: 2). The number of businesses registered for Income Tax has recently declined from 3.2 million per year (2017/18) to 2.0 million in 2018/19 (SARS 2019). In 2018/19, SARS aimed to improve CIT's accuracy by aligning the Companies and Intellectual Property Commission (CIPC) active register with the SARS register. However, SARS received a number of deregistration requests from CIPC relating to the inactive register of SMEs. SARS was then required to conduct an analysis of SME's deregistration report; as a result, SARS approved the deregistration (Kieswetter and Mogajane 2019: 3).

To complicate matters further, failing to pay taxes can also be unintentional, for instance, where certain aspects of tax law are complicated, making understanding difficult for citizens with limited tax knowledge. When the then Minister of Finance Mr Pravin Gordhan

announced the Tax Administration Act, 2011 (Act No. 28 of 2011), in his budget review meeting, he aimed at decreasing the high level of non-compliance from taxpayers. This study examined the impact of the Tax Administration Act on tax compliance. Having to achieve the goal of the Tax Administration Act will assist the government in narrowing the tax gap and offering more services to the public.

5.3 Achievement of the Research Objectives

This study aimed to determine the factors that affect tax compliance among SMEs. The output of this study is provided below for each study objective.

- **Research objective 1: To determine the tax knowledge of SMEs**

The degree of education is a crucial component that considerably influences the level of comprehension of taxation, specific regulations, and taxation regulation (Eriksen and Fallan 1996 cited in Mohd 2010: 362). According to the findings of this study, there is a close relationship between tax knowledge and taxpayers' ability to understand taxation rules and regulations, as well as their capacity to comply. This was further demonstrated by 60.4% of participants who indicated they have limited tax knowledge, resulting in SMEs outsourcing the filing of tax returns. Introducing tax laws and knowledge as a subject in secondary school might be the solution to improve voluntary tax compliance in the later stage (Dedi 2020: 62). In contrast, lack of tax knowledge results in a negative attitude toward taxation, suggesting that greater tax knowledge may achieve a positive attitude. The study was able to indicate that majority of SMEs have inadequate tax knowledge. This finding is an affirmation of the Confirmatory Factor Analysis as detailed below:

Confirmatory Factor Analysis (CFA)

The empirical findings of this study indicated that SMEs' owners do not have sufficient knowledge of tax processes. This is confirmed by the Confirmatory Factor Analysis (CFA), a multivariate statistical procedure used to test how well the measured variables

represent the number construct. Briefly put, it is used to confirm or reject the measurement theory (Prudon 2015:1; Statistics Solutions 2013: 1).

Therefore, the study met the requirements of the CFA theory since it confirmed the first objective about the level of tax knowledge small and medium enterprises' owners have. The findings show that most small and medium enterprises owners (60.4%) do not understand tax processes.

- **Research objective 2: To outline the challenges SMEs face in being tax compliant**

According to Azmi *et al.* (2016: 2), SMEs have limited resources, and they are directed toward tax compliance; hence that resource could be used as reinvestment and facilitating SMEs' future growth. It was felt by 57.9% of respondents that the resources spent on tax compliance would have been better spent on promoting future development through reinvestment. It has been highlighted that the tax system is complex and that they must pay additional costs in order to be compliant, putting undue strain on small businesses. Tax evasion is projected to increase as tax rates rise, according to 42.3 % of participants. In other words, rather than boosting tax collections, higher tax rates might lead to a decrease. Therefore, the study indicated that a complicated tax system and taxes lead to undue pressure on SMEs. Under the current tax laws and regulations, SMEs are discriminated against since the cost of compliance, tax rates and tax compliance requirements are the same for both large and small businesses. For SMEs to increase their profit margin, the government must reduce tax rates and tax compliance costs. The overly complicated tax regime and regulatory system lead to tax compliance being burdensome and distortionary impact on the growth of SMEs as they are likely to change to forms that offer low tax burden. Farzbod (2000), Ojeka (2011: 6) and Azmi *et al.* (2016: 2) stated that failure to properly execute tax system results in high tax collection charges, waste of time for taxpayers, low efficiency and deviation of optimal allocation of resources. Bouazza, Ardjouman and Abada (2015: 107) stated that high tax rates reduce SMEs' internal sources of financing. Several developing countries noted SMEs had been

demotivated from growing their enterprise operations and registering for tax purposes since formally conducting a business is most likely to increase operating costs. SMEs are subjected to various taxes not paid or filed by their staff, particularly social security contributions and VAT duties.

- **Research objective 3: To establish strategies that can be adopted to improve tax compliance by SMEs**

One of the strategies that can be adopted to improve tax compliance is conducting tax compliance campaigns that will positively impact compliance behaviour. This will encourage taxpayers to comply; should that fail, law enforcement has to play its role. More than half of the participants (56.3%) stated that they are tax compliant because they will be prosecuted if their tax returns are not filed on time. Partnering with tax advisers, industry bodies, and other agencies will improve capacity to encourage taxpayers' positive behaviour towards tax. The research showed that should the government act fairly and with integrity, this will result in voluntary compliance from SMEs. Sustainable enhancement in tax compliance can only be improved by influencing personal and social norms. The then South African Minister of Finance, Nhlanhla Nene, during the National Treasury opening address in 2018, mentioned that tax revenue collection figures for the 2017/2018 financial year were the area of concern as there was a rapid growth in outstanding returns across all tax types and the effect on the fiscus of the country. SARS issued a media statement highlighting those taxpayers who failed to submit their tax returns might face criminal prosecution; this will assist in improving tax compliance (West Coast Business Chambers 2018).

- **Research objective 4: To determine the consequences of multiple tax amnesty on the government and the SME.**

It has been noted by various countries that the continuous granting of tax amnesties has a small impact on revenues (Alm, Martinez-Vasquez and Wallac 2009: 236). According to responses from participants, taxpayers who are compliant do not gain from the

provision of numerous amnesties. The introduction of numerous amnesties is helpful to all SMEs, according to 28.9% of participants' responses, whereas 44.9% of participants' responses disagree. The SA government offered tax amnesties to enhance taxpayer compliance after the significant development in the tax gap. This study indicated that should compliant taxpayers notice the tax evaders' special treatment; this may discourage the compliant taxpayers. Furthermore, if the SMEs notice that amnesty is not a one-time opportunity, tax compliance might decrease as they anticipate a future amnesty. Each and every tax amnesty is accompanied by an increase in tax administration efforts, particularly enforcement procedures. Notably, the follow-up post-tax amnesty has been weak, resulting in a rapid increase in tax evasion. The public awareness regarding prosecution for underreporting of tax returns and the possibility of getting caught impacts the reported income during a specific tax amnesty. For example, should the business believe that failure to complete the tax returns leads to prosecution, this will increase revenue post amnesty.

- **Research objective 5: To analyse the influence the tax administration programmes have had on SMEs**

In developing countries, SMEs often encounter challenges when dealing with tax administration and government at large. This is because the SMEs had experienced the consequence of poorly perceived tax policies. When the tax administration carries out their duties, they impose challenges for SMEs when they conduct audits, excessive inspections and request reports, failing to provide transparency in tax administration. If the tax system is meaningfully improved, it can break the cycle and result in an improved enterprise environment leading to economic growth.

The interpretation of the Tax Administration Act (TAA) may assist SMEs in understanding and meeting the legal obligation as per the Act stipulations. The study indicated that tax administration and tax policies impose a burden on SMEs as they have to spend more time completing the tax returns and incurring additional costs.

5.4 Limitations of the Study

5.4.1 Limited Access to Information

This study involved SMEs, and a challenge arose regarding access to them. The study focused on the Durban area. Several SMEs situated in Durban Central were not willing to participate. The online questionnaires were forwarded to 50 participants via email. Only seven participants completed the online questionnaires. In fact, 322 questionnaires were supposed to be administered; however, due to unforeseen circumstances regarding safety, transportation constraints and Coronavirus restrictions, the researcher only managed to distribute 230 questionnaires.

5.4.2 Time Limits

All researchers have a deadline to meet to complete their studies on time. Unfortunately, some participants did not return the questionnaires on time and thus could not be included in the data.

5.4.3 Language Barrier

Durban is a diverse metropolitan area, some of the participants were unable to understand English as a vernacular language, and the researcher had to translate for the participants.

5.5 Research Recommendations

From the findings that were gathered for this study, it is recommended that SMEs be motivated and expand their businesses. The South African government should set the tax rates taking this into account. This will positively impact the South African economy, and citizens will benefit as the government will be able to provide public services. Furthermore, SARS and the government should develop a good tax policy that clearly specifies the governing Acts, tax processes, and tax rates as the most important factor affecting taxes in the nation and other countries. The categories of taxes should be

stipulated and be according to the nature, size, duties and legal attachment of different enterprises. Compliance with the CIT is indeed a significant concern. This subject requires consideration at both the theoretical and practical levels in order to get a deeper knowledge of the problem and, potentially, of the economics of crime and deterrent mechanisms in general.

SME owners should do their best to understand the enterprise environment. This includes tax policies, tax rates and different categories of taxes and methods that will assist them in fulfilling their tax returns. SARS should increase tax awareness campaigns to educate the public on the different types of taxes. As a result, tax revenue collected will increase, and so will the provision of service delivery to the public. This research was conducted in the Durban area (city). Future researchers should use the same topic looking at a more extensive area, particularly studying those businesses located out of the urban area which might be neglected, thus increasing revenue collections. This would provide a broader range of information and will lead to improved conclusions.

Almost inevitably, enhancing tax compliance would entail additional legislative or regulatory measures expressly targeted at that end. It is noted that enterprises' transactions have rapidly increased over the years as a number of SMEs are capturing them electronically. This will enable businesses to link their receipts and payment systems by the use of e-invoices. In Chile, Mexico and Brazil, e-invoicing is mandatory for all businesses. This is aimed at improving tax compliance as these e-invoices are sent to tax administration (CIAT 2012; The Economist 2014; OECD 2014: 26). The recorded transaction should be sent to an accounting system that is able to handle bookkeeping automatically. This is defined as cloud computing. It is practical and affordable for most SMEs. Cloud computing has been categorised as a significant platform for innovative new services.

In addition, South Africa is a nation with diverse cultures, religions, values and histories. This study showed that tax compliance relies on many factors and that in order to create a better relationship between taxpayers and the government, citizen participation is

important. When handling the interaction between taxpayers and the government, close attention should be paid to the different variables that can affect the attitude of a taxpayer. Different demographic groups could have distinct tax views. The government should potentially rely more on teaching the different demographic classes the value of paying their taxes to build a more optimistic tax culture. In order to understand and affect the vast number of variables that play a role in human behaviour, a multi-faceted approach is required. Furthermore, the South African government may periodically review its business relations policies to decide the most productive way to communicate tax concerns to its corporate citizens.

5.6 Summary

Regardless of the significant role played by SMEs in creating employment, economic growth, innovation and building a modest private sector, they are experiencing extreme challenges in developing countries. For the government to increase the tax revenue, they have to reduce the tax rates and tax compliance costs. This will also increase the small businesses profit margin. Oversimplification of the tax system will motivate the taxpayers to be tax compliant. Furthermore, simple and clear tax policies and regulations should be prompted, the number of tax educational programmes increased as not all taxpayers have a taxation background. The South African government should develop a well-defined strategy aimed at developing the SMEs and increasing the mobilisation of tax revenues to assist in funding government expenditures.

5.7 Conclusions

It is envisioned that the findings of this study will contribute to the current information and be of great assistance to tax authorities in understanding the influence of different factors that affect SMEs' tax compliance. The results of this research show that SARS has a vital role to play in educating the public and conducting campaigns. This will assist in improving the taxpayer's perception and attitude towards taxation.

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APPENDICES

Appendix A: Ethical Consent



Institutional Research Ethics Committee
Research and Postgraduate Support Directorate
214 First Floor, Eastern Campus
Glenwood, Sandown, Durban
Durban University of Technology
P O Box 1314 Durban, South Africa 4001
Tel: 031 373 3373
Email: irec@dut.ac.za
<http://www.dut.ac.za>
<http://www.dut.ac.za/research-institutional-research-ethics>

5 March 2020

Ms P N Dlamini
P O Box 3649
Ladysmith
3370

Dear Ms Dlamini

Factors influencing tax compliance of Small and Medium sized Enterprises in the Durban area

I am pleased to inform you that **PROVISIONAL APPROVAL** has been granted to your proposal subject to:

- Piloting of the data collection tool. Please note that should there be any changes to the data collection tool, in a letter signed by the researcher and supervisor, list the changes to the document and submit to IREC with the final data collection tool. Even when there are no changes to the data collection tool, IREC has to be notified.

PLEASE NOTE THAT THIS IS NOT A FINAL APPROVAL LETTER. KINDLY SUBMIT THE ABOVE MENTIONED DOCUMENTS WITHIN THREE MONTHS TO THE IREC OFFICE. DATA COLLECTION CAN ONLY COMMENCE WHEN IREC ISSUES FULL APPROVAL

The Proposal has been allocated the following Ethical Clearance number **IREC 126/19**. Please use this number in all communication with this office.

Approval has been granted for a period of **ONE YEAR**, before the expiry of which you are required to apply for safety monitoring and annual recertification. Please use the Safety Monitoring and Annual Recertification Report form which can be found in the Standard Operating Procedures (SOP's) of the IREC. This form must be submitted to the IREC at least 3 months before the ethics approval for the study expires.

Yours Sincerely

Professor J K Adam
Chair-person: IREC



Appendix B: Letter of Information

Title of the Research Study: Factors influencing tax compliance of small and medium-sized enterprises in the Durban area.

Principal Investigator/s/researcher: Ms. PN Dlamini (BTech: Taxation)

Co-Investigator/s/supervisor/s: Dr L Jali (Doctor in Business Administration) and Ms. M Mutanda (MTech: Business Administration)

Dear participant,

We would like to start by raising our great appreciation for your availability to participate in this study whose aim is to examine the perception of Small and Medium-sized Enterprises on the factors that influence tax compliance in Durban area. This study is inspired by the report that SARS and Minister of Finance had issued tax gap report which is the difference between the expected and actual revenue generated by tax authorities.

As a Small and Medium-sized Enterprise under Durban Metropolitan in KwaZulu-Natal province of Republic of South Africa you are authorised to participate in this study. You have been randomly selected amongst Small and Medium-sized Enterprises in Durban. Please give us between 10 to 15 minutes of your time to fill the questionnaire that will be handed to you. This questionnaire is the main data collection instrument for this survey of approximately 322 SMEs. This data will then be captured and analysed in SPSS to model the correlations between the different variables that are measured by the questionnaire. Your involvement with this study will end once you have offered in your questionnaire even though you are welcome to check the overall findings of the study after the publication.

Your contribution to this study is risk free. You are allowed to voluntary pull out your participation from this study either for non-compliance, illness, adverse reactions, or for

any other reasons, and be reassured that such decisions will not attract any adverse consequences.

The data collected from your participation in this study will be treated with extreme confidentiality in the sense that its storage will be anonymous during a five year period after which it will be shredded. Electronic data will be stored with a password for five years on a DVD-RW and it will be deleted afterwards.

Please contact the researcher on (071 827 3522), my supervisor (031 373 6712) or the Institutional Research Ethics Administrator on (031 373 2375). Complaints can be reported to the DVC: Research Innovation and Engagement Prof S Moyo on (031 373 2577) or moyo@dut.ac.za

CONSENT

Statement of Agreement to Participate in the Research Study:

- I hereby confirm that I have been informed by the researcher, Ms Prisca Dlamini, 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.

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:

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Appendix C: Questionnaire

FACTORS INFLUENCING TAX COMPLIANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE DURBAN AREA

QUESTIONNAIRES

Mark the appropriate box with a cross (X)

SECTION A: BIOGRAPHICAL DETAILS OF THE RESPONDENTS		
1. How long have this business been in existence?	1) 1-3	
	2) 4-6	
	3) 7-10	
	4) 10+	
2. Which field does this business fall under?	1) Retail	
	2) Manufacturing	
	3) Wholesale	
	4) Other	
3. How much is your annual turnover?	1) 0-335 000	
	2) 335 001-500 000	
	3) 500 001- 750 000	
	4) 750 001 and above	
4. Who does your tax return?	1) Tax practitioner	
	2) Family member	
	3) Myself	
	4) Other	

SECTION B: TAX AMNESTY AND TAX COMPLIANCE		
5. Are you a registered taxpayer?	1) Yes	
	2) No	
6. How would you rate your tax knowledge?	1) Below Average	
	2) Average	
	3) Good	
	4) Excellent	
7. Have you ever defaulted on your tax returns?	1) Yes	
	2) No	

8. To what extent do you agree or disagree with the following statements.

Mark the appropriate box with a cross (X)

TAX COMPLIANCE	1)Strongly Disagree	2)Disagree	3)Neutral	4)Agree	5)Strongly Agree
a. Effective revenue authority promotes tax compliance among citizens.					
b. Paying taxes is a moral responsibility of being a good corporate citizen.					

c. Manual tax filing is easy to complete					
d. Tax is very difficult, I find it difficult to calculate my own tax liability.					
e. The introduction of multiple amnesties is beneficial to all SMEs.					
f. Tax rate which is perceived as, unfair and inequitable discourages taxpayers to comply with the tax rules and regulations.					
g. Continuous granting of amnesty reduces tax compliance.					
h. The tax amnesty awareness campaigns launched by SARS promotes tax compliance.					
i. Tax laws are easy to understand.					

j. Tax compliance costs are a hindrance to SME's growth.					
k. A poorly executed tax system leads to high collection charges and waste of time for taxpayers.					
l. The high tax rate is most crucial factors influencing SME's failure to pay tax in South Africa.					
m. Publication of the names of tax offenders will assist taxpayers to comply with tax laws					
n. High tax compliance rates promotes tax evasion.					
o. As the size of the enterprises increase, the absolute internal					

tax compliance cost also increase.					
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9. Rank the most preferable factors as 1, the second most preferable factor as 2, and so on until you have given each of the five factors a rank 1, 2, 3, 4 and 5.

SECTION D: CORPORATE INCOME TAXATION	
Reason for tax compliance	Rank of Importance
a) Worry that Revenue authorities will contact you about your tax affairs.	
b) Revenue authority treats all taxpayers equally.	
c) Fear that you will be prosecuted.	
d) Knowing that revenue authority has the authority to receive certain information about you from 3rd parties.	
e) Corporate Income Tax (CIT) rate and revenues could be expected to rise as government spending needs increase over time and across countries.	
10. In your opinion what is the main purpose of preparing the financial statements?	
11. Which type of tax do you file under? (Income tax. Turnover/VAT)	

Appendix D: Sample Size Determination

SAMPLE SIZE DETERMINATION

Table A: Sample size of a given population size

N	S	N	S	N	S
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	175	2000	322
55	48	320	181	2200	327
60	52	340	191	2400	331
65	56	360	196	2600	335
70	59	380	205	2800	338
75	63	400	210	3000	341
80	66	420	217	3500	346
85	70	440	226	4000	351
90	73	460	242	4500	354
95	76	480	248	5000	357
100	80	500	260	6000	361
110	86	550	265	7000	364
120	92	600	274	8000	367
130	97	650	278	9000	368
140	103	700	169	10000	370
150	108	750	186	15000	375
160	113	800	201	20000	377

170	118	850	214	30000	379
180	123	900	234	40000	380
190	127	950	254	50000	381
200	132	1000	269	75000	283
210	136	1100	285	1000000	384

Source: Sekaran and Bougie (2010: 295-296)

N - Number of participants S - Sample size

For this research number of participants is 2000, and sample size is 322.

Appendix E: Questionnaire Responses

How long have this business been in existence?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 - 3	63	42.3	42.3	42.3
	4 - 6	40	26.8	26.8	69.1
	7 - 10	29	19.5	19.5	88.6
	> 10	17	11.4	11.4	100.0
	Total	149	100.0	100.0	

Which field does this business fall under?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Retail	53	35.6	35.6	35.6
	Manufacturing	32	21.5	21.5	57.0
	Wholesale	25	16.8	16.8	73.8
	Other	39	26.2	26.2	100.0
	Total	149	100.0	100.0	

How much is your annual turnover?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 - 335 000	75	50.3	50.3	50.3
	335 001 - 500 000	36	24.2	24.2	74.5
	500 001 - 750 000	20	13.4	13.4	87.9
	> 750 000	18	12.1	12.1	100.0
	Total	149	100.0	100.0	

Who does your tax return?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Tax practitioner	44	29.5	29.5	29.5
	Family member	21	14.1	14.1	43.6
	Myself	47	31.5	31.5	75.2
	Other	37	24.8	24.8	100.0
	Total	149	100.0	100.0	

Are you a registered taxpayer?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	126	84.6	84.6	84.6
	No	23	15.4	15.4	100.0
	Total	149	100.0	100.0	

How would you rate your tax knowledge?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below average	51	34.2	34.2	34.2
	Average	59	39.6	39.6	73.8
	Good	32	21.5	21.5	95.3
	Excellent	7	4.7	4.7	100.0
	Total	149	100.0	100.0	

Have you ever defaulted on your tax returns?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	36	24.2	24.2	24.2
	No	113	75.8	75.8	100.0
	Total	149	100.0	100.0	

Effective revenue authority promotes tax compliance among citizens

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	34	22.8	22.8	22.8
	Disagree	11	7.4	7.4	30.2
	Neutral	16	10.7	10.7	40.9
	Agree	58	38.9	38.9	79.9
	Strongly Agree	30	20.1	20.1	100.0
	Total	149	100.0	100.0	

Paying taxes is a moral responsibility of being a good corporate citizen

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	30	20.1	20.1	20.1
	Disagree	35	23.5	23.5	43.6
	Neutral	49	32.9	32.9	76.5
	Agree	25	16.8	16.8	93.3
	Strongly Agree	10	6.7	6.7	100.0
	Total	149	100.0	100.0	

Manual tax filing is easy to complete

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	12.8	12.8	12.8
	Disagree	26	17.4	17.4	30.2
	Neutral	57	38.3	38.3	68.5
	Agree	35	23.5	23.5	91.9
	Strongly Agree	12	8.1	8.1	100.0
	Total	149	100.0	100.0	

Tax is very difficult, I find it difficult to calculate my own tax liability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	10	6.7	6.7	6.7
	Disagree	18	12.1	12.1	18.8
	Neutral	30	20.1	20.1	38.9
	Agree	56	37.6	37.6	76.5
	Strongly Agree	35	23.5	23.5	100.0
	Total	149	100.0	100.0	

The introduction of multiple amnesties is beneficial to all SME's

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	19	12.8	12.8	12.8
	Disagree	39	26.2	26.2	38.9

Neutral	54	36.2	36.2	75.2
Agree	34	22.8	22.8	98.0
Strongly Agree	3	2.0	2.0	100.0
Total	149	100.0	100.0	

Tax rate which is perceived as unfair and inequitable, discourages taxpayers to comply with the tax rules and regulations

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	30	20.1	20.1	20.1
Disagree	37	24.8	24.8	45.0
Neutral	39	26.2	26.2	71.1
Agree	39	26.2	26.2	97.3
Strongly Agree	4	2.7	2.7	100.0
Total	149	100.0	100.0	

Continuous granting of amnesty reduces tax compliance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	8	5.4	5.4	5.4
Disagree	45	30.2	30.2	35.6
Neutral	47	31.5	31.5	67.1
Agree	32	21.5	21.5	88.6
Strongly Agree	17	11.4	11.4	100.0
Total	149	100.0	100.0	

The tax amnesty awareness campaigns launched by SARS promotes tax compliance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Strongly Disagree	9	6.0	6.0	6.0
Disagree	37	24.8	24.8	30.9
Neutral	63	42.3	42.3	73.2
Agree	31	20.8	20.8	94.0
Strongly Agree	9	6.0	6.0	100.0
Total	149	100.0	100.0	

Tax laws are easy to understand

	Frequency	Percent	Valid Percent	Cumulative Percent
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Valid	Strongly Disagree	52	34.9	34.9	34.9
	Disagree	38	25.5	25.5	60.4
	Neutral	29	19.5	19.5	79.9
	Agree	22	14.8	14.8	94.6
	Strongly Agree	8	5.4	5.4	100.0
	Total	149	100.0	100.0	

Tax compliance costs are a hindrance to SME's growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	11	7.4	7.4	7.4
	Disagree	12	8.1	8.1	15.4
	Neutral	40	26.8	26.8	42.3
	Agree	51	34.2	34.2	76.5
	Strongly Agree	35	23.5	23.5	100.0
	Total	149	100.0	100.0	

A poorly executed tax system leads to high collection charges and waste of time for taxpayers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	4	2.7	2.7	2.7
	Disagree	11	7.4	7.4	10.1
	Neutral	26	17.4	17.4	27.5
	Agree	65	43.6	43.6	71.1
	Strongly Agree	43	28.9	28.9	100.0
	Total	149	100.0	100.0	

The high tax rate is most crucial factors influencing SME's failure to pay tax in South Africa

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	8	5.4	5.4	5.4
	Disagree	9	6.0	6.0	11.4
	Neutral	41	27.5	27.5	38.9
	Agree	52	34.9	34.9	73.8
	Strongly Agree	39	26.2	26.2	100.0
	Total	149	100.0	100.0	

Publication of the names of tax offenders will assist taxpayers to comply with tax laws

	Frequency	Percent	Valid Percent	Cumulative Percent
V a l i d	Strongly Disagree	16	10.7	10.7
	Disagree	25	16.8	27.5
	Neutral	43	28.9	56.4
	Agree	33	22.1	78.5
	Strongly Agree	32	21.5	100.0
	Total	149	100.0	

High tax compliance rates promotes tax evasion

	Frequency	Percent	Valid Percent	Cumulative Percent
V a l i d	Strongly Disagree	12	8.1	8.1
	Disagree	29	19.5	27.5
	Neutral	45	30.2	57.7
	Agree	38	25.5	83.2
	Strongly Agree	25	16.8	100.0
	Total	149	100.0	

As the size of the enterprises increase, the absolute internal tax compliance cost also increase

	Frequency	Percent	Valid Percent	Cumulative Percent
V a l i d	Strongly Disagree	15	10.1	10.1
	Disagree	10	6.7	16.8
	Neutral	28	18.8	35.6
	Agree	59	39.6	75.2
	Strongly Agree	37	24.8	100.0
	Total	149	100.0	

Concern that Revenue authorities will contact you about your tax affairs

	Frequency	Percent	Valid Percent	Cumulative Percent
V a l i d	1.00	32	21.5	21.5
	2.00	38	25.5	47.0
	3.00	23	15.4	62.4
	4.00	27	18.1	80.5
	5.00	29	19.5	100.0

Total	149	100.0	100.0
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Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Weighted Mean
Concern that Revenue authorities will contact you about your tax affairs	149	1.00	5.00	2.89	1.44	3.60
Revenue authority treats all taxpayers equally	149	1.00	5.00	3.54	1.32	3.53
Fear that you will be prosecuted	149	1.00	5.00	2.50	1.47	2.52
Knowing that revenue authority has the authority to receive certain information about you from 3rd parties	149	1.00	5.00	2.66	1.49	2.54
Corporate Income Tax (CIT rate is expected to rise as the government expenditure increases)	149	1.00	5.00	2.58	1.49	2.40

Revenue authority treats all taxpayers equally

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1.00	13	8.7	8.7	8.7
2.00	23	15.4	15.4	24.2
3.00	31	20.8	20.8	45.0
4.00	34	22.8	22.8	67.8
5.00	48	32.2	32.2	100.0
Total	149	100.0	100.0	

	Weighted Mean	Rank
Corporate Income Tax (CIT rate is expected to rise as the government expenditure increases)	2.40	1
Fear that you will be prosecuted	2.52	2
Knowing that revenue authority has the authority to receive certain information about you from 3rd parties	2.54	3
Revenue authority treats all taxpayers equally	3.53	4
Concern that Revenue authorities will contact you about your tax affairs	3.60	5

Fear that you will be prosecuted

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid 1.00	54	36.2	36.2	36.2
2.00	30	20.1	20.1	56.4
3.00	24	16.1	16.1	72.5
4.00	18	12.1	12.1	84.6
5.00	23	15.4	15.4	100.0

Total	149	100.0	100.0
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Knowing that revenue authority has the authority to receive certain information about you from 3rd parties

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	47	31.5	31.5	31.5
	2.00	30	20.1	20.1	51.7
	3.00	24	16.1	16.1	67.8
	4.00	22	14.8	14.8	82.6
	5.00	26	17.4	17.4	100.0
	Total	149	100.0	100.0	

Corporate Income Tax (CIT rate is expected to rise as the government expenditure increases)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	48	32.2	32.2	32.2
	2.00	39	26.2	26.2	58.4
	3.00	17	11.4	11.4	69.8
	4.00	18	12.1	12.1	81.9
	5.00	27	18.1	18.1	100.0
	Total	149	100.0	100.0	

In your opinion what is the main purpose of preparing the financial statements?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Because it is compulsory to make them	1	0.7	0.7	0.7
	Because SEDA wants to see them when applying for funding	1	0.7	0.7	1.3
	Better filing	1	0.7	0.7	2.0
	Better finances	1	0.7	0.7	2.7
	Business decision	1	0.7	0.7	3.4
	Business process	1	0.7	0.7	4.0
	Business procurement	1	0.7	0.7	4.7
	Business protocols	1	0.7	0.7	5.4
	Calculate profit earned	1	0.7	0.7	6.0
	Calculating all financial transaction that took place within the year	2	1.3	1.3	7.4
	Calculating business money	1	0.7	0.7	8.1

Calculating income and expenses of the business	1	0.7	0.7	8.7
Calculating profit earned	1	0.7	0.7	9.4
calculating the assets and liability of the business	1	0.7	0.7	10.1
Check whether the business is making more earnings	1	0.7	0.7	10.7
checking if the business is making enough profit	1	0.7	0.7	11.4
checking if the entity is making enough inflow of cash	1	0.7	0.7	12.1
Checking the finance status	1	0.7	0.7	12.8
Controlling finances	1	0.7	0.7	13.4
Determining the finance activities that has taken place in that year	1	0.7	0.7	14.1
Ensure that your balance is positive	1	0.7	0.7	14.8
Ensuring that all your finances are taken care of	1	0.7	0.7	15.4
Ensuring that you have financial statements should you need to submit the returns to SARS	1	0.7	0.7	16.1
Ensuring that you have financials statement for submission	1	0.7	0.7	16.8
Ensuring that you have knowledge of what is happening in the company financially	1	0.7	0.7	17.4
Ensuring that you stay updated about the annual finances of the business	1	0.7	0.7	18.1
Finance planning	1	0.7	0.7	18.8
Finance purposes	1	0.7	0.7	19.5
Financial requirement for every entity	1	0.7	0.7	20.1
Following business criteria	1	0.7	0.7	20.8
Following business requirements	1	0.7	0.7	21.5
Following the regulations	1	0.7	0.7	22.1
For better control of business finances	1	0.7	0.7	22.8
For better control of business finances	1	0.7	0.7	23.5
For betterment of decision making	1	0.7	0.7	24.2
For business decision	2	1.3	1.3	25.5
For business purpose	1	0.7	0.7	26.2
For decision making	1	0.7	0.7	26.8
For effective control over finances	1	0.7	0.7	27.5
For ensuring that the business is operating on a good stand	1	0.7	0.7	28.2
For ensuring that the capital is wisely used	1	0.7	0.7	28.9
For ensuring that the entity is making profit and for business partners to be updated about finances	1	0.7	0.7	29.5
For filing purposes	1	0.7	0.7	30.2
for making business decision	1	0.7	0.7	30.9
For managing the finances	1	0.7	0.7	31.5
for the betterment of business	1	0.7	0.7	32.2
For the owner to see all finances	1	0.7	0.7	32.9
Fulfilling finance department requirements	1	0.7	0.7	33.6
Gain/loss	1	0.7	0.7	34.2
General controls	1	0.7	0.7	34.9

I don't know	4	2.7	2.7	37.6
I have no idea	1	0.7	0.7	38.3
I prepare financial statement to see the financial state of the business	1	0.7	0.7	38.9
Is to have an understanding of new finances are within my business	1	0.7	0.7	39.6
Is to see the difference between revenue and expenses. Sometimes we inflate expenses so can pay less tax, that the facts we as small businesses do	1	0.7	0.7	40.3
It is to provide information about the results of operations of the business	1	0.7	0.7	40.9
Knowing the financials of business	1	0.7	0.7	41.6
Main reason is to see all the total assets	1	0.7	0.7	42.3
Making sure that the finances are up to date	1	0.7	0.7	43.0
Making sure that you manage your finances	1	0.7	0.7	43.6
Making the owner to be aware of all activities that takes place in the entity	1	0.7	0.7	44.3
Manage operations	1	0.7	0.7	45.0
Monitoring business	1	0.7	0.7	45.6
Monitoring business finances	1	0.7	0.7	46.3
N/A	1	0.7	0.7	47.0
Profit and loss	1	0.7	0.7	47.7
Profit or loss	2	1.3	1.3	49.0
Profit or Loss	2	1.3	1.3	50.3
Profit or loss purposes	3	2.0	2.0	52.3
Profit/Loss	1	0.7	0.7	53.0
purpose is to have an idea about the financials of the entity	1	0.7	0.7	53.7
Reason is to be updated with financials report	1	0.7	0.7	54.4
There is no purpose	1	0.7	0.7	55.0
They do it for financial managemet	1	0.7	0.7	55.7
To assess the productivity of business	1	0.7	0.7	56.4
To assist in knowing the finances of the company	1	0.7	0.7	57.0
To assist your partners to be aware of all finance activities that takes place	1	0.7	0.7	57.7
To calculate finances	1	0.7	0.7	58.4
To calculate profit and loss	1	0.7	0.7	59.1
To calculate sales	1	0.7	0.7	59.7
To calculate the income	1	0.7	0.7	60.4
To calculate the year end earnings	1	0.7	0.7	61.1
To calculate the yearly profit	1	0.7	0.7	61.7
To check business finances	1	0.7	0.7	62.4
To check if I'm doing profit/loss	2	1.3	1.3	63.8
To check if the company is making more profit	1	0.7	0.7	64.4
To check if the entity is doing a profit	1	0.7	0.7	65.1
To check if we are making profit or not	1	0.7	0.7	65.8

To check if we making profit	1	0.7	0.7	66.4
To check results of operations, financial position and cash flow of the business	1	0.7	0.7	67.1
To check the profit of the year	1	0.7	0.7	67.8
To control income and expenditure	1	0.7	0.7	68.5
To determine and calculate your returns and what is due for SARS	1	0.7	0.7	69.1
To determine income earned from sales	1	0.7	0.7	69.8
To determine whether the business is making profit	1	0.7	0.7	70.5
To enable investors to have access to financial information of the entity	1	0.7	0.7	71.1
to encourage more investors to the business	1	0.7	0.7	71.8
To find finance resolutions	1	0.7	0.7	72.5
To follow business requirements	1	0.7	0.7	73.2
to follow business rules	1	0.7	0.7	73.8
To follow protocols	1	0.7	0.7	74.5
To improve business decision making	2	1.3	1.3	75.8
To know how many inventory you have on stock and sales amount	1	0.7	0.7	76.5
To know whether your business make profit or loss	1	0.7	0.7	77.2
To make company decision	1	0.7	0.7	77.9
To make sure that the income is greater than expenses	1	0.7	0.7	78.5
To monitor business funds	1	0.7	0.7	79.2
To monitor finances	2	1.3	1.3	80.5
To monitor funds	2	1.3	1.3	81.9
To monitor investments	1	0.7	0.7	82.6
To provide information of cash flows	1	0.7	0.7	83.2
to see all business income	1	0.7	0.7	83.9
To see all the expenses and income made	1	0.7	0.7	84.6
To see areas of improvement	1	0.7	0.7	85.2
To see expenses and income of your business	1	0.7	0.7	85.9
To see if the business is making profit	2	1.3	1.3	87.2
To see income	1	0.7	0.7	87.9
To see loss or profit	1	0.7	0.7	88.6
To see profit	3	2.0	2.0	90.6
To see profit or loss	1	0.7	0.7	91.3
To see that the assets are greater than liabilities	1	0.7	0.7	91.9
To see the financial position of my company	1	0.7	0.7	92.6
To see the inflow of cash in the business	1	0.7	0.7	93.3
To see the liabilities of enterprise	1	0.7	0.7	94.0
To see the productivity of entity	1	0.7	0.7	94.6
To see to annaul earnings	1	0.7	0.7	95.3
to see wether we making profit or not	1	0.7	0.7	96.0
to see whether the business is earning enough income	1	0.7	0.7	96.6

To see whether the entity is making profit or loss	1	0.7	0.7	97.3
To see your annual profit	1	0.7	0.7	98.0
To view our finances	1	0.7	0.7	98.7
to whether the business is making profit or loss	1	0.7	0.7	99.3
Tracing all financial activities	1	0.7	0.7	100.0
Total	149	100.0	100.0	

Which type of tax do you file under? (Income tax Turnover/VAT)

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Income Tax	64	43.0	43.0	43.0
Income Tax and Turnover	1	0.7	0.7	43.6
Income Tax and VAT	4	2.7	2.7	46.3
Turnover	23	15.4	15.4	61.7
VAT	57	38.3	38.3	100.0
Total	149	100.0	100.0	

			Effective revenue authority promotes tax compliance among citizens	Paying taxes is a moral responsibility of being a good corporate citizen	Manual tax filing is easy to complete	Tax is very difficult, I find it difficult to calculate my own tax liability	The introduction of multiple amnesties is beneficial to all SME's	Tax rate which is perceived as, unfair and inequitable discourages taxpayers to comply with the tax rules and regulations	Continuous granting of amnesty reduces tax compliance	The tax amnesty awareness campaigns launched by SARS promotes tax compliance	Tax laws are easy to understand	Tax compliance costs are a hindrance to SME's growth	A poorly executed tax system leads to high collection charges and waste of time for taxpayers	The high tax rate is most crucial factors influencing SME's failure to pay tax in South Africa	Publication of the names of tax offenders will assist taxpayers to comply with tax laws	High tax compliance rates promotes tax evasion	As the size of the enterprises increase, the absolute internal tax compliance cost also increase	Concern that Revenue authorities will contact you about your tax affairs	Revenue authority treats all taxpayers equally	Fear that you will be prosecuted	Knowing that revenue authority has the authority to receive certain information about you from 3rd parties	Corporate Income Tax (CIT rate is expected to rise as the government expenditure increases)
Spearman	Effective revenue authority promotes tax compliance among citizens	Correlation Sig. (2-tailed) N	1.000 384																			
	Paying taxes is a moral responsibility of being a good corporate citizen	Correlation Sig. (2-tailed) N	.194** 0.000 384	1.000																		
	Manual tax filing is easy to complete	Correlation Sig. (2-tailed) N	0.049 0.339 384	-0.074 0.151 384	1.000																	
	Tax is very difficult, I find it difficult to calculate my own tax liability	Correlation Sig. (2-tailed) N	0.030 0.558 384	-.171** 0.001 384	-0.014 0.784 384	1.000																
	The introduction of multiple amnesties is beneficial to all SME's	Correlation Sig. (2-tailed) N	0.096 0.059 384	.343** 0.000 384	.181** 0.000 384	-.206** 0.000 384	1.000															
	Tax rate which is perceived as, unfair and inequitable discourages taxpayers to comply with the tax rules and regulations	Correlation Sig. (2-tailed) N	.274** 0.000 384	.218** 0.000 384	.072 0.158 384	-.377** 0.000 384	.260** 0.000 384	1.000														
	Continuous granting of amnesty reduces tax compliance	Correlation Sig. (2-tailed) N	0.067 0.192 384	.241** 0.000 384	.107* 0.036 384	0.046 0.365 384	.389** 0.000 384	.204** 0.000 384	1.000													
	The tax amnesty awareness campaigns launched by SARS promotes tax compliance	Correlation Sig. (2-tailed) N	0.099 0.054 384	.307** 0.000 384	0.064 0.209 384	-.176** 0.001 384	.110** 0.032 384	.242** 0.000 384	0.070 0.171 384	1.000												
	Tax laws are easy to understand	Correlation Sig. (2-tailed) N	0.068 0.185 384	.223** 0.000 384	.137** 0.007 384	-.328** 0.000 384	.246** 0.000 384	.239** 0.000 384	.153** 0.003 384	0.061 0.234 384	1.000											
	Tax compliance costs are a hindrance to SME's growth	Correlation Sig. (2-tailed) N	0.047 0.362 384	-.255** 0.000 384	.166** 0.001 384	0.030 0.553 384	-.165** 0.001 384	-.143** 0.005 384	-.162** 0.000 384	-.194** 0.000 384	-.243** 1.000 384	1.000										
	A poorly executed tax system leads to high collection charges and waste of time for taxpayers	Correlation Sig. (2-tailed) N	.103* 0.044 384	-.282** 0.000 384	0.067 0.193 384	.207** 0.000 384	-.196** 0.000 384	-0.035 0.489 384	-0.071 0.168 384	0.082 0.108 384	-.262** 0.000 384	.130* 0.011 384	1.000									
	The high tax rate is most crucial factors influencing SME's failure to pay tax in South Africa	Correlation Sig. (2-tailed) N	.152** 0.003 384	0.049 0.341 384	0.012 0.809 384	.229** 0.000 384	-.144** 0.005 384	-.128** 0.012 384	0.042 0.409 384	0.075 0.141 384	-.159** 0.002 384	.134** 0.009 384	.336** 0.000 384	1.000								
	Publication of the names of tax offenders will assist taxpayers to comply with tax laws	Correlation Sig. (2-tailed) N	-.111* 0.030 384	-0.063 0.221 384	0.077 0.131 384	.245** 0.000 384	.134** 0.008 384	-.305** 0.000 384	.181** 0.000 384	0.057 0.263 384	0.051 0.316 384	.208** 0.000 384	.169** 0.001 384	1.000								
	High tax compliance rates promotes tax evasion	Correlation Sig. (2-tailed) N	0.038 0.461 384	-0.090 0.077 384	-0.050 0.332 384	.368** 0.000 384	-.142** 0.005 384	-.208** 0.000 384	.213** 0.000 384	-.147** 0.004 384	-.123* 0.016 384	0.075 0.142 384	.144** 0.005 384	.330** 0.000 384	.474** 0.000 384	1.000						
	As the size of the enterprises increase, the absolute internal tax compliance cost also increase	Correlation Sig. (2-tailed) N	0.002 0.969 384	-0.100 0.050 384	-0.030 0.554 384	.230** 0.000 384	-.185** 0.000 384	-.171** 0.001 384	0.052 0.308 384	-.104** 0.041 384	-.123** 0.016 384	.115** 0.025 384	.305** 0.000 384	.347** 0.000 384	.347** 0.000 384	.611** 0.000 384	1.000					
	Concern that Revenue authorities will contact you about your tax affairs	Correlation Sig. (2-tailed) N	.210** 0.000 384	.304** 0.000 384	-0.092 0.071 384	0.079 0.123 384	.139** 0.006 384	-.142** 0.166 384	-.007 0.005 384	0.065 0.895 384	-0.093 0.205 384	-0.009 0.068 384	.189** 0.865 384	0.000 0.997 384	0.076 0.136 384	0.056 0.273 384	1.000					
	Revenue authority treats all taxpayers equally	Correlation Sig. (2-tailed) N	-.250** 0.000 384	-.257** 0.000 384	.103* 0.043 384	0.057 0.268 384	-.119* 0.019 384	-.119* 0.142 384	-.075 0.000 384	-.214** 0.025 384	-.058 0.504 384	-0.034 0.022 384	.117** 0.292 384	-0.054 0.292 384	-0.077 0.131 384	-0.009 0.862 384	-.101* 0.049 384	1.000				
	Fear that you will be prosecuted	Correlation Sig. (2-tailed) N	.125* 0.014 384	-0.058 0.255 384	0.010 0.849 384	-.211** 0.000 384	-0.073 0.155 384	-.126** 0.014 384	-.146** 0.004 384	.114** 0.026 384	0.091 0.075 384	-.115** 0.025 384	0.018 0.728 384	-0.063 0.219 384	-.153** 0.003 384	-.201** 0.000 384	-0.096 0.061 384	1.000				
	Knowing that revenue authority has the authority to receive certain information about you from 3rd parties	Correlation Sig. (2-tailed) N	-0.057 0.269 384	-.109* 0.032 384	-0.069 0.176 384	-.108* 0.034 384	0.045 0.381 384	0.028 0.585 384	-0.050 0.333 384	0.083 0.105 384	.120** 0.018 384	-.110** 0.031 384	-0.084 0.101 384	-.183** 0.000 384	-.104** 0.041 384	-.175** 0.001 384	-.226** 0.000 384	1.000				
	Corporate Income Tax (CIT rate is expected to rise as the government expenditure increases)	Correlation Sig. (2-tailed) N	-.241** 0.000 384	-0.021 0.680 384	.147** 0.004 384	-0.009 0.856 384	-0.094 0.066 384	-.237** 0.000 384	0.046 0.364 384	0.046 0.844 384	0.010 0.104 384	0.083 0.104 384	.198** 0.000 384	-.114** 0.026 384	.231** 0.000 384	.228** 0.000 384	.284** 0.000 384	1.000				

Appendix F: Editing Certificate

ACADEMIC EDITING SERVICES

Editor: Ms Vanessa-Lynn Neophytou
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Title: Factors Influencing Tax Compliance Of Small And Medium-Sized Enterprises
Supervisor: Dr L.F Jali
Co-supervisor: Mrs M Mutanda
Institution: Durban University of Technology
Date: 16 March 2022

DECLARATION OF PROFESSIONAL EDIT

I declare that I have edited the above thesis. My involvement was restricted to language usage and spelling, completeness and consistency, referencing style of the references in the thesis and reference list, formatting of headings, table captions, automated page numbering and automated table of contents. I did no structural re-writing of the content. After my language editing, the author has the option to accept or reject suggestions/changes prior to submission.

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Yours sincerely

Vanessa-Lynn Neophytou MSocSc (Sociology), UKZN
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Appendix G: Turnitin Report

FACTORS INFLUENCING TAX COMPLIANCE OF SMALL AND MEDIUM- SIZED ENTERPRISES

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