

**ATTITUDES OF SOUTH AFRICAN TAXPAYERS TOWARDS TAXATION:
A PILOT STUDY**

by

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ABSTRACT

The South African Minister of Finance, Trevor Manuel stated that the obligation to pay one's fair share of taxes as and when they fall due is part of the new morality which democratic governance must inculcate in every South African. He accepted that tax evasion and fraud are among the most insidious forms of criminality that plague the South African society and that millions of Rand are diverted everyday from the fiscus by tax criminals.

Limited research on taxpayers' perceptions has been performed in South Africa. It is of utmost importance to determine taxpayers' perceptions towards taxation in order, not only to influence Government policy regarding taxation but also to enable Government to market itself and its services more effectively to the general public.

This paper reports the results of a pilot study of a larger research project carried out amongst South African taxpayers by means of personal, face-to-face interviews with a structured and semi-structured questionnaire administered at respondents' homes.

Although the majority of the respondents did not feel it is unfair to pay tax, all of the respondents were of the opinion that waste and corruption in government is high. In addition, the majority of the respondents felt that taxes is used by government for meaningless purposes and that the government does not provide enough information about how they utilise taxpayers' money. The respondents, therefore, felt that tax rates should be reduced.

One of the most effective tools for making people more positive is to empower them with knowledge. It is submitted that there is no better tool for government to positively influence the taxpayers of a democracy than to provide them with knowledge on how taxpayers' money is utilised.

KEYWORDS: South African taxpayers, waste and corruption in government, attitudes towards taxation, utilisation of tax

1 INTRODUCTION

Albert Einstein as cited in Slemrod and Bakija (1996:xv) once 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 of how a government affects the lives of its citizens.

Lamont (1992:83) states that of all the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax. The effect of taxation is that subjects are forced to give up hard earned earnings or possessions, or, in the early days, also payments in kind, without receiving visible benefits in return (Coetzee, 1993:5; Theron, 1994:16).

The current Minister of Finance in South Africa, Trevor Manuel (1999:58) stated that the obligation to pay one's fair share of taxes as and when they fall due is part of the new morality which democratic governance must inculcate in every South African. He accepted that tax evasion and fraud are among the most insidious forms of criminality that plague the South African society and that millions of Rand are diverted everyday from the fiscus by tax criminals.

There appears to be a substantial tax gap between the tax that is theoretically collectable from economically active persons in South Africa and the tax that is actually collected. One of the main reasons for the tax gap is non-compliance by taxpayers and potential taxpayers, with tax legislation. One of the causes of non-compliance has been demonstrated to be the attitudes and perceptions of people.

Against this background, it is of utmost importance to determine taxpayers' perceptions towards taxation in order, not only to influence Government policy regarding taxation and protecting the country's tax base but also to enable Government to market itself and its services more effectively to the general public. In addition, the benefit of this study lies in the fact that only limited research on taxpayers' perceptions has been performed in South Africa.

This study, therefore, attempts to assess the perceptions of taxation amongst different South African taxpayers, but without any pre-conceived ideas or expectations.

This study focuses on taxpayers who are natural persons. Corporate taxpayers are excluded from this research. It is difficult to study a taxpayer's attitude towards taxation, as confirmed by Fallan (1999:173-184) and findings from this study will not be generalised to the entire South African population. The paper reports the results of a pilot study of a larger research project.

This paper has four parts. First, it reviews the literature relevant to taxpayers' perceptions in South Africa. Then the research methodology is presented. Next, the findings are discussed and summarised. The article concludes with a discussion of the implications and directions for further research.

2 LITERATURE REVIEW

Taxes have been levied in South Africa since 1914. Every year the Minister of Finance presents the annual budget, in which the total intended government expenditure for the following year is announced. During this process the manner of funding the expenditure is also indicated. Government expenditure in South Africa is predominantly funded by means of revenue generated from levying taxes (Mohr, Van der Merwe, Botha & Inggs, 1988:79-91; Venter, Hamel & Stiglingh, 2004:4). Table 1 provides a summary of government income for the 2004/2005 fiscal year.

Table 1: Sources of government income

Type of tax	Amount received R'billion	Percentage of income
Personal income tax	106	31.9%
Company tax	75	22.6%
Taxation on property	7	2.2%
VAT	88	26.5%
Fuel levy	18	5.4%
Excise duties	13	3.9%
Customs duty	10	3.0%
Other income tax	12	3.6%
income		
Other	3	0.9%
Total	332	100%

Source: Department of Finance: National Treasury. (2004). *Estimate of National Revenue*. (Online).

The South African Revenue Service (SARS) was established by legislation to collect revenue and ensure compliance with tax law. Its vision is to become an innovative revenue and customs agency that enhances economic growth and social development and supports South Africa's integration into the global economy in a way that benefits all citizens (SARS, 2002:1). In ten years of democracy, SARS has striven continuously to broaden the tax-base, improve its service levels to taxpayers and pursue enforcement initiatives that contribute directly to increased revenue yield, which will finance government's developmental agenda (SARS, 2004:2). Government has no option but to support the energetic and innovative drive by SARS to improve compliance by thoroughly investigating any fraudulent scheme that comes to its

attention. The government, therefore, commends the efforts of SARS to stamp out tax evasion and fraud and continues in its intention to show zero tolerance to any form of tax evasion and fraud.

It is pointed out by Adams (1921:536,556) that the success of income tax rests primarily upon the honesty of the taxpayers. This author further states that one of the factors that contribute to dishonesty in taxpayers is the complexity of the tax system as it may lead to administrative failures. From the taxpayers' perspective it can be deduced that the most common complaint about taxes is straightforward – they are too high (Slemrod & Bakija, 1996:1).

It is highlighted by Sommer (1984:275), that one thing is certain, namely that everywhere in the world taxpayers want more value for their money collected in taxes.

By distancing statutory taxes from effective payments, tax evasion defines a specific revenue deficiency, known as the “tax gap”. Franzoni (1998) asserts that the tax gap merely portrays the wedge between economic reality and a purely legal construct called statutory taxes.

Both the Margo Commission (1986:§27) and the Katz Commission (1994:§5.1) dealt with tax morality and the tax gap. The tax gap is defined by the Katz commission as “the difference between the taxes that the law seeks to collect and those in fact collected”. The Margo commission points out that this happens by means of both tax avoidance and evasion. Both of these studies quote estimates by the International Monetary Fund. These estimates showed that the tax gap in industrialised countries was in the order of 10% and that for the developing world the average was 33%. The Katz commission (1994:§5.5) went so far as to estimate that in South Africa the tax gap was 20%, which represented at that time an amount of R 21 billion.

Both studies alluded to the effect of a declining level of tax morality in the country and ascribe this to various factors. These include:

- Resentment over what is regarded as unfair, burdensome or excessive taxation;

- Deficiencies in administration, including poor collection;
- Problems relating to recognition of income and expenditure;
- Ineffective countering of avoidance; and
- A high scale of evasion.

Stewart (1994:24) claims that there is, by definition, no reliable way of determining the size of South Africa's tax gap. He does, however, mention that in developing countries it is common cause that the gap is large and growing. This author further contends that a widening tax gap has adverse consequences. In the light of this, he points out that the failure of the collection agency to maintain effective administration of those bits of the tax system that require special assessment and auditing skills results in greater reliance being placed on revenue sources that are relatively easy to administer (for example, employees' tax).

Edwards (1997:64) remarked that the good comments from the Margo and Katz commission were not implemented. In an article written by Ngwenya (1999:10) it is stated that "South Africans have lost respect for the law to such an extent that our new heroes are big time criminals. We don't pay taxes and we happily buy stolen goods". This author blames the lawlessness of South Africans on the fact the majority of South Africans are angry because those who had wealth are losing it and those who never had wealth still have not got it. Pravin Gordhan, the Commissioner for the SARS, disclosed that about R20 billion in taxes was lost to fraud and poor tax morality (Sawyer, 1998). Of the 44.4 million people living in South Africa in February 2001, 11.8 million are economically active, but only 6.7 million are registered taxpayers (Kemp, 2002).

Hazelhurst (2003:64) declares that in the old South Africa, ramshackle tax legislation and ineffective tax collection allowed people to divert large chunks of income tax to tax shelters and tax havens. He mentions that some of the tactics employed were legal and some were not but highlights that in both cases the taxman was frustrated and relatively powerless. He states that the shortfall was made up by lower-income taxpayers who were not in a position to make smart tax arrangements. This author further points out that in the new South Africa, a series of legislative changes and the creation of a new revenue-collection system have created a tax dispensation in which

there is better compliance and improved enforcement. He contends that, using state-of-the-art technology and 113 qualified forensic investigators at the Woodmead office in Sandton, Pravin Gordhan (the Commissioner for the SARS) is closing the tax gap.

Naidoo (2005) confirms the view of Hazelhurst by stating that SARS has undoubtedly made significant strides in improving the administration of taxes. It has become more efficient and has increased its staff numbers and staff quality. SARS is now a far more effective tax-gathering machine than ten years ago. Laws have been tightened and in fact, over the last decade there have been such a significant number of changes to the tax laws that they are now so complex that only a handful of tax experts can understand them. This, clearly, creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists.

Naidoo (2005) continues by stating that despite all the efforts of SARS, there still seems to be a perception that there is a significant tax gap in South Africa. A figure of R30 billion is bandied about in the press as the extent of the gap (Cokayne, 2002; Kemp, 2002; Leuvenink, 2003; Mabanga, 2004; Temkin, 2002; Temkin, 2003).

In addition to this, Kemp (2002) states that there are over five million people “missing” from the tax registers. This figure does not seem to change despite all the efforts of SARS to reduce the gap, nor does it change from year to year. Whether this number is scientifically calculated is not known. Kemp (2002) states that individual taxpayers make up the vast majority of the “tax gap”.

The tax gap is made up of two parts. Hazelhurst (2003:64) and Delport (2000:16) state that it is important to stress that failure to register is the first part of the story. These authors feel that many registered taxpayers who are not declaring their full income create the second part of the tax gap. According to Trevor Manuel, the Minister of Finance, as cited by Loxton (2002) the tax gap in South Africa is occasionally due to ignorance, but is generally attributed to aggressive tax planning to reduce liabilities and to certain people who just simply do not pay tax. Mabanga (2004) reports on an interview where Pravin Gordhan, the current Commissioner for the SARS, states that every society has a tax gap and that in South Africa we had a tax system that excluded the majority for a long time.

One accredited study has investigated taxpayers' perceptions in South Africa. In this study undertaken by Oberholzer (2005:249-275) it was revealed that, although the majority of previously disadvantaged South Africans included in the study are paying taxes, they are unable to list the different types of taxes without assistance. Generally, the respondents in this study feel positive about paying tax if the government applies it appropriately for the benefit of the taxpayer. A substantial proportion of the respondents indicated that they would not object if lower tax rates were introduced. A significant percentage of the respondents are also of the opinion that Government should be transparent in the utilization of taxpayers' money. Finally, it was revealed in the study by Oberholzer (2005:249-275) that a need for tax education regarding tax systems and the application thereof exists amongst previously disadvantaged South Africans.

A weakness of the study undertaken by Oberholzer is that only previously disadvantaged South Africans were included and not all the population groups of the country. Hence, this present research attempts to build upon this previous research.

3 METHODOLOGY

The research methodology to be applied for this study is interpretive by nature, comprising the use of qualitative data analysis techniques. This section of the article will provide details of the research design, the sampling method as well as the manner in which the data will be collected and analysed for this study.

3.1 RESEARCH DESIGN AND DATA ANALYSIS

The pilot study was carried out by means of a questionnaire (similar to the research design as planned for the larger research project). The questionnaire comprised of closed- and open-ended questions. Respondents answered closed-ended questions by ticking one box representing the views, which were the closest to their own. Open-ended questions were also incorporated to which respondents provided unstructured replies. These replies was analysed by content and allocated by an independent

coder to different categories. The data was, therefore, analysed using inductive logic. This data was analysed on computer, using the SAS Version Eight statistical package. The results of the analysis were interpreted in the light of the problem statement in order to make conclusions and recommendations.

The questionnaire was specifically designed to take into consideration the fact that English is not the first language of the majority of the respondents and that only a small number of previously disadvantaged South Africans have had tertiary education.

3.2 SAMPLING

The target population for this study consisted of the four different population groups in South Africa (i.e. White, Coloured, Indian and African) as defined by Statistics South Africa. A sample was selected from the greater Tshwane metropolitan area (the capital city of South Africa, Pretoria). This target area was selected for practical purposes and also because this area represents a heterogeneous population.

It is important to highlight that the greater Tshwane metropolitan area consists of different districts. Some areas are provided with all reasonable infrastructural needs. By contrast, other areas are typical South African townships or informal settlements traditionally occupied by Africans with makeshift shacks of plywood, cardboard and zinc roofing, a lack of adequate flush sanitation, limited access to running water, as well as indoor and outdoor air pollution (Branes, 1998:9; Murray, 1994:49). South African townships are also filled with ongoing violence as streetwise gangsters motivated by need and greed, fuel the crime and the fear, which prevails (Dempster, 2002). Today, the inhabitants of this area remain mostly African.

Over and above the location problems associated with obtaining the data, a language barrier also exists. The eleven official languages of the country are set out in Section 6 of the South African Constitution (1996). In addition to English and Afrikaans (developed from Dutch during the 17th century) there are nine African languages that correspond to the nine different tribal groups. These languages fall into four groups,

namely the Tsonga, the Venda, the Nguni (Zulu, Xhosa, Ndebele and SiSwati) and the Sotho (Sepedi, Sesotho and Setswana).

MarkData, a private, independent company specialising in providing strategic research solutions to numerous national and international clients on a variety of issues, will therefore be contracted to aid in performing the survey. MarkData is situated in the greater Tshwane metropolitan area and this will ensure, *inter alia*, better control of the fieldwork.

Logistically speaking it will be more cost-effective to concentrate on the chosen area as the greater Tshwane metropolitan area is in excess of nine hundred square kilometres (2 331 square miles) in extent. The chosen area, however, has an ethnically heterogeneous population. MarkData's experience within the field of research stretches back to the early eighties and it has vast experience in the field of planning surveys, health surveys, demographic and population surveys, studies in support of community development and monitoring surveys in the field of development and the Reconstruction and Development Programme (as adopted by the ANC in 1994). MarkData regularly conducts countrywide surveys (of up to 20 000 interviews) in all areas of communities and has a base of very experienced supervisors and interviewers who are, between them, conversant in all the official South African languages.

Respondents older than twenty-one years of age were included in the sample. This study was only an exploratory study and a pilot test of a larger research project. MarkData randomly selected twenty-five respondents from the target population. The confidentiality of respondents was ensured by their anonymity.

3.3 DATA COLLECTION

Personal, face-to-face interviews were conducted, at the respondents' homes using a structured and semi-structured questionnaire during January 2006. These interviews were regularly conducted after hours to ensure that the selected respondent is in fact available.

All interviewers of MarkData had to comply with the following minimum requirements:

- A matric or grade 12 educational qualification (the highest level of education obtainable in South African schools and a prerequisite to register for a tertiary qualification at an university) or the equivalent qualification;
- Multi-linguistic, in order to speak the relevant language in a particular fieldwork area, and
- Training in personal, face-to-face interviewing techniques, with structured and semi-structured questionnaires.

The field staff was trained. The questionnaire was available in English. During training, these questions were translated by the responsible co-ordinator from MarkData into the relevant languages of the African fieldwork areas, before the fieldwork commenced. Interviews were conducted in the respondents' choice of language. The fieldworkers were instructed to adhere to the sequence of the questions, in order to ensure that respondents were not lead in answering the open questions.

3.4 DELIMITATION OF STUDY

This study focused on taxpayers who are natural persons only, and corporate taxpayers will be excluded. This study was only an exploratory study and a pilot test of a larger research project. In addition, the research was only performed within the Tshwane area. It is not the purpose of this study to generalise the conclusions reached to the whole of the South African population. No statistical detailed analysis could be performed due to the small number of respondents. This study only highlights the various perceptions amongst the different population groups within South Africa.

4 RESULTS

The demographics of the respondents will first be discussed. Table 2 provides a summary of the age distribution of the respondents. The gender composition of the sample was 56% male and 44% female (see Figure 1).

Table 2: Average age of respondents

Age group	Percentage represented in sample
21-29	24.00%
30-39	24.00%
40-49	16.00%
50-59	28.00%
60-69	4.00%
70+	4.00%
Total	100%

Figure 1: Gender composition of sample

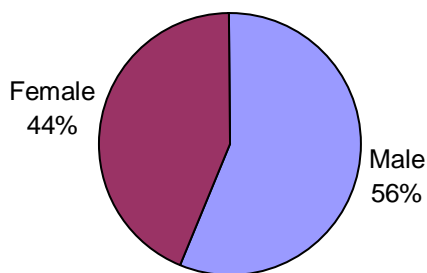


Figure 2 below indicates that a larger portion (i.e., 40%) of the respondents were Black Africans. In relation to population groups, the remainder of the respondents were distributed evenly and 20% were Coloured, 20% Indian or Asian and 20% White (see Figure 2). None of the respondents belonged to another population group.

Figure 2: Distribution of population groups represented in sample

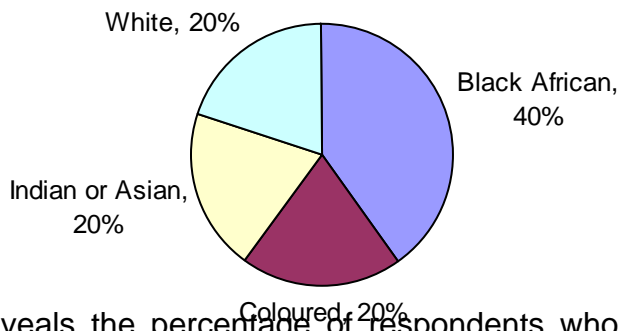
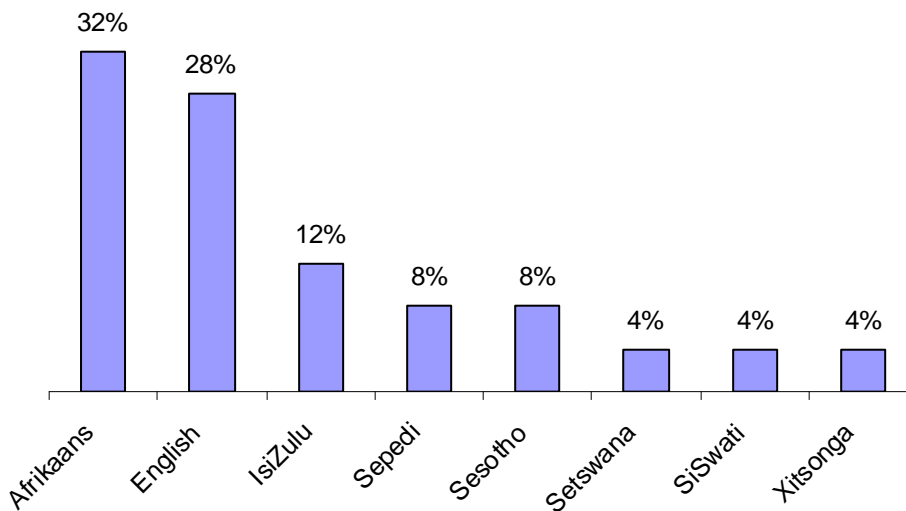


Figure 3 reveals the percentage of respondents who indicated one of the eleven official languages as their home language. Although IsiNdebele, IsiXhosa and Tshivenda also form part of the eleven official languages for South Africa, none of the respondents regarded these as their home language. It was also evident that none of the respondents spoke another home language (i.e., other than the 11 official languages).

Figure 3: Home language of respondents

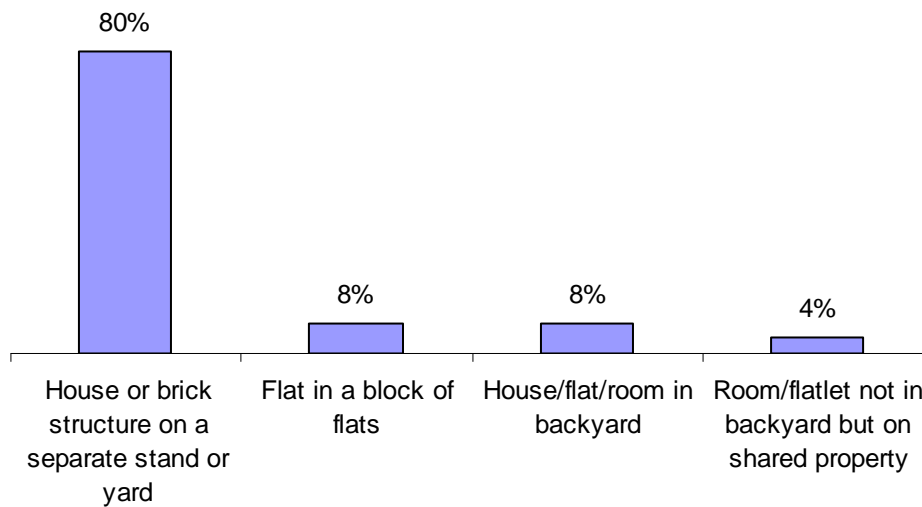


It is apparent from Figure 4 that in relation to the type of dwelling, the majority of the respondents (i.e., 80%) indicated that they stay in a house or brick structure on a separate stand or yard.

A relatively small percentage (i.e., 8%) either live in a flat in a block of flats, or in a house, flat or room in a backyard, and the remaining 4% stay in a room or flatlet not

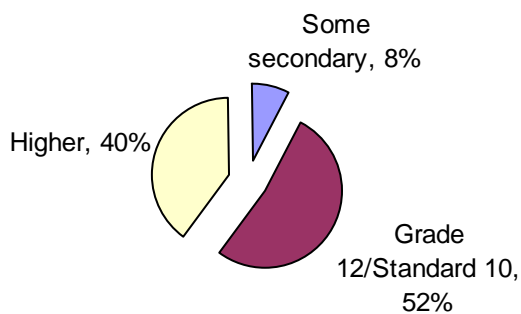
in a backyard but on shared property (see Figure 4). None of the respondents indicated that reside in any other type of dwelling.

Figure 4: Type of dwelling of respondents



All of the respondents were in possession of at least some secondary education (see Figure 5). None of the respondents had no schooling or only some primary education.

Figure 5: Educational background of respondents



Regarding the employment status of the respondents, Figure 6 shows that 40% of the respondents were salaried employees in the private sector, 24% were self-employed, 20% were salaried employees in the public sector, 12% were unemployed and 4% were economically inactive.

Figure 6: Employment status of respondents

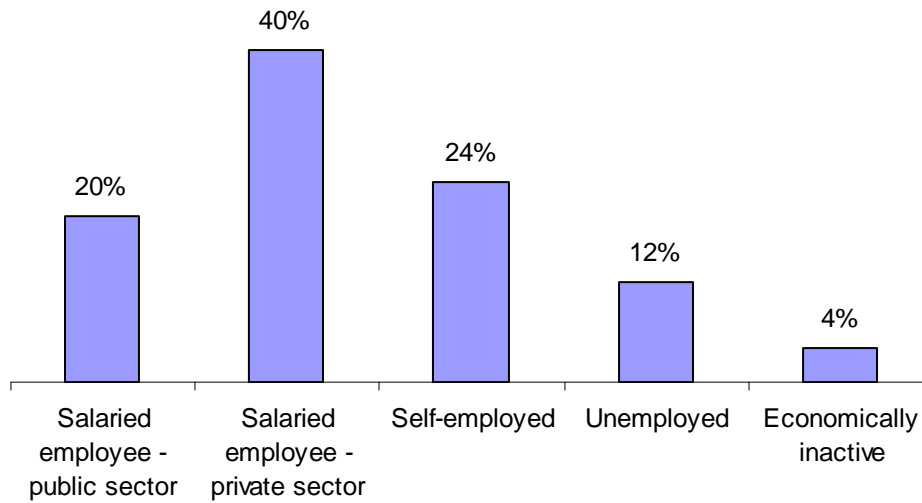


Figure 7 indicates the respondents' income per month before deductions. In addition to this, only 8% of the respondents indicated that they earned a second or other additional income (e.g., income from a second trade or income from renting out premises).

Figure 7: Income per month before deductions

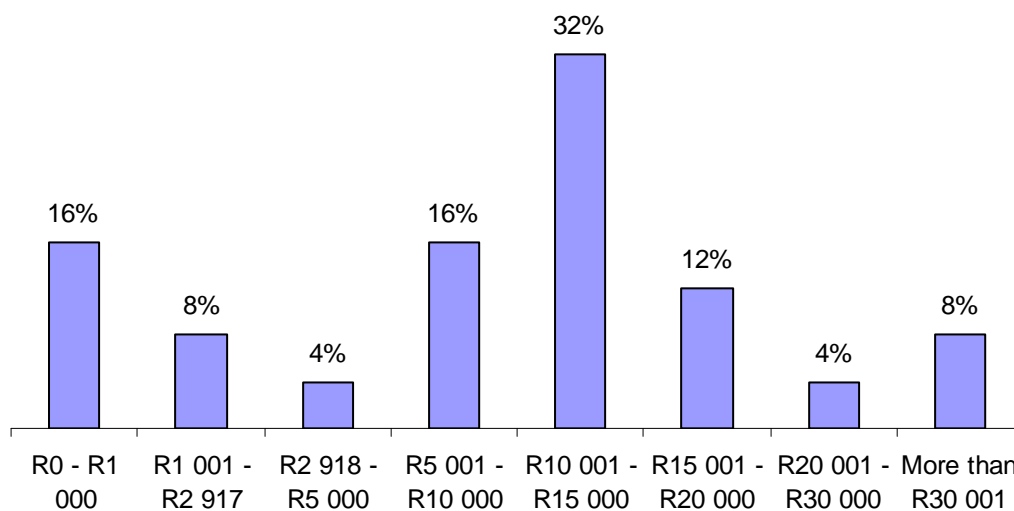
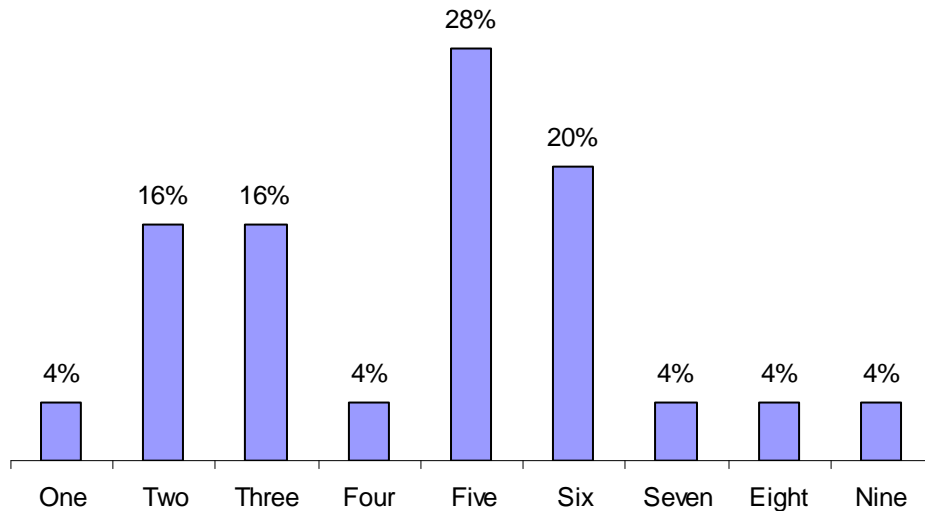


Figure 8 indicates that 28% of the respondents had five persons living within their household and 20% had six. This figure also shows that 16% had either two or three persons and 4% had either one, four, seven, eight or nine persons in their household.

None of the respondents indicated that they had more than 10 persons living within their household.

Figure 8: Number of persons living within a household



The results of the questions relating to the taxpayers' perceptions regarding taxes in South Africa will be discussed next.

It was interesting to note that just over half of the respondents (i.e., 52%) felt neutral regarding their support of the current government. The remainder of the respondents indicated that they either support the current government very strongly (i.e., 24%) or do not support it at all (i.e., 24%).

In addition to the above, the majority of the respondents (i.e., 72%) felt concerned about the future of South Africa. It was also apparent that 20% of the respondents were hopeful about the future of South Africa and only 8% were neutral concerning this topic.

In relation to the respondents' view on income distribution in South Africa, 60% felt that everyone should be entitled to keep the income they earn. The other 40% were of the opinion that all income earned should accrue to the Government which should distribute this equally among all South Africans.

Respondents were asked whether they agreed or agreed with a number of statements that deal with general issues related to tax. These statements, together with the percentage of respondents who agreed with these statements are presented in Table 3 below.

Table 3: Statements relating to general tax issues and percentage of respondents who agreed with statement

Statements relating to general tax issues	Percentage of respondents who agreed with statement
A large proportion of taxes is used by the government for meaningless purposes	79.17%
It is unfair to pay tax	25.00%
Income tax rates must be reduced	87.50%
The VAT rate must be reduced	73.91%
The income tax rate should be the same regardless of the amount of income earned	24.00%
I don't know why I have to pay tax	20.00%
Waste and corruption in government is high	100%
Rich people should pay tax at a higher rate	56.00%
Tax is very complicated – I do not know how to calculate my own tax liability	56.00%
The amount of tax I have to pay is reasonable considering the benefits received	34.78%
The government does not provide enough information about how they use taxpayers' money	76.00%

All of the respondents were of the opinion that waste and corruption in government is high (see Table 3). It was also evident from Table 3 that the majority of respondents felt that income tax rates must be reduced (87.50%), that a large proportion of taxes is used by the government for meaningless purposes (79.17%), that the government does not provide enough information about how they use taxpayers' money (76.00%) and that the VAT rate must be reduced (73.91%).

Table 3 also reveals that most of the respondents did not feel that it is unfair to pay tax (75.00%) and knew why they have to pay tax (80.00%). They were also not generally of the opinion that the income tax rate should be the same regardless of the amount of income earned (76.00%).

Just over half of the respondents (56.00%) felt that rich people should pay tax at a higher rate and were of the opinion that tax is complicated and thus do not know how to calculate their own tax (see Table 3). In addition, a relatively low percentage (34.78%) felt that the amount of tax that they have to pay is reasonable considering the benefits received

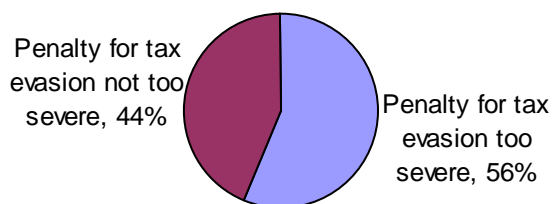
Table 4 presents a number of crimes and the percentage of respondents who felt that a specific penalty was appropriate for committing such a crime. All of the respondents were of the opinion that imprisonment is appropriate for housebreaking as well as hi-jacking. A large percentage also indicated that imprisonment was appropriate for shoplifting (75.00%) and drunken driving (95.83%). The majority of the respondents felt that there should be a fine for those who evade tax (60.00%) or fail to report additional income (87.50%).

Table 4: Crimes and appropriate penalties as indicated by the respondents

Type of crime	Percentage of respondents who indicated that there should be no penalty for criminals	Percentage of respondents who indicated that there should be a fine for criminals	Percentage of respondents who indicated that criminals should be imprisoned
Shoplifting	4.17%	20.83%	75.00%
Housebreaking	-	-	100%
Tax evasion	4.00%	60.00%	36.00%
Drunken driving	-	4.17%	95.83%
Failing to report additional income	8.33%	87.50%	4.17%
Hi-jacking	-	-	100%

In addition to the above, 56% of the respondents felt that the penalty for tax evasion (i.e., where a person is guilty of an offence and is liable on conviction to a fine or to imprisonment for a period not exceeding five years) was too severe (see Figure 9).

Figure 9: Percentage of respondents who indicated that the penalty for tax evasion is too severe/not severe



The respondents were asked to indicate whether they had any further comments regarding tax in South Africa. These comments are listed:

- I would to have more knowledge about tax functions – allocations and distributions
- I think I should be informed more about tax, so that I can have a full knowledge and understanding about it
- I would like to know more – because it is feasible to know why I pay tax
- I would like to be informed more so because I think I am contributing too much towards tax (personal)
- I would like to have more knowledge about tax
- I would like to be more informed
- Do away with personal tax and increase VAT to 20%
- I am already a pensioner but I need information so that I can help others who do not have experience or those who are illiterate
- I think SARS consultant should be deployed to various companies to educate people about tax – and show tax is calculated

5 CONCLUSION

Peters (1991:188) found that citizens do, on the whole, like the benefits they receive from government and tend to be much more willing to pay taxes when reminded of the benefits received as a consequence of doing so. If taxpayers are negative about taxation, this can influence their attitude towards paying taxes and Government might loose not only revenue but also electorate.

This study was aimed at investigating taxpayers' perceptions of taxation in South Africa. As this study was only an exploratory study and a pilot test of a larger research project the various perceptions amongst the different population groups within South Africa were only highlighted. Further research could be carried out to determine whether the results of the sample would hold good for other populations of taxpayers. In addition, other researchers may extend the findings of this research by testing the findings in other areas or populations.

This study indicated that although the majority of respondents did not feel it is unfair to pay tax, all of the respondents were of the opinion that waste and corruption in government is high. In addition, the majority of the respondents felt that taxes is used by government for meaningless purposes and that the government does not provide enough information about how they utilise taxpayers' money. The respondents therefore felt that tax rates should be reduced.

One of the most effective tools for making people more positive is to empower them with knowledge. It is submitted that there is no better tool for government to positively influence the taxpayers of a democracy than to provide them with knowledge on how taxpayers' money is utilised.

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