

## CHAPTER 8: CONCLUSION

### 8.1 INTRODUCTION

In South Africa, as in the rest of the world, the tax burden of individual taxpayers is highly controversial. The tax burden is a source of contention and concern, not only in government, academia and the media, but also, and perhaps most importantly, amongst those who experience the burden of paying taxes in real life, namely individual persons who are taxpayers. Studies and debates around the topic in South Africa are often contradictory, depending on the perspective from which the tax burden is evaluated. These contradictory claims relating to the tax burden in South Africa do not arise in a vacuum, but may, to a large extent, be attributed to the lack of a comprehensive basis from which the tax burden of individual taxpayers in South Africa can be evaluated. Hence, there is a need in South Africa for a conceptual framework for evaluating the tax burden of individual taxpayers, not only objectively in terms of the taxes imposed by government on the individual taxpayers (the **imposed tax burden**), but also subjectively, as the tax burden is interpreted by these taxpayers (the **perceived tax burden**).

The primary objective of the present study was to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. This primary objective of the present study was supported by secondary research objectives relating to the definition and formulation of theoretical constructs as an underpinning for the development of a conceptual framework, as well as the validation of these theoretical constructs in a real-life context.

In this final chapter, the conclusions related to the stated objectives of this study are presented.

## 8.2 SUMMARY OF FINDINGS AND CONCLUSIONS

The construct of the **imposed tax burden** was investigated and, based on the literature, it was determined that the definition of **a tax** is a highly debated topic. An analysis of a number of different definitions from the literature established that the elements of being compulsory, raising revenue for government as funding for general expenditure, and shared benefits for the public as a whole all frequently occur, in one way or another, in these definitions (see Section 2.2.3). From the analysis of the literature, it was concluded that a **user charge** can be defined as a compulsory impost which is mainly intended to recover costs incurred by a government in the direct supply of specific public goods and services to members of the public, in return for the payment of the impost, to the exclusive benefit of the person(s) paying the impost (see Section 2.2.4).

The **(tax) burden** is also an important construct underpinning the imposed tax burden. It was concluded from an analysis of the literature that a tax can affect an individual taxpayer's tax burden in a number of ways. A tax can affect the tax burden either on a recurrent basis over a given period (**a recurrent tax burden**), or on the occurrence of specific transactions or events at a particular point of time (**a random tax burden**) (see Section 2.2.6.1). Both a recurrent and a random tax burden can be imposed directly on the income or wealth of a taxpayer (**a direct tax burden**), or indirectly on the consumptions of goods and services by the taxpayer (**an indirect tax burden**) (see Section 2.2.6.2).

The theoretical constructs underpinning the imposed tax burden were used to formulate a criterion framework (see Table 6)<sup>188</sup> that provides a foundation for classifying government imposts according to their inherent characteristics, irrespective of the label given to the impost by the government. The classification framework in Table 6 was applied as a set of criteria to classify the various government imposts that are used as sources of revenue to fund the public sector in South Africa (see Chapter 3). It can be concluded from the results that the criteria in Table 6 provide objective guidelines for classifying government

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<sup>188</sup> See Section 2.2.7.

imposts in terms of their inherent characteristics, irrespective of the label applied to the impost by the government (see Section 3.28).

From the analysis of the construct of the **perceived tax burden**, it emerged that the tax burden as perceived by individual taxpayers in South Africa can be evaluated by referring to the concept of the **fiscal illusion** and the concept of **fiscal perception**, which consist of three important elements, namely the **fairness of taxes**, the **complexity of taxes** and the **taxpayer-government exchange** (see Section 4.2). An analysis of the literature on the perceived tax burden in South African tax led to the conclusion that the imposed tax burden may not necessarily reflect how individual taxpayers in South Africa perceive their tax burden, which may also be vastly different from how theoreticians and policy-makers interpret the tax burden (see Section 4.3).

Theoretical principles originating from fiscal incidence studies (see Section 5.2) were adopted in this study as an underpinning for the **formulation of a conceptual framework** for evaluating the tax burden of individual taxpayers in South Africa, focusing on the recurrent tax burden. It was concluded that the households of individual taxpayers in South Africa as a **unit of analysis** is an appropriate basis from which to evaluate the tax burden of individual taxpayers in South Africa (see Section 5.3). It was concluded that the **period** used by SARS to determine the income tax liability of an individual taxpayer in South Africa, namely the year of assessment, provides a consistent and appropriate period for evaluating the (recurrent) tax burden of individual taxpayers in South Africa (see Section 5.4). Using the **effective tax rate** expressed as a percentage of the gross household income of individual taxpayers as an underpinning was deemed to be an appropriate **method of measurement**,<sup>189</sup> not only for the imposed tax burden, but also for the perceived tax burden (see Section 5.5). The **coverage**<sup>190</sup> of the gross household income is presented as the framework of gross household income (see Section 5.6.1) and it is suggested in the study that the

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<sup>189</sup> The terms 'measurement' in this context refers to the underpinning method used to calculate the elements contributing to the tax burden.

<sup>190</sup> The term 'coverage' in this context refers to the extent to which the elements underpinning the measurement of the tax burden are covered for the purposes of evaluating the tax burden of individual taxpayers in South Africa.

gross household income be **valued**<sup>191</sup> using this framework and the definition of 'gross' income (see Section 5.5.1), as a basis (see Section 5.7.1). The coverage of the recurrent imposed tax burden is presented in Section 5.6.2 as the 'framework of the imposed recurrent tax burden in South Africa' and it is suggested in the study that the elements underpinning the imposed tax burden need to be valued in terms of the South African legislation applicable to each impost (see Section 5.7.2). It is suggested in the study that the elements underpinning the perceived tax burden be limited to (see Section 5.6.3), and valued (see Section 5.7.3) in terms of the monetary value of private expenditure incurred by taxpayers. This expenditure is related to the perceived complexity of taxes and the perceived inefficiencies of key services provided by government. It was determined from the literature analysis that the concept of **equivalence scales** provides a consistent and recognised basis for a **comparison** of the tax burdens of the households of individual taxpayers in South Africa (see Section 5.8).

The objective of the first phase of the present study, as explained above, was to establish the theoretical constructs underpinning the evaluation of the tax burden of individual taxpayers in South Africa, and to use these theoretical constructs as a basis for formulating a conceptual framework. The objective in the second phase of the study was to establish the validity of these theoretical constructs by applying the newly formulated framework in a real-life context. It was concluded that a qualitative research approach, using multiple case studies as a research tool, is an appropriate strategy to follow in order to achieve the said objective (see Section 6.4).

The primary data collected from the case study research were analysed using the thematic framework analysis technique, which was deemed to be a suitable technique, as it is widely used in qualitative research (see Section 7.2). The results of the data analyses make the following conclusions possible. First, it is concluded from this study that the construct of the **imposed** tax burden, as

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<sup>191</sup> The terms 'valued' and 'valuation' in this context must be interpreted as the basis from which a monetary value is attributed to each element used to measure the tax burden.

defined in this study, is a valid construct that provides a relevant foundation for the objective evaluation of the tax burden of individual taxpayers in South Africa (Section 7.4.3.3 and Section 7.4.4.3). Secondly, it is concluded that the construct of the **perceived** tax burden, as defined in this study, is a valid construct that provides a relevant foundation from which the tax burden can be evaluated **subjectively**, as it is perceived by the individual taxpayers in South Africa (Section 7.5). Thirdly, it is possible to conclude that the methodology adopted as the underpinning method for measuring the tax burden provides a valid basis from which to determine and compare the tax burden of individual taxpayers in South Africa (see Section 7.6 and Section 7.7).

Overall, it is possible to conclude that the conceptual framework developed in this study provides a comprehensive basis from which the tax burden of individual taxpayers in South Africa can be evaluated.

### **8.3 SUMMARY OF THE CONTRIBUTIONS OF THE STUDY**

The present study is the first qualitative research study designed to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa objectively from the point of view of the government or the society as an economic community, but also subjectively from the point of view of the taxpayer. This threefold point of view is in line with the arguments of Brennan and Buchanan (1980:225) and Stamp (1921:201), who emphasise that it is important for policymakers not to lose sight of the taxpayers on whom the tax burden is imposed.

The results of the present case study research confirm the theory established in the current literature that, in evaluating the tax burden of individual taxpayers in South Africa, a distinction must be made between the imposed tax burden and the perceived tax burden. The present study therefore proposed a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa which incorporates both the imposed tax burden and the perceived tax burden.

## 8.4 LIMITATIONS OF THE PRESENT RESEARCH

Critical reflection on the present research revealed a number of limitations that could be addressed by future research to augment and enhance the findings of the present study.

The first limitation noted is that the present research did not analyse all public entities that function as part of the public structure in South Africa, but only focused on the key functions of government (see Section 3.4.4). Hence, it is possible that not all the imposts (which are inherently taxes in terms of the criteria in Table 6) used by government to fund these entities were identified. However, the purpose of the present research was to validate the theoretical constructs underpinning the conceptual framework and not to perform a complete analysis of the entire public service structure in South Africa. Therefore, this limitation does not affect the results of the present research.

The second limitation is that the analysis of the revenue sources used as funding for the public entities included in the present research was limited to those revenue sources that comprise more than 80% of the funding of the entity (see Section 3.4.4). Therefore it is possible that not all the imposts (which are inherently taxes in terms of the criteria in Table 6) used by these entities to raise revenue were identified. However, as explained in the first limitation in the paragraph above, the purpose of the present research was to validate the theoretical constructs from this study and not to perform a complete analysis of these public entities. Hence, this limitation does not affect the results of this research.

The third limitation is that the majority of the participants in the case study research belonged to only one population group (see Section 7.3). This limitation may have an impact on the degree to which the results from the case study data can be generalised. However, as indicated before, this limitation does not alter the conclusions of this study, as the purpose of the study was not to generalise the results, but to validate the theoretical constructs underpinning the

development of the conceptual framework. Moreover, an attempt was made to address this limitation by adding four additional cases (using respondents from additional population groups) to the original nine cases (which were all white respondents).

The fourth limitation related to the complexity of taxes, measured in terms of the cost of compliance (see Section 5.5.4.2, Section 5.5.6.1 and Section 5.7.3). In the case study research, the cost of compliance was limited to the actual monetary costs incurred by the taxpayers related to the services of tax practitioners. However, the results of the case study research clearly indicated that this basis is not adequate (see Section 7.5.4.3) and hence should be broadened in any future study when used as basis for measuring the complexity of taxes as perceived by the taxpayer.

The last important limitation to consider is that the participants in the case study research all reside in the Tshwane metropolis (see Section 7.3). Taxpayers living in other municipal areas may have a different perception of their tax burden, and this may be influenced by the level of service delivery by government in their area. This also affects the degree to which the results can be generalised. However, as the purpose of the case study research was limited to validating the conceptual framework formulated on the basis of the literature, this limitation does not alter the results of this study.

## **8.5 FUTURE RESEARCH**

The present research provided a first stepping stone to the development of a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. Further research is required to build onto, and to refine, this initial conceptual framework. Each of the constructs that emerged from the present research as a theme in evaluating the tax burden of individual taxpayers in South Africa presents an opportunity for future research.

The present research to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa was carried out at a particular time



and in a particular context. Therefore, as the tax environment in South Africa changes, these changes may necessitate adjustments in future to the initial conceptual framework emerging from this study.

Finally, although the results of the present research were used to develop an initial conceptual framework for evaluating the tax burden of individual taxpayers in the South African context, the opportunity exists to target individual taxpayers in other countries to determine whether they perceive their tax burdens in the same way that individual taxpayers in South Africa do.

## **8.6 CONCLUDING REMARKS**

Oberholzer (2008:245) found that South African taxpayers' perceptions regarding their tax burden influence their attitudes towards tax compliance. This finding by Oberholzer highlights the importance of the present study in developing a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa, not only from policymakers' and the community's point of view, but also from the taxpayers' point of view.

The present research has proposed a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa, both objectively and subjectively. The conceptual framework from the present study can be used as a basis for other studies to evaluate the tax burden of individual taxpayers, not only in South Africa, but perhaps also in other countries. The conceptual framework from the present research not only provides a basis for other researchers to pursue the tax burden of individual taxpayers as a research topic, but may also stimulate the momentum of research related to the tax burden in the broader tax environment.

*In the words of Aristotle, a 'whole is that which has a beginning, a middle, and end' (translated by Butcher, 2000:12) – this is not the end, not even close to the middle, but rather the very beginning.*