

GRADUATE TAX: A SOUTH AFRICAN STUDY ON PROPOSED LEGISLATION, IMPLEMENTATION AND PUBLIC PERCEPTION

by

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ABSTRACT

Graduate tax: a South African study on proposed legislation, implementation and public perception

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Graduate tax is a concept that was only recently introduced into the public discourse in South Africa. Little is known about how it will be implemented and who will be liable to pay such a tax. The purpose of this study is to examine the proposed introduction of graduate tax for South African tertiary education graduates and the public perception of such a tax. To achieve the objectives of the study, relevant literature was reviewed that explained the concept of a graduate tax and the possible advantages and disadvantages of its imposition. Data collected by means of a questionnaire was analysed, which revealed the public perception of a graduate tax as well as its possible consequences.

The analysis of the data collected indicated that graduate tax is perceived as an additional tax to be paid by graduates from tertiary institutions, whereas the literature defined it as a tax paid by tertiary institution graduates who received their tertiary education at no cost. Furthermore, it was found that the imposition of a graduate tax may deter some from pursuing a tertiary degree in order to avoid liability for such tax. The imposition of a graduate tax could also lead to an outflow of skills, as graduates would be likely to seek employment outside South Africa in order to avoid paying graduate tax.

It is recommended in this study that more clarity should be given to the public as to what this proposed graduate tax would entail and who would be affected by it.

Keywords:

Grade 12 learners

Graduate tax

Graduate contribution

Graduates

Perception

Students

Tertiary education

OPSOMMING

Belasting op gegradueerdes: 'n Suid-Afrikaanse studie oor die voorgestelde wetgewing, implementering en openbare persepsie

deur

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Belasting op gegradueerdes is 'n konsep wat eers onlangs in die openbare diskoers in Suid-Afrika bekendgestel is. Tans is daar geen duidelikheid oor hoe die belasting geïmplementeer sou word en wie aanspreeklik sou wees vir die betaling van so 'n belasting nie. Die doel van die studie is om die voorgestelde instelling van belasting op Suid-Afrikaanse gegradueerdes en die persepsie van die publiek hiervan te ondersoek. Om die doelwit van die studie te verwesenlik, is relevante literatuur bestudeer om die konsep van belasting op gegradueerdes asook die moontlike voordele en nadele van die instelling van so 'n belasting te verduidelik. Data wat deur middel van 'n vraelys ingesamel is, is verwerk en het die persepsie van die publiek asook die moontlike gevolge van die instelling van belasting op gegradueerdes aan die lig gebring.

Volgens die analise van die data word belasting op gegradueerdes as 'n addisionele belasting beskou wat betaalbaar is deur graduandi van tersiêre instellings, terwyl die literatuur dit definieer as belasting betaalbaar deur graduandi wat hul tersiêre onderrig kosteloos ontvang het. Voorts is gevind dat die instelling van belasting op gegradueerdes sekere voornemende studente mag afskrik om 'n tersiêre kwalifikasie te verwerf en sodoende aanspreeklikheid vir sulke belasting te vermy. Die instelling van belasting op gegradueerdes kan ook lei tot 'n verlies aan vaardighede, omdat graduandi waarskynlik werkseleenthede buite Suid-Afrika mag soek.

In hierdie studie word aanbeveel dat meer duidelikheid oor die aard van hierdie voorgestelde belasting op gegradueerdes en wie daardeur geraak sou word, aan die publiek beskikbaar gestel moet word.

Sleutelwoorde:

Graad 12-leerlinge

Belasting op gegradueerdes

Bydrae deur gegradueerdes

Graduandi

Gegradueerdes

Persepsie

Studente

Tersiêre onderrig

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Table 1: Abbreviations used in this document

Abbreviation	Meaning
ANC	African National Congress
DA Youth	Democratic Alliance Youth
GDE	Gauteng Department of Education
IEASA	International Education Association of South Africa
NSFAS	National Student Financial Aid Scheme
PAYE	Pay as you earn
SAIPA	South African Institute for Professional Accountants
SASCO	South African Student Congress

1 CHAPTER 1: INTRODUCTION TO THE STUDY

1.1 BACKGROUND

Former South African president Nelson Mandela (1995) once said: “Education is the great engine of personal development. It is through education that the daughter of a peasant can become a doctor, that the son of a mineworker can become the head of the mine, that a child of a farm worker can become the president of a great nation. It is what we make out of what we have, not what we are given, that separates one person from another.” In South Africa, the unaffordability of tertiary education due to historical and current factors is a major obstacle to education becoming the transformation tool President Mandela envisioned.

The past few years have seen the world facing extremely difficult global economic conditions. Increasing numbers of people find the cost of tertiary education simply unaffordable (De Villiers, 2012:57). Given South Africa’s unique past and the extreme levels of inequality of both real income and education levels, it is no surprise that the ruling African National Congress resolved at its 53rd National Conference in December 2012 that a policy had to be finalised by the end of 2013 to deliver free tertiary education to all undergraduate students. As a method to fund the National Student Financial Aid Scheme, the conference resolved that consideration should be given to a graduate tax on all graduates from tertiary education institutions (African National Congress, 2012:74). No further information was given by the African National Congress on the structure of such a tax, how it would be implemented under the South African tax system and who would be affected. This was widely reported in the local media in February 2013 and met with vociferous resistance from the public at large, several political parties and other social organisations, such as the South African Student Congress (SASCO), who were all opposed to such a tax. SASCO explained its opposition by citing the already substantial financial burden of tertiary studies and stated that taxing graduates further would ensure that the poor who are admitted to tertiary education institutions never break the cycle of poverty, even when they complete their tertiary education (Capazorio, 2013).

The idea of a graduate tax is not a new one. This idea was first introduced in America by Milton Friedman in 1955 (Harris, 2010). To date several international studies have been conducted with regard to graduate tax (Barr, 2010; Dietsch, 2006), but no research has been found on the proposed graduate tax from a South African perspective, as it has only recently been introduced into the public discourse.

Research previously conducted came to contrary conclusions. Some researchers feel that the implementation of graduate tax is an extremely bad idea and that it is not sophisticated enough to reflect the complexity of the tertiary education systems of today (Harris, 2010). Other researchers feel that in the interest of fairness, a “beneficiary pays” principle should be implemented (Dietsch: 2006). It remains to be seen whether the research already done internationally is applicable to the South African context, whether graduate tax is a practical revenue stream to fund tertiary education, how graduate tax could be implemented and who would be affected by such a tax. Harris (2010) stated that from an administrative viewpoint, a graduate tax may be easier to administrate than a system of fees and loans, but that the disadvantages far outweighed the advantages. As Barr (2010) indicates, graduate tax should be a payroll deduction and not a debt to be paid off by graduates. However, there are many ways in which a graduate tax could be levied, and these should be explored to find which one, if any, is feasible.

1.2 RESEARCH QUESTION

What is the perception of the South African public of the implementation of a proposed graduate tax to fund tertiary education?

1.3 RESEARCH OBJECTIVES

The study will be guided by the following specific research objectives:

- To determine the scope of a possible graduate tax by comparing it with international studies on graduate tax.
- To determine the practicality and consequences of implementing a graduate tax in South Africa.

- To determine the public perception of a proposed graduate tax in South Africa.

1.4 IMPORTANCE AND BENEFITS OF THE STUDY

From a theoretical perspective, the study will make a valuable contribution to the limited body of knowledge of the perception of the graduate tax as well as the practicality of such legislation.

From a practical perspective, the findings may help South African residents understand the concept of a graduate tax. The findings may assist the South African Revenue Service to ascertain whether the taxation of graduates is feasible and will reveal the perception of graduate tax held by the people potentially affected by such a tax.

1.5 DEFINITION OF KEY TERMS

This study involves a number of key concepts, namely *graduate contribution*, *graduate tax* and *South African resident*. The definitions of these key terms are given below.

Graduate contribution: A contribution which is capped and deducted from a graduates' salary via a payroll deduction to cover the cost of a graduate degree once he/she has started working (Barr, 2010).

Graduate tax: A levy which supplements funding for higher education, but only applies to graduates and not to all taxpayers (Greenaway & Hayes, 2003:F160).

South African resident: For the purpose of this study, South African resident will be defined as: "... in relation to a natural person as either a person ordinarily resident in South Africa or a person who meets the requirements of the physical presence test" (paragraph (a) of the definition of "resident" in section 1 of the South African Income Tax Act 58 of 1962).

1.6 DELINEATION AND LIMITATIONS OF THE STUDY

This study has several limitations:

- It considered only South African residents' perceptions of the proposed graduate tax.
- It was limited to South African residents as defined in par (a) of the definition of "resident" in section 1 of the South African Income Tax Act.
- It was limited to prospective students, students currently studying and graduates from tertiary institutions living in Pretoria and Johannesburg.

1.7 ASSUMPTIONS

This study is based on the following assumptions:

- The participants were honest in answering the questions of the questionnaire and in giving their opinion on graduate tax.
- People wanted to attain a tertiary or postgraduate qualification to improve their earnings potential and employment prospects in the South African economy.

1.8 CHAPTER OVERVIEW

Chapter 1: Introduction to the study

Chapter 1 provides the background to the study. It also states the research question and objective of this study. The importance and benefits of the study are considered and the key terms and abbreviations are defined and the research design is explained. Lastly, the limitations and assumptions of the study are presented.

Chapter 2: Literature review

Chapter 2 provides a review of the literature relevant to the study. The purpose of this chapter is to provide an understanding of the concept of a graduate tax, its advantages and disadvantages and the public perception of the possible imposition of a graduate tax. This chapter also reviews the current methods of funding tertiary education in South Africa.

Chapter 3: Research design and methods

Chapter 3 discusses the research design and methodology applied to this study. It considers the target population, sampling method and sample size. The method applied for data collection and the way the data is analysed are explained. Lastly, the validity and limitations of the data and the ethical considerations are discussed.

Chapter 4: Analysis of results

Chapter 4 analyses the results of the data collected by means of the questionnaire.

Chapter 5: Conclusions and implications

In the final chapter the findings of the survey are summarised and the limitations of the study are presented. The conclusions drawn are presented and topics for future research are suggested.

2 CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents an understanding of the concept of a graduate tax as well as its advantages and disadvantages. This is followed by a discussion of another form of graduate tax, namely a graduate contribution. It also discusses graduate tax in South Africa and the current funding options of tertiary education, which could potentially be replaced by a graduate tax. Lastly, the political opinions on the imposition of a graduate tax is discussed.

As graduate tax is a new concept that has only recently been introduced into the South African discourse, international studies on this subject will be used as a basis for the literature review.

2.2 GRADUATE TAX

2.2.1 The concept of graduate tax

According to Greenaway and Hayes (2003:F160), a graduate tax is a levy that supplements funding for tertiary education, but only applies to graduates and not to all taxpayers. This means that tertiary education will be funded by the beneficiaries of tertiary education and not by persons who have not had the opportunity to receive a tertiary education. However, graduate tax is a deferred payment, as it only becomes payable once a graduate has started working and has attained a certain amount of income (Dietsch, 2006:94). Payments are therefore subject to the graduates' income and not to the actual cost of studying. According to Nkrumah-Young & Powell (2011:6), graduate taxes are equity participation schemes. Graduate tax reduces the risk of non-payment, as it pools the risk among those with a tertiary education. Risk pooling is possible because higher-income participants absorb the cost of those who are unable to pay. However, a problem occurs when there are too many high-risk, low-return graduates and the low-risk, high-return graduates opt out (Jacobs, 2002:8).

Furthermore, the fiscus will have to recognise that a graduate tax will always be a lagged source of revenue for the state, only falling due several years after studies have been completed (Harris, 2010). As a graduate tax is a deferred payment, it means that there are no upfront costs for studying at a tertiary education institution; however, this does not mean that a tertiary education is “free”.

The Scottish government feels that the state should bear the main responsibility of funding tertiary education; however, it still requires some form of graduate contribution (Scottish government, 2010). The main reason for considering an additional contribution from graduates is that the holder of a degree benefited from higher levels of social contribution and higher lifetime earnings. On the other hand, the state also receives a benefit through higher economic growth rates and improved health of society. A pure graduate tax has been considered by the Scottish government alongside another form of graduate tax where the graduate has to pay a contribution on achieving the degree (Scottish government, 2010). The amount payable could either be paid in full on graduation or added to the graduate’s study loan. The contribution could be a standard amount or vary between institutions, courses and levels of study.

According to Borck & Wimbersky (2009:7), a graduate tax scheme can be seen as a loan from the government to each student. However, only students who successfully complete their studies will pay back this loan. Students who do not complete their studies will not have to pay back the loan; their outstanding debt will be covered by the successful students. This leads to a system which is self-financing; no funding for tertiary education will be provided from funds collected through general taxation. For a graduate tax system to work, participation must be mandatory, and success depends heavily on a country’s ability to provide funds for tertiary education in advance and on an efficient collection system to recoup the cost (Nkrumah-Young & Powell, 2011:7).

Any graduate tax or contribution should be fair to the graduate by recognising the benefits they gained from receiving a tertiary education. This should, however, not place an unfair burden on graduates nor create barriers that will hinder participation in tertiary education (Scottish government, 2010).

2.2.2 A pure graduate tax

A pure graduate tax is levied where a graduate's income passes a specified threshold and is taxed at a certain percentage of the graduate's income (Dietsch, 2006:89), which is paid either until death, until retirement or for a specified period of time. It remains an open question what would happen should a graduate decide to emigrate before repayment is complete.

Dietsch (2006:94) states that for a graduate tax to be self-financing, the tax should be raised to cover the cost of all tertiary education students, meaning it should cover the cost of students who reach the income threshold and have to pay graduate tax and also the graduate who never reaches the income threshold. Therefore, in order to cover all costs, some kind of redistribution among graduates will have to take place.

2.2.3 The possible advantages of graduate tax

The main advocate for the funding of tertiary education via a graduate tax is Peter Dietsch (2006:88-102). Dietsch (2006:89) feels that a "beneficiary-pays principle" should apply, as a tertiary education system funded by general taxes is unjust to the general public. Tertiary education funding by way of a general taxation system leads to persons who never enjoyed the privilege of attending a tertiary education institution paying for those who had that privilege. Therefore a direct and special payment is imposed on those who receive tertiary education (Dietsch, 2006:92). This applies to a system where there are no tuition fees (Dietsch, 2006:93). Persons of equal ability should have the same higher educational opportunities, i.e. prospective students from wealthy backgrounds should not have an advantage over prospective students from financially disadvantaged backgrounds. Other possible advantages of a graduate tax are:

- A graduate tax could be easy to administrate, as it would be deducted from a graduate's salary by his/her employer and paid over to the relevant tax authority (Harris: 2010). This would, however, require relevant changes in payroll software as well as changes to the relevant tax authorities' systems.

- There will be no tuition fees. The student will incur no upfront costs for learning, as such costs are believed to act as a disincentive for going to university (Browne, 2010:10).
- Graduate tax will incentivise more people to attend university to acquire a tertiary education, provided studies do not have to be paid up front (McKenzie & Sliwka, 2010:1).
- Graduates are insured against the risk of not completing their degrees: if they fail to complete their degrees, they have no liability to pay the cost of their studies up to that point (Borck & Wimbersky, 2009:7-8).
- Students who are more debt averse will enrol under a graduate tax system, whereas they will not enrol under a loan scheme (Oosterbeek & Van den Broek, 2008).
- Graduate tax is a redistributive system - it distributes the income from successful to unsuccessful students (Borck & Wimbersky, 2009:8). This could, however, be seen as a disadvantage to the successful students, as they have to pay for their own studies as well as the studies of the unsuccessful students.
- Graduate tax reduces the risk of non-payment, as it pools the risk among participants in tertiary education (Nkrumah-Young & Powell, 2011:6).

Even though there are numerous advantages to imposing a graduate tax, the disadvantages should also be considered.

2.2.4 The possible disadvantages of graduate tax

In order to determine whether it could be a feasible method of funding tertiary education in the South African context, the disadvantages should also be considered. Harris (2010) lists the following disadvantages of graduate tax:

- If an open-ended graduate tax is introduced, tax will be paid for many years and will eventually exceed the actual cost of the graduate's tertiary education, a result which could be unfair to the graduate.
- Universities will lose their independence, as they will be fully dependent on government funding for teaching.

- Fewer alumni are likely to donate money to the universities from which they graduated.
- The relationship between universities and their students is weakened, as the universities will become more focused on their relationship with the government and less on the relationship with their students, because the universities rely solely on funding from the government.
- Even though the income generated from graduate tax should be ring-fenced, it is possible that the government would use this money to pay for other public services or even primary and secondary education.
- Graduate tax would be a tax on effort and merit. This means that students who study hard at university and lay better foundations for successful and well-remunerated careers will inevitably contribute more to the cost of their studies than students who wasted the same opportunities. In other words, the latter students contribute much less to the cost of their studies.
- Payment for a university education should not be redistributive. Redistribution means that graduates with paying careers will, as a result of their degree, be paying more income tax than other graduates with less lucrative careers.
- Benefits of the graduate's degree to the employer diminish over time, a greater value being attached to experience and professional skills developed in the workplace. However, amounts paid via a graduate tax would increase in line with earnings, although earnings actually correlate more closely with the value the employer places on experience and professional skills than on the original degree.
- An increasing number of students will chose to study and work abroad, which will lead to vital skills, knowledge and taxable income being lost to the economy.
- Graduate tax does not distinguish between graduates from renowned universities and graduates from less reputable universities, which means both graduates will pay tax at the same rate even though the graduate from the more renowned university will find employment more easily (and probably earn more) than a graduate from the less reputable university.
- Universities will be dis-incentivised to enhance the quality of education, as there will be no opportunity to recover the extra costs.

- The lag between the imposition of graduate tax and the time when graduates start paying this tax will create a situation where the government will have to find funds to pay for higher studies in the meantime.
- Higher salaries will be expected by graduates to compensate for the extra burden of graduate tax over and above the normal income tax.
- Students may be incentivised to drop out of their higher education just before completion so as to escape the burden of graduate tax. This will lead to students who complete their degree footing the bill for the non-completers.
- Not all graduates would attain the income threshold at which they are supposed to start paying graduate tax to fund the cost of their already completed higher education.

Other possible disadvantages are:

- Lord Browne (2010:51) found in his report that graduate tax would not produce a practical revenue stream to fund higher education until about 2041-2042 in the United Kingdom (UK). This means that the UK government would have to pay for the deficit in tertiary funding until 2041, which would require a substantial amount of government spending.
- From a financial point of view, the problem with graduate tax, as with any deferred fee payment model, is that it is not self-financing (Dietsch, 2006:94).

A comparison of this list of disadvantages with the advantages of graduate tax suggests that imposing a graduate tax could create more problems than it would solve. However, there is an alternative method of collecting a graduate tax, namely a graduate contribution.

2.3 A GRADUATE CONTRIBUTION

As an alternative to a graduate tax, a graduate contribution could be introduced. A graduate contribution is a contribution which is capped and deducted from a graduates' salary via a payroll deduction to cover the cost of a graduate degree once he/she has started working (Barr, 2010).

According to Barr (2010), a graduate contribution could be a successful way of recouping the cost of a graduate's tuition fees. However, the following conditions must be satisfied:

- A payroll deduction that is positively correlated to a graduate's salary must be used for repayment.
- The repayment amount must be capped.
- The capped amount must differ according to university and graduate course, and the universities must decide on what that capped amount should be.
- The amount of time in which the repayment is made must be based on a calculation that includes the cost of the graduate tuition and the interest incurred by the government for the financing of a degree.
- The payment of the contribution should be a contract between the graduate and some kind of student support agency, so that if a graduate decides to work overseas after graduating the graduate contribution could still be collected. This would solve the problem of graduates working overseas being exempt from paying a graduate tax and leaving other graduates and the government to foot the bill for their studies.
- The structure of the contributions could be redistributive, meaning that the capped overpayment by a top earner would make up for the underpayment by low learners, but no graduate would pay more than 120 per cent of the initial costs of their studies.

The principal objectives of any graduate contribution or graduate tax should be to improve the quality of tertiary education and to widen access to tertiary education institutions so that more people may have the opportunity to receive a tertiary education, but the size of higher education institutions is still controlled so that there is no excess demand or overcrowding of such institutions (Barr, 2010:2). Overcrowding of universities will reduce the quality of education given to the students of such institutions.

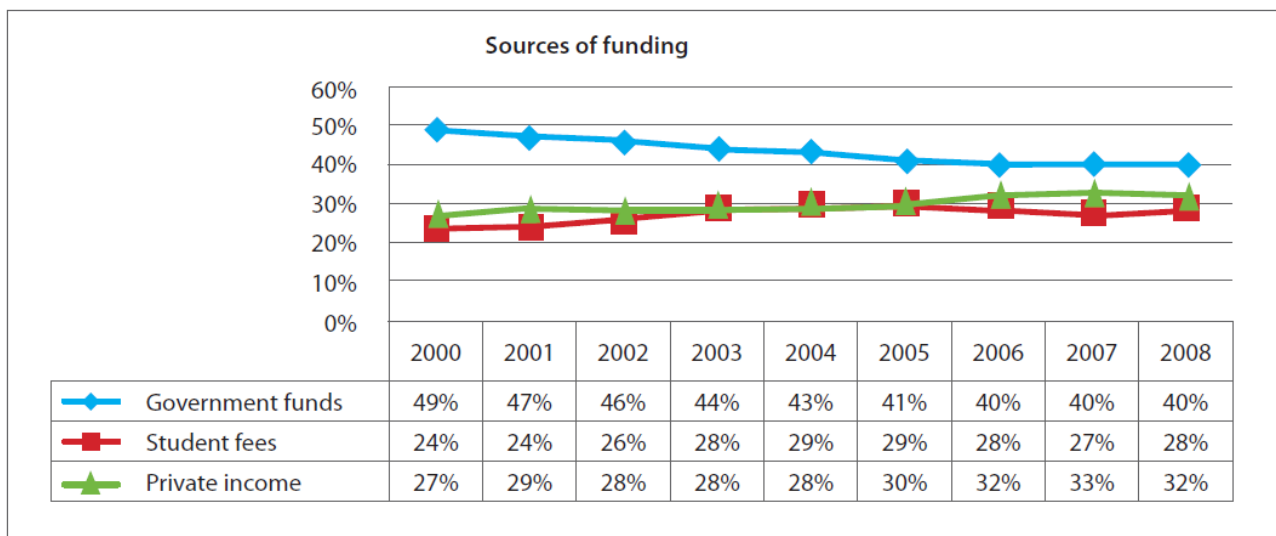
2.4 GRADUATE TAX IN SOUTH AFRICA

The notion of a graduate tax is a new concept in South Africa. The news that the ANC was considering such a tax to fund the cost of higher education broke only in February 2013 after the resolutions of their 53rd National Conference was released to the public. The ANC

resolved that a policy would be finalised for adoption before the end of 2013 for free higher education to all undergraduate students (African National Congress, 2012:74).

The consideration of a graduate tax by the ANC probably resulted from the debate on free higher education in South Africa. According to Wangenge-Ouma (2013:831), there is at present an animated debate about “free” higher education in South Africa. For some time, students have been calling for a tuition-free higher education system, even though South Africa already has a student financial aid scheme that supports gifted students who do not have the means to pay for their higher education. Currently higher education is funded by a few alternative methods, such as student loans, bursaries as well as the above-mentioned National Student Financial Aid Scheme (NSFAS) together with government funding. However, government funding of tertiary institutions is on the decline, whereas tuition or student fees have increased from 2000 to 2008 (Figure 1). This increase in tuition fees of public universities arises from the need to recover costs and to optimise revenue generation. Many students cannot afford to pay these increased tuition fees, and neither can the NSFAS provide enough financial support to pay for students’ actual study costs (Carrim & Wangenge-Ouma, 2012:20).

Figure 1: Sources of funding, 2000-2008



Carrim & Wangenge-Ouma, 2012.

A graduate tax does not solve the problem of free higher education; it will only lead to the higher education being “free” initially. Even in a system without tuition fees, someone will

have to foot the bill (Dietsch, 2006:89); the cost of a graduate's higher education will eventually have to be paid back once the graduate has started working and his/her salary has reached a certain amount – therefore higher education will not be free, the costs will merely be deferred.

The African National Congress's 53rd National Conference Resolutions (2012) only stated that consideration should be given to a graduate tax for *all* higher education graduates. Therefore, there are quite a few issues that need to be clarified.

- At what percentage would graduate tax be levied?
- When would the implementation of graduate tax take place?
- On whom would this graduate tax be imposed?
- Will graduate tax be imposed on graduates who are already part of the workforce and have already previously paid for their higher education, either through a bursary, a student loan or personally?

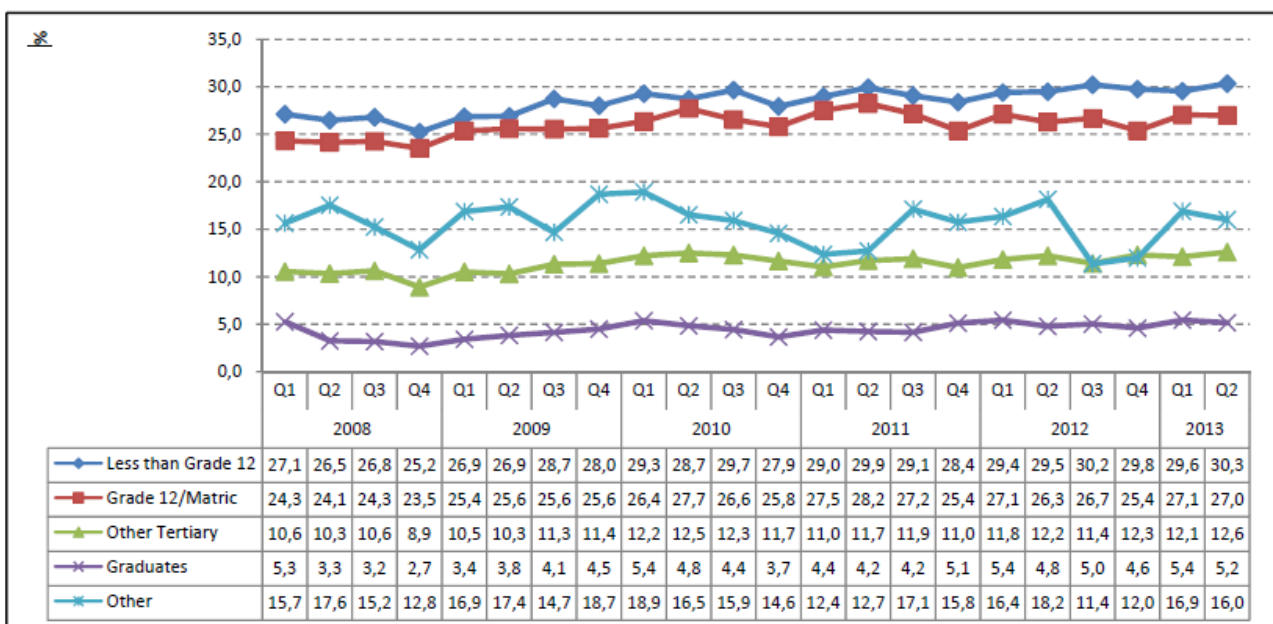
If a graduate tax is imposed on graduates who are already part of the workforce, it would be unfair to tax the numerous graduates who did not enjoy the advantage of studying for free, as this would lead to an effective double payment for their higher education tuition. It would be even more problematic for graduates who were still paying off their higher education through a student loan. It could also deter employers from offering bursaries to students, because the cost of paying for tuition would in effect be increased when graduates demanded higher salaries to cover the cost of graduate tax.

According to MacGregor (2012), the graduation rate at South African universities is 15%. This means that 85% of students will never graduate. As previously stated, graduate tax should only be paid once the student has successfully graduated (Borck & Wimbersky, 2009:7). Consequently, 85% of the student population will never pay back their study costs and leave it to the 15% who have successfully graduated to foot the bill for themselves as well as for the unsuccessful students. The percentage of students who do not complete their studies is not the only factor that would influence the collection of graduate tax. The percentage of graduates who are unable to secure employment is also a big factor.

Furthermore, graduates who decide to leave the country after graduation will also have an impact on the amount for that will be recouped via graduate tax.

Graduate unemployment would have an adverse effect on income tax in general. If free higher education for all is implemented and graduates are unable to secure employment after graduation, it will be impossible for the government to recover the monies for the education of these graduates, because graduate tax is only payable once a graduate has been employed and has attained a certain income threshold (Harris, 2010). The percentage of unemployed graduates in South Africa is not certain, as there is no consensus regarding the actual estimates: according to Loane Sharp, a labour market analyst, about 600 000 university graduates are currently unemployed (City Press, 2012), whereas a recent study by Van der Berg and Van Broekhuizen (2012) found that the extent of graduate unemployment was greatly exaggerated and Altbeker & Storme (2013) contend that the view that a university degree no longer guaranteed success in the job market was not true. Statistics SA (2013:37, appendix) puts the unemployment of persons with a tertiary education at 313 000 in the second quarter of 2013, which spans the period from April 2013 to June 2013. Tertiary education in this case includes people with degrees and other tertiary qualifications. Figure 2 below puts the unemployment rate of graduates at 5,2% and people with other tertiary qualifications at 12,6% (Statistics SA, 2013: 13-14).

Figure 2: Unemployment rate by education status



Statistics South Africa (2013)

2.5 TERTIARY EDUCATION IN SOUTH AFRICA

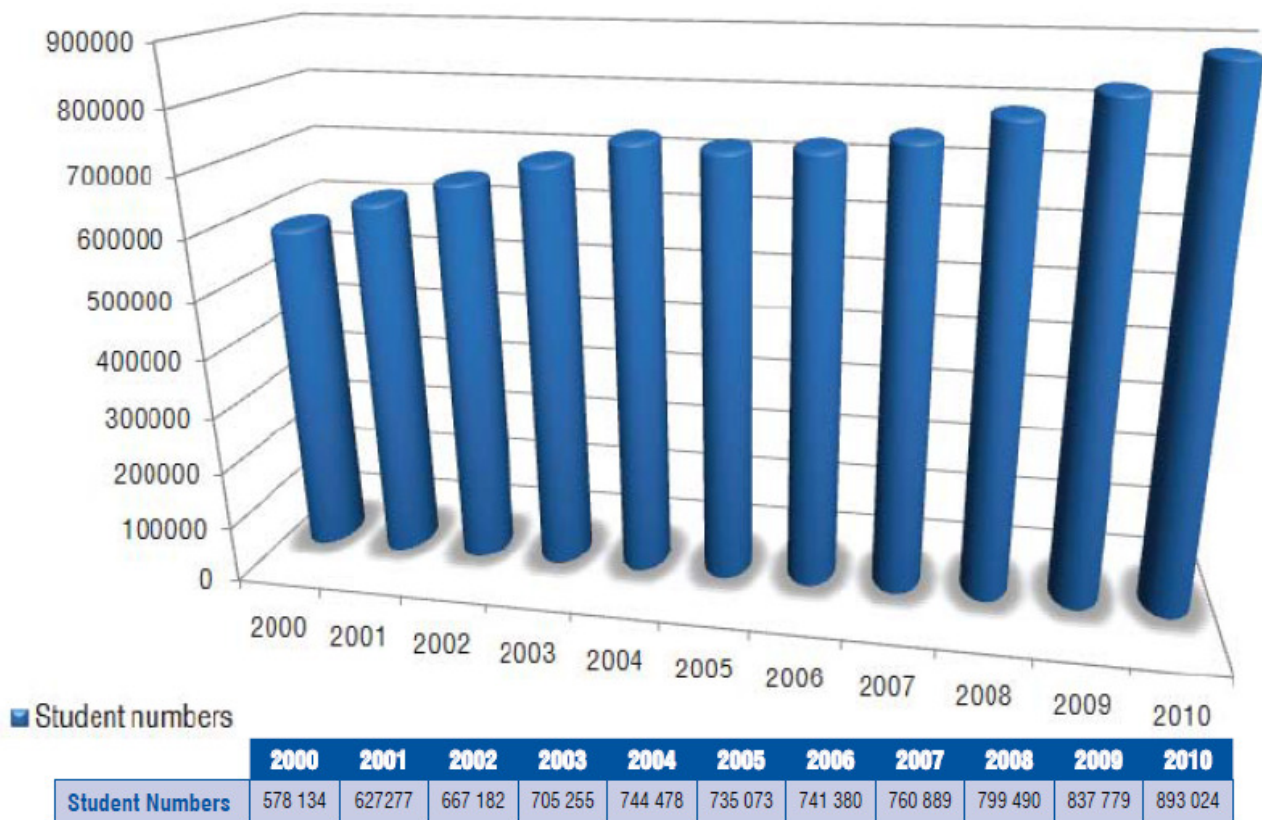
According to a study done by the International Education Association of South Africa (IEASA), almost nine hundred thousand (900 000) students were enrolled at twenty-five higher education institutions in 2010 (Figure 3), which means that almost one in every five young South Africans had started a higher education. According to Karen MacGregor (2012), the South African government plans to have a total of 1.5 million students enrolled at higher education institutions by 2030. This means that South Africa's 23 public universities (Figure 4) will have to accommodate a further 650 000 students in the next 20 years – this while state funding for universities has declined over the last few years (IEASA, 2011:12). However, money is being allocated to build two more universities in Mpumalanga and the Northern Cape.

When looking at the number of students which the government plans to have enrolled in higher education institutions by 2030, it becomes glaringly obvious that the current tertiary institutions are incapable of supporting such a large student body. It stands to reason that the government will have to provide some directed funding for the construction of additional tertiary institutions. The government has already made an additional amount of R1,6 billion available for improving infrastructure at tertiary institutions, as student numbers will rise in the future (IEASA, 2011:17).

As stated by Lord Browne (2010:51), if a graduate tax is instituted, a practical revenue stream will only start funding higher education from about the year 2041 or 2042. If the South African government institutes graduate tax in 2014, it will therefore take a number of years before revenue is produced by such a tax system. Meanwhile, the cost of current students will still have to be covered, which means that the South African government will have to pay the deficit in tertiary education funding until such time as graduate tax produces a practical revenue stream. Government spending will be placed under more pressure than it already is.

Graduate tax is only one of the means of funding tertiary education. Currently other methods are used to fund tertiary education, such as private funding, state funding and combined funding (Nkrumah-Young & Powell, 2011).

Figure 3: Student numbers in South Africa



IEASA (2011)

Figure 4: Higher education landscape in South Africa

	TYPE	NAME	STUDENT POPULATION
1	Universities	University of Cape Town	24 674
2		Rhodes University	7 222
3		University of Pretoria	57 115
4		University of the Free State	29 902
5		University of Fort Hare	10 735
6		North-West University	55 732
7		University of KwaZulu-Natal	41 244
8		University of Limpopo	18 177
9		University of the Western Cape	18 009
10		Stellenbosch University	27 372
11		University of the Witwatersrand	29 745
12	Universities of Technology	Cape Peninsula University of Technology	32 167
13		Central University of Technology	12 581
14		Durban University of Technology	25 184
15		Tshwane University of Technology	51 797
16		Mangosuthu University of Technology	10 033
17		Vaal University of Technology	21 423
18	Comprehensive Universities	Nelson Mandela Metropolitan University	26 123
19		UNISA	293 238
20		University of Johannesburg	48 373
21		University of Venda	10 679
22		University of Zululand	14 727
23		Walter Sisulu University	26 772
24	National Institutes	Mpumalanga Institute for Higher Education	
25		Northern Cape Institute for Higher Education	
Total			893 024

IEASA (2011)

2.6 TERTIARY EDUCATION FUNDING OPTIONS

According to Nkrumah-Young and Powell (2011), there are three main options for financing higher education, namely private financing, state financing and shared financing. Each of these financing options has its own contexts and consequences.

2.6.1 Private funding

Private funding of higher education is where students are charged a fee for the courses they are enrolled for (Nkrumah-Young & Powell, 2011:3). Private funding of higher education motivates students, as payment discourages inefficient use of university resources.

2.6.2 State funding

State funding ensures that poor students are not excluded due to their inability to pay for their studies (Nkrumah-Young & Powell, 2011:4).

2.6.3 Shared funding

Shared funding is where higher education is financed by both private and publicly subsidised funds and is used in most countries, as public higher education financing is unsustainable and inequitable (Nkrumah-Young & Powell, 2011:4).

In South Africa shared funding is used to fund tertiary education. Tertiary education is funded by government grants, student fees and private income, as seen in figure 1 (Carrim & Wangenge-Ouma, 2012:20).

2.7 ALTERNATIVE METHODS OF FUNDING TERTIARY EDUCATION IN SOUTH AFRICA

If a graduate tax is imposed, it will replace the current methods of funding tertiary education in South Africa, such as funding via the National Student Financial Aid Scheme,

student loans from various South African banks and bursaries from corporate institutions. These different types of funding comprise of the various private and state funding options for the payment of tertiary education. The current tertiary education funding system works as follows:

2.7.1 National student financial aid scheme

The National Student Financial Aid Scheme or NSFAS is a loan and bursary administration scheme which was established in 1999 to fund financially needy students who possess the academic ability to embark on a tertiary education. The NSFAS forms part of state funding of tertiary education, as it is the South African governments' student loan and bursary scheme. The differences between the NSFAS loans and bursaries are as follows (NSFAS, 2012):

2.7.1.1 Study loans

- A NSFAS study loan is money that is borrowed to cover the cost of studying at a tertiary institution, and like any other loan it must be repaid after studies have been completed.
- NSFAS study loans are only available to South African citizens who are registered at a South African university or a university of technology and are studying for an undergraduate or postgraduate degree, if such a degree is required to practise a specific profession (such as LLB).
- The study loans are allocated to beneficiaries based on financial needs and academic potential.
- Repayment only starts once the beneficiary of the loan starts earning a salary of R30 000 or more annually. Repayment of the study loan starts at 3% of the beneficiary's annual salary. As soon as the beneficiary's salary reaches R59 300 or more, repayment rises to 8% of the annual salary.
- Repayment is either made by the beneficiary personally or via an employer deduction.

- Interest is charged at the rate of inflation plus 2%. Currently NSFAS is raising interest of 5,2% on their student loans and interest is accrued from 1 April of the year in which the study loan was granted.
- If a beneficiary is unemployed or decides to pursue postgraduate studies, the loan does not have to be repaid at that point, but interest will continue to be charged until the beneficiary starts working and his/her salary exceeds R30 000 per annum.
- Up to 40% of a NSFAS loan may be converted into a bursary if the beneficiary of the loan passes 100% of his/her courses. If a beneficiary passes half of his/her courses, 20% of the NSFAS loan will be converted into a bursary.
- If a final-year student completes his/her final year at the first attempt, the total loan for the final year may be converted into a bursary.

Currently there are 23 universities for which the NSFAS would supply beneficiaries with study loans. However, NSFAS data showed that at none of these 23 universities NSFAS funding could cover the full amount of study costs. Only five universities were able to allocate more than 50% of what was needed to cover the full amount of study costs (Carrim & Wangenge-Ouma, 2012:29).

2.7.1.2 Bursaries

The NSFAS has three different bursaries available for students studying for a tertiary education at a university or university of technology (NSFAS):

- The Funza Lushaka Bursary Programme – This bursary is specifically for students to complete full teaching qualifications. The bursary programme promotes teaching in public schools. Recipients of this bursary are required to teach at a public school for the same number of years they received the bursary.
- Social Work – This bursary is for students who are studying for a qualification in social work. Beneficiaries of this bursary will have to work back their bursaries by working for the Department of Social Development for the same number of years they received the bursary for, or even longer.

- National Skills Fund – These bursaries are for undergraduate students who are studying for a range of tertiary qualifications which focus on scarce skills such as accounting, financial management, actuarial studies, auditing, business management, economics, physics, computer science, chemistry, geology, information systems, mathematical sciences, agriculture, statistics, financial accounting, bio-technology and engineering.

2.7.2 Student loans from banks

In South Africa student loans can be applied for at the big four South African banks, namely ABSA (ABSA, n.d.), First National Bank (FNB, n.d.), Nedbank (Nedbank, n.d.) and Standard Bank (Standard Bank, n.d.). These student loans work as follows:

- Individuals can apply for a student loan from a bank for any further and higher education. Like NSFAS student loans, bank loans are not restricted to full-time students studying at a university or university of technology, but are also available to students studying part time or full time at a university, university of technology, private college or FET college.
- Mostly loans cover tuition fees, books and study-related equipment, and some study loans even cover accommodation for full-time students if they do not live with their parents.
- Full-time students will only be required to pay back their student loans once they have completed their studies. However, monthly interest has to be paid. Usually grace periods are given to students who have to complete an internship, community service or articles to qualify in their field of study.
- Part-time students will have to repay their student loans while they are studying for their qualification.

Once repayment of the loan commences, the monthly repayments remain the same until the debt has been fully serviced. This is applicable only to full-time students; in the case of part-time students, the monthly repayments will change whenever they increase the amount of the loan as their studies progress (Standard Bank, n.d.).

2.7.3 Bursaries from corporate institutions

The last method of funding tertiary education in South Africa is by means of bursaries from corporate institutions. Institutions usually provide bursaries to students pursuing degrees in fields of study in which there is a scarcity of qualified professionals in South Africa and where the corporate institution would directly benefit from appointing such professionals once they are qualified.

Bursaries from corporate institutions usually cover expenses such as registration fees, tuition fees, book allowances, cost of equipment which is study related, accommodation and meals, excursion fees, paid vacation work and training (Kumba Iron Ore).

2.8 THE POLITICAL OPINION ON GRADUATE TAX IN SOUTH AFRICA

As stated by Oberholzer and Stack (2009:753), the perceptions of South Africa's taxpayers are influenced by their attitudes to tax compliance. Different factors may influence these attitudes towards tax-related issues, such as demographic factors (e.g. age, population group) or economic factors (views on how income is distributed in South Africa etc.) and other factors (Oberholzer & Stack, 209:249).

When news broke of the ANC's intention to consider a graduate tax, it immediately met with vociferous opposition. The problem is that no clarity was given on the implementation of the graduate tax. The South African Students' Congress, Democratic Alliance Youth and AfriForum Youth were some of the biggest opponents of the proposed tax. According to Oberholzer *et al* (2009:753), governments should build a close relationship with taxpayers, as taxpayers will be more willing to pay taxes if they feel that their preferences are adequately considered.

SASCO stated that "graduates from working-class and poor backgrounds have a historic burden to redress the plight of the families while paying PAYE (tax) and making their repayment to the NSFAS (Capazorio, 2013). Now they will also be expected to pay a graduate tax". SASCO also stated that a graduate tax would lead to the poor never breaking the cycle of poverty (Capazorio, 2013).

The DA Youth stated that a graduate tax would be unfair because it would be an extra payment on top of income tax already paid by working graduates at a time when people are already struggling to keep their heads above water. Also, students will be discouraged from pursuing a higher education (Fin24, 2013).

AfriForum Youth stated that a graduate tax would lead to even more graduates leaving the country to escape the burden of paying even more taxes.

All of the above are indicators of, at the very least, scepticism in society about the idea of a graduate tax, if not outright opposition. This should not come as a surprise, given the historical difference in opportunity for respective race groups to gain access to the costly higher education system. More guidance from the ANC about what the imposition of a graduate tax in South Africa would entail would be welcomed, so that an accurate assessment of the fairness or otherwise of the proposal could be made.

2.9 CONCLUSION

The literature applicable to the study was reviewed in this chapter. Previous studies on the topic of graduate tax and other factors relating to tertiary education in South Africa were considered. The literature review confirmed that no studies on the subject of graduate tax have been conducted in South Africa; however, studies have been done in other countries (Barr, 2010). As graduate tax is a concept that has now been mooted in South Africa, it is important to investigate what graduate tax entails, the public perception of such a tax and the consequences of introducing it.

The next chapter will discuss the research, the research design and the research methods. Sampling of the data and the subsequent collection and analysis of the data will also be discussed. Furthermore, the validity and limitations of the data will be pointed out. Lastly, the ethical considerations applicable to this study will be discussed.

3 CHAPTER 3: RESEARCH DESIGN AND METHODS

3.1 INTRODUCTION

This chapter discusses the overall research design and sampling methods used in this exploratory study. Thereafter, the research instrument used, the way in which the data was collected and analysed is discussed. The validity and limitations of the data collected and the quality and rigour of the research design will be assessed and demonstrated.

Lastly, the ethical considerations associated with this study will be discussed.

3.2 RESEARCH DESIGN

This is an empirical study, as new data will be collected (Babbie & Mouton, 2001:75). Primary data is data collected specifically for the research project being undertaken (Saunders, Lewis & Thornhill, 2007:607).

Basic research will be performed, as the purpose of this study is to understand the perception of graduate tax, and its findings will be of value to society in general and the academic community, as basic research is undertaken to understand processes and their outcomes (Saunders, Lewis & Thornhill, 2007:8,592).

As graduate tax is a new phenomenon in South Africa, this will be an exploratory study. It will assist in the formulation of research questions or objectives for future studies. An exploratory study entails research which aims to seek new insights into phenomena, to ask questions and to assess the phenomena in a new light (Saunders *et al*, 2007:598).

This research study is cross-sectional, as it will focus on the perception of the South African public of graduate tax at the particular time when the survey is completed (Saunders *et al*, 2007:148).

According to Saunders *et al* (2007:145), numeric or quantitative data refers to data collection methods or the way in which data is analysed to produce numeric data. The primary data will be collected by means of a questionnaire (see Appendix A).

3.3 SAMPLING

This study focuses on the public perception on the imposition of a graduate tax. According to Saunders *et al* (2007:610), a sample is a subgroup or a part of a larger population. The sample for this study consists of the groups of people who would be directly influenced if such a tax were imposed. The findings cannot be generalised to all taxpayers, as not all taxpayers will obtain a tertiary degree and some are already in possession of a tertiary degree.

3.3.1 Target population and units of analysis

The target population for this study is grade 12 learners in Pretoria, students currently studying at the University of Pretoria and graduate professionals in Gauteng.

The units of analysis used in this study are individuals, specifically grade 12 learners, university students and graduate professionals.

The perceptions of grade 12 learners from four high schools in Pretoria were to be included in this study; however, only two high schools responded to requests for data collection. The second group included in the study consists of tertiary students. Students from the University of Pretoria's Hatfield campus were used because a large number of students from diverse fields of study on this campus. The last group included in the study is graduate professionals in Gauteng who graduated in numerous fields.

3.3.2 Sampling method and sample size

Probability sampling is a selection of sampling techniques in which the chance, or probability, of each case being selected from the population is known and is not zero (Saunders *et al*, 2007:607). Probability sampling will be used because it is the most fitting

method for a study associated with the survey-based research. The sampling frame is a complete list of all the cases in the population from which a probability sample is drawn (Saunders *et al*, 2007: 610). For statistical analysis, the minimum sample size for each category is 30 (cited in Saunders *et al*, 2007:12). The sampling frame for the different units of analysis in this study will be as follows:

- Grade 12 learners:
 - Four high schools in Pretoria were chosen to take part in the study, with an average of 60 learners asked to take part per school.
- University students
 - Students from the University of Pretoria's Hatfield campus were chosen as the university. A total of 210 students were approached to complete the questionnaire on the Hatfield campus of the University of Pretoria.
- Graduates
 - Graduates from numerous fields were approached to complete the survey.

3.4 DATA COLLECTION

In this study the survey method is used. The questionnaire design and pilot testing of the questionnaire are discussed below.

3.4.1 Survey method

Data was collected by means of a survey based on structured questionnaires, which can be used to collect quantitative primary data for research which is exploratory in nature (Mouton, 2011:152).

The advantage of using a questionnaire is that all individuals are asked to respond to the same set of questions, which efficiently provides response collection for quantitative analysis (Saunders *et al*, 2007:355). However, the disadvantages of using a self-administered questionnaire as a source of data collection is that the respondents may choose not to answer the questionnaire or provide answers which they feel are more

socially accepted, and respondents' answers could potentially be contaminated if the respondents discuss their answers with each other (Saunders *et al*, 2007:357).

The questionnaire was self-administered; the respondent read and answered the questions without the researcher being present. The questionnaires were delivered to each respondent by hand and collected later. In the case of the grade 12 learners, the questionnaire was delivered to and collected from each respondent. The questions were again answered by the respondent without the interviewer being present before the completed questionnaires were collected. In the case of the students, an independent person approached the student and was present while the questionnaire was being completed; thereafter the questionnaires were collected from the respondents by the independent person. In the case of the graduates, the questionnaire was emailed to the respondents, and the respondents read and answered the questions without the researcher being present. Once the questionnaire was completed, the respondent emailed the completed questionnaire back to the researcher. The following steps were taken for the different target groups:

- Grade 12 learners
 - Permission was obtained from the Gauteng Department of Education (Appendix C) and the principal of the school the grade 12 learners who would participate in the study were attending. Four schools in the Tshwane South district were approached to take part in the study, but only two were willing to assist.
 - Teachers from the two high schools administered the questionnaire on behalf of the researcher, after which the questionnaires were collected from the schools.
- University students
 - A student from the University of Pretoria was approached to administer the questionnaire on behalf of the researcher. After completion the questionnaires were collected from the student who administered the questionnaires on behalf of the researcher.
- Graduate professionals
 - Questionnaires were emailed or delivered by hand to known graduates for completion. After completion the questionnaires were either collected from the

respondents by hand or the respondents returned the completed questionnaires by email.

3.4.2 Questionnaire design

The questionnaire consisted of a list of questions suitable for ascertaining the respondents' perception of the imposition of graduate tax. Several types of questions were used, such as list questions, category questions as well as an open question. As no previous research has been done on this topic in South Africa, new questions were developed. The questionnaire is included in this study (see Appendix A).

The questionnaire included the following questions (see Appendix A):

Question 1: The respondent had to indicate whether he/she was a grade 12 learner, student at a tertiary institution or a graduate professional. This question was included in order to classify the possibly different perceptions according to the different groups included in the study.

Question 2: Respondents were asked to indicate what they understood by the term graduate tax. This was an open-ended question and was included to determine the respondent's understanding and perception of graduate tax.

Question 3: Respondents were asked which method would be used, was being used or had been used to fund their tertiary education. This question was included in the study to determine the current methods used for funding tertiary education, as graduate tax could be payable on top of the amount already paid for tertiary education. Alternatively, graduate tax could potentially replace the current methods of funding tertiary education. Tertiary education would then be free upon entry, but the study costs would have to be recouped, in this case by imposing a graduate tax.

Question 4: Respondents were asked whether the imposition of a graduate tax would deter them from pursuing a tertiary degree. This question was included in the study to assess whether the imposition of a graduate tax, however defined by the respondent in

Question 2, would fundamentally alter their decision to pursue a tertiary degree, as the imposition could be seen as an advantage and could incentivise more people to attend university to acquire a tertiary education (McKenzie & Sliwka, 2010:1).

Question 5: Respondents were asked whether the imposition of a graduate tax would cause them to rather seek employment in their field outside South Africa. This question was included to ascertain whether the imposition of a graduate tax would cause an outflow of vital skills, knowledge and taxable income being lost to the economy (Harris, 2010).

3.4.3 Pilot testing

Pilot testing was done before the questionnaire was used for data collection in order to refine the questions and ensure that they would produce reliable data for this study. According to Saunders *et al* (2007:386), the minimum number of people for pilot testing is 10. The pilot questionnaire was given to colleagues and friends of the researcher's who are graduate professionals. Interviews were conducted with the respective persons to acquire feedback for improving the quality of the questionnaire. Thereafter the questionnaire was amended and given to the same persons to evaluate whether the improvements were sufficient.

3.5 DATA ANALYSIS

This section of the study discusses the editing and coding of the collected data and the method in which this data was analysed.

3.5.1 Editing and coding the data

The data collected was recorded using numerical codes and stored in Excel. Coding was used to prepare the data for analysis, as it is an appropriate method for preparing and analysing quantitative data. The accuracy and completeness of the data was verified and evaluated by looking for illegitimate codes and illogical relationships between codes (Saunders *et al*, 2007:419).

3.5.2 Method of analysis

The edited and coded data was analysed by the statistician from the University of Pretoria. The data was analysed with statistical analysis software (SAS), after which the researcher received a report that illustrated frequencies, patterns and percentages in the data. Correlations were drawn between the different groups targeted by the study.

3.6 VALIDITY AND LIMITATIONS OF THE DATA

Assessing the quality and rigour of the questionnaire is important, as it assesses the ability of the proposed research design to measure what is intended (Saunders *et al*, 2007:366). Firstly the validity of the content of the questions should be assessed. This was accomplished by the literature review and discussions with others, in this case experts in the field of taxation. Furthermore, predictive validity should also be tested to measure the ability to make accurate predictions (Saunders *et al*, 2007:366) as to whether graduate tax would have an impact on the number of people choosing to acquire a tertiary degree or the number of people choosing to leave the country. One of the threats to validity in this study is that the respondents were mostly graduates or prospective graduates and would therefore be biased, as graduate tax would have an impact on their future earnings.

Reliability of the proposed research design can be influenced by the following errors (Saunders *et al*, 2007:149 - 150):

- Subject or participation error
- Subject or participation bias
- Observer error
- Observer bias

Reliability is defined as “the extent to which your data collection techniques or analysis procedures will yield consistent findings”. Different results would have been achieved if this study had been done before the ANC’s 53rd National Congress, as respondents’ attitudes to graduate tax would not have been influenced by the media.

3.7 RESEARCH ETHICS

In this section the ethical considerations of this study are discussed. The ethical considerations include clearance from the Faculty of Economic and Management Sciences' Research Ethics Committee, an informed consent form signed by the respondents, anonymity of the participants, confidentiality of the answers given by the respondents and voluntary participation.

3.7.1 Clearance from the Faculty of Economic and Management Sciences' Research Ethics Committee

An application for ethical clearance from the Faculty of Economic and Management Sciences' Research Ethics Committee was submitted and approved. Data collection only started once final approval had been received from the Research Ethics Committee.

3.7.2 Informed consent, anonymity, confidentiality and voluntary participation

According to Saunders *et al* (2007:600), informed consent means that respondents of the questionnaire freely give their consent to participate in the study and understand the what, why and how of the research and the role they play.

An informed consent form (see Appendix B) was issued together with the questionnaire (see Appendix A) to inform the participants that the survey was anonymous, as their names would not appear on the questionnaire, and that their answers would be strictly confidential. Participants could not be identified by the answers given in the survey. Furthermore, participants were informed that their participation was voluntary and that they could choose to stop participating in the study at any time, without any negative consequences.

3.8 CONCLUSION

In this chapter the research design and methods were discussed. Sampling of the data and the subsequent collection and analysis of the data were also discussed. Furthermore,

the validity and limitation of the data was pointed out. Lastly, the ethical considerations applicable to this study were discussed.

The analysis of the data and the findings of this study will be discussed in the next chapter.

4 CHAPTER 4: DATA ANALYSIS

4.1 INTRODUCTION

The purpose of this study was to ascertain the South African public's perception of the imposition of a graduate tax. In this chapter the data collected by means of the questionnaire is analysed. Analysis of data refers to the breaking down of data, clarification of the individual parts and the correlation between these parts (Saunders *et al*, 2007:591).

4.2 ANALYSIS OF RESULTS

4.2.1 Demographic background of respondents

The demographic information collected in this study was whether the respondent was a grade 12 learner, a student at a tertiary institution or a graduate professional. The total number of respondents was 492. Of the respondents, 44% were grade 12 learners, while students at tertiary institutions submitted 41% of responses. The smallest group of respondents in the study was the graduates from tertiary institutions, comprising only 15% of all respondents.

4.2.2 Respondents' understanding of the term graduate tax

The respondents were asked in question 2 to indicate what their understanding of the term graduate tax was. The respondents' answers were divided into the following eight groups:

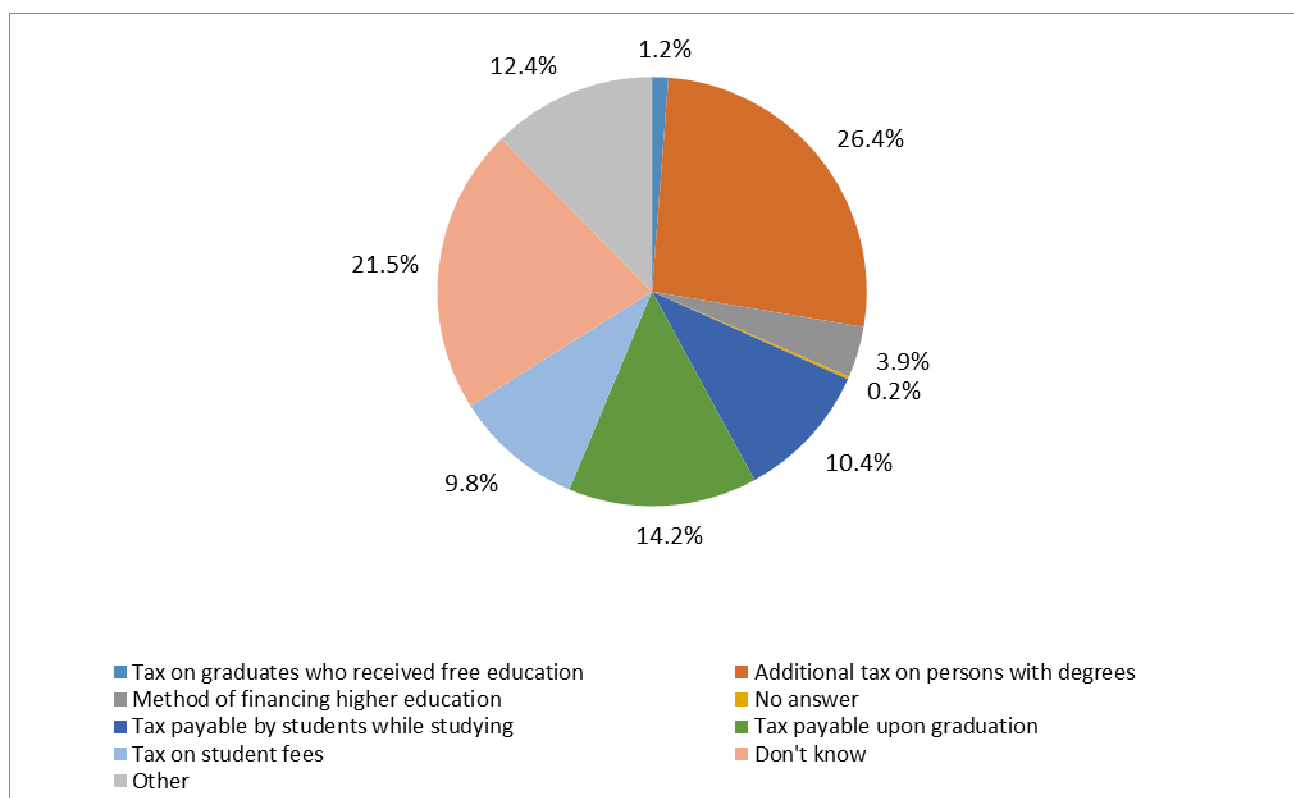
1. Graduate tax is a tax payable by graduates who attend a tertiary institution at no cost so as to recoup costs incurred by the government for such graduates' education.
2. Graduate tax is an additional tax payable by persons with degrees from tertiary institutions.
3. Graduate tax is a method of financing higher education.
4. Graduate tax is tax payable by students because they are currently studying.
5. Graduate tax is a tax payable upon graduating from a tertiary institution.

6. Graduate tax is an extra tax payable by students on top of their student fees.
7. The respondent does not know what the term graduate tax means.
8. All other answers which do not fall into the above-mentioned seven categories.

Of the eight categories, category two was chosen most frequently (26% of all respondents), indicating that they understood that graduate tax was an additional tax payable by persons with a degree from a tertiary institution. 22% of respondents did not know what the term graduate tax meant. Only 1% of respondents believed that graduate tax was a tax payable by graduates who attended a tertiary institution at no cost to recoup costs incurred by the government for such graduates' education.

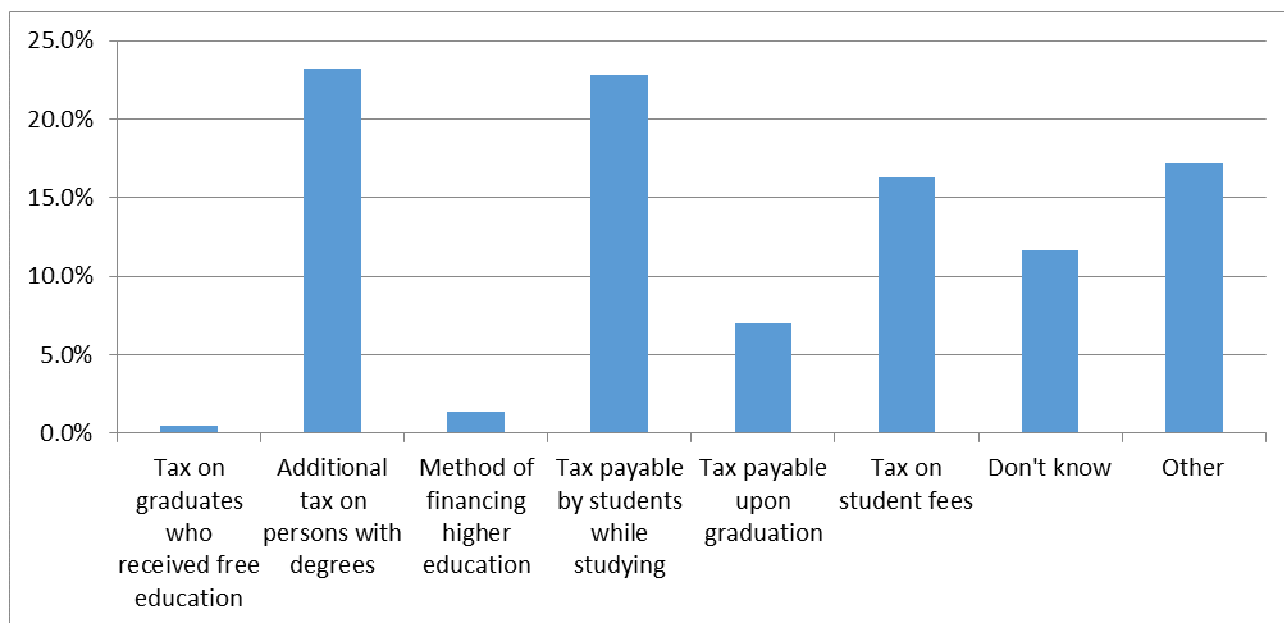
The rest of the respondents answers are distributed as shown in table 2.

Figure 5: Distribution of perception of the term graduate tax



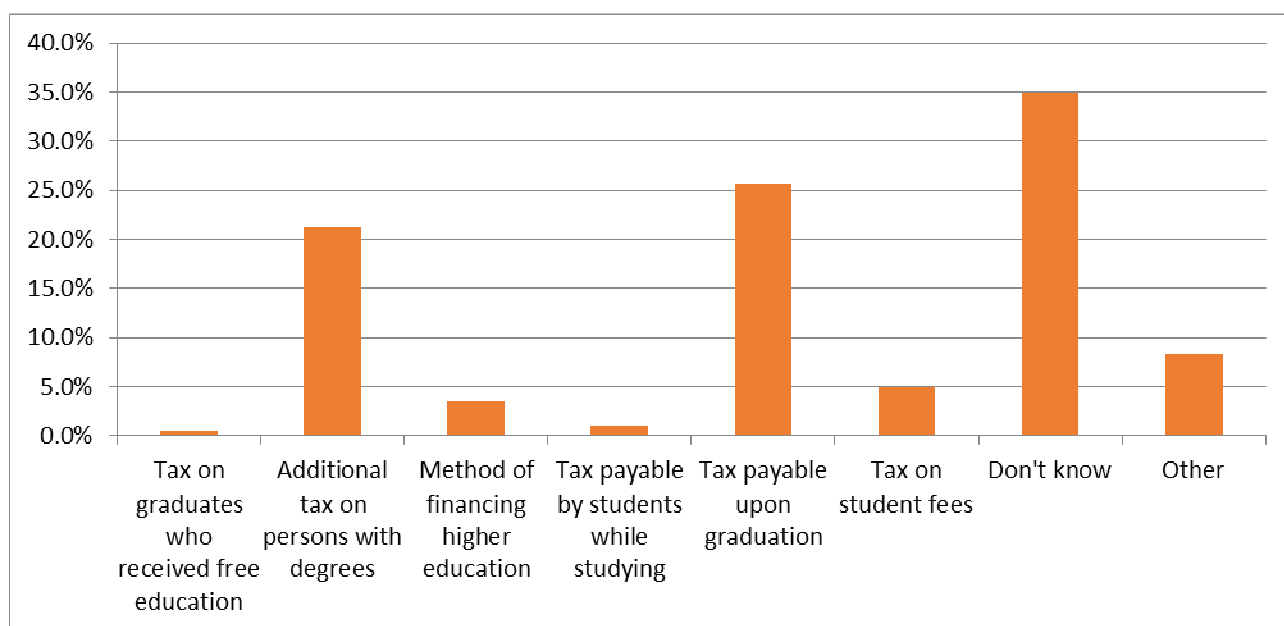
The respondents' perception by group is set out in the figures below.

Figure 6: Grade 12 learners' perception of the term graduate tax



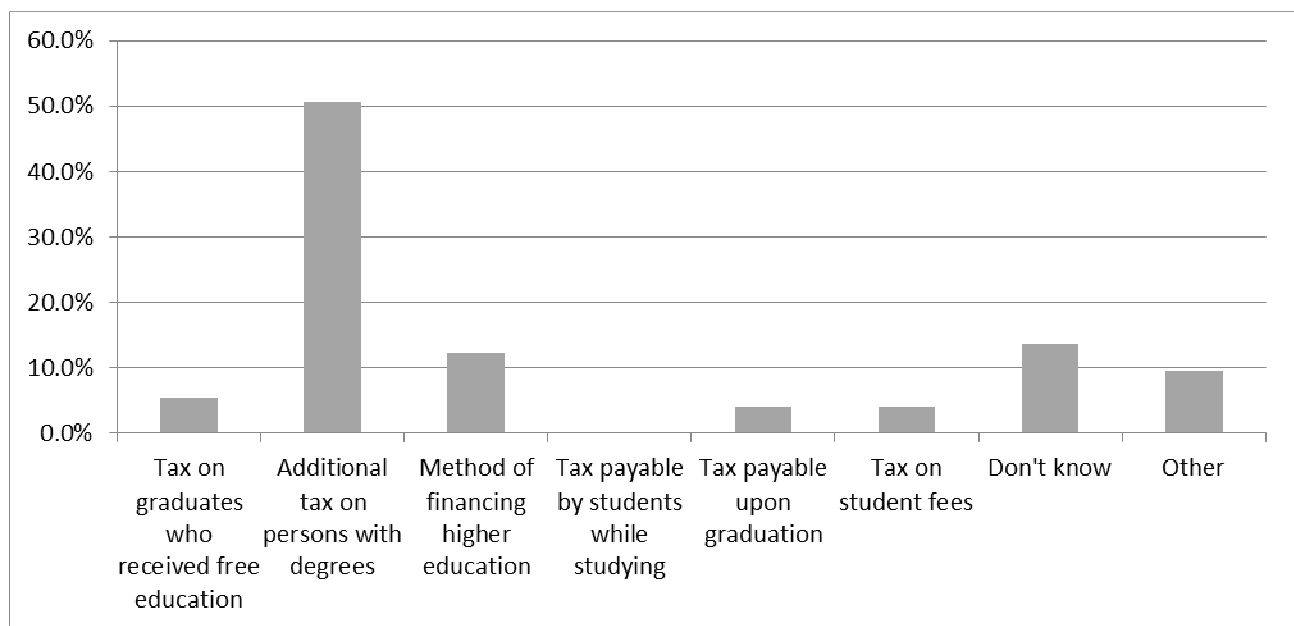
Most grade 12 learners' perception was that graduate tax was an additional tax on persons with a degree, closely followed by the perception that it was a tax payable by students while they are still studying. As in the total group, the perception of the smallest number of grade 12 learners was that graduate tax was a tax on graduates who received a free education. Figure 6 above shows the distribution of the perceptions of grade 12 learners regarding what they understood by the term graduate tax.

Figure 7: Students' perception of the term graduate tax



Most students did not know what the term graduate tax meant. This was followed by the perception that graduate tax was a tax payable upon graduating from a tertiary institution. As with the grade 12 learners, the perception of the smallest number of students was that graduate tax was a tax on graduates who had received a free education. Figure 7 above shows the distribution of the students' perceptions regarding what they understood by the term graduate tax.

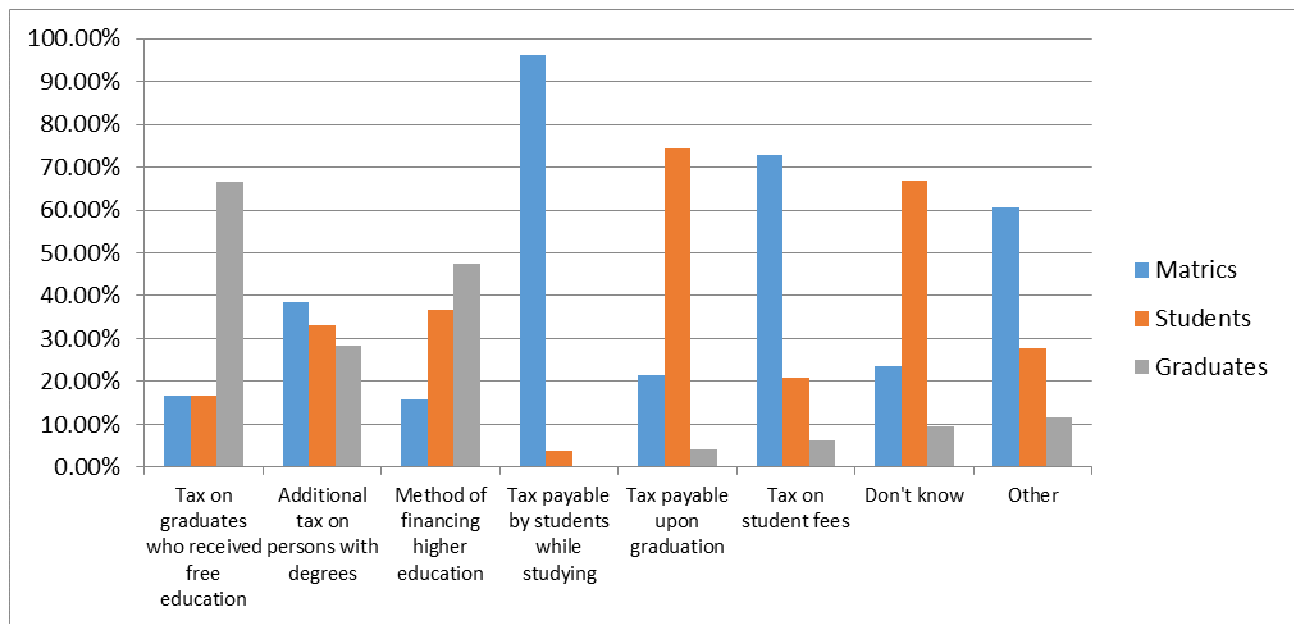
Figure 8: Graduates' perception of the term graduate tax



Most graduates' perception was that graduate tax was an additional tax on persons with a tertiary degree (the same as grade 12 learners), followed by graduates who did not know what the term graduate tax meant. Of all the respondent groups, the graduates had the most respondents whose perception was that graduate tax was a tax on graduates who had received a free tertiary education. None of the graduates thought that graduate tax was a tax payable by students while they were studying. Figure 8 above shows the distribution of students' perceptions of the meaning of the term graduate tax.

Figure 9 below compares the perceptions of the different respondent groups. As stated by Oberholzer and Stack (2009:749-753), various factors such as age and population group influenced respondents' perception of tax-related issues.

Figure 9: Distribution of perception by respondent group



4.2.3 Methods of funding tertiary education

In question 3 the respondents were asked which means of funding they would use, were currently using or had used to fund their tertiary education. Five options were given to choose from, namely:

- Private funding
- Funding through a student loan from a bank
- Funding through a bursary from a corporate institution
- Funding through a loan from the National Student Financial Aid Scheme
- Funding through a bursary from the National Student Financial Aid Scheme

Of the 492 respondents, 75% listed the means of funding their tertiary education as private funding, although some respondents used more than one method of funding their tertiary education. The smallest number of respondents funded, were currently funding or would fund their tertiary education through loans or bursaries from the National Student Financial Aid Scheme. Table 2 below sets out the results of question 3.

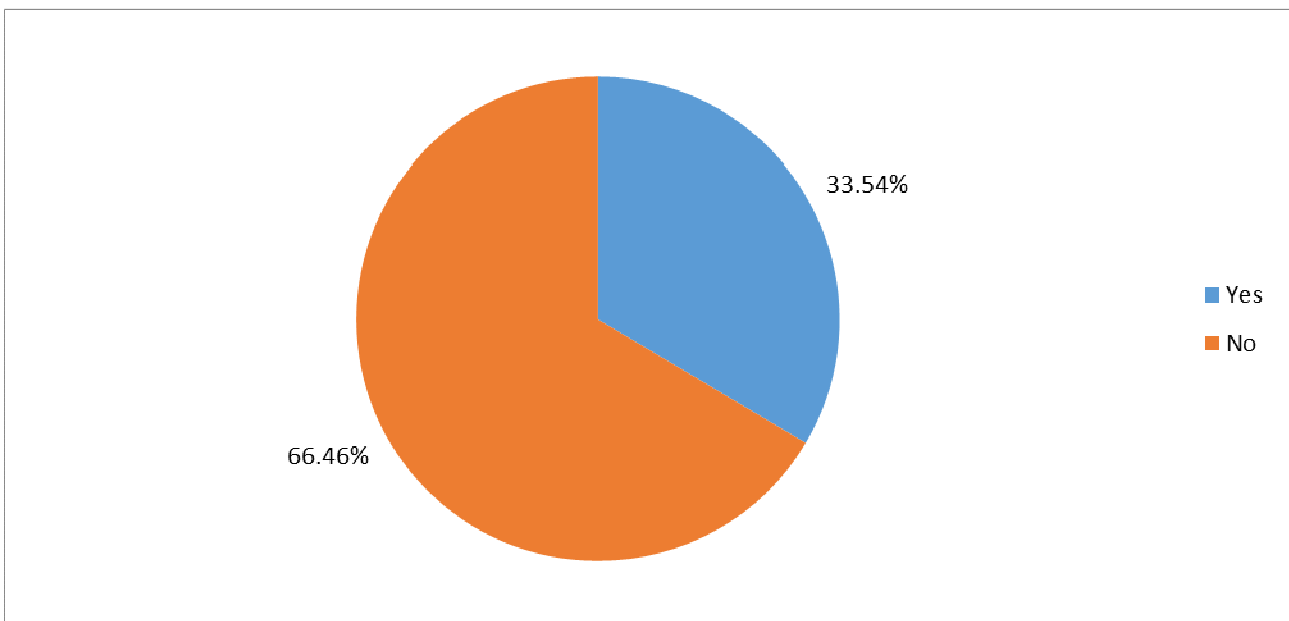
Table 2: Methods of funding tertiary education

Method of funding	Percentage
Private funding	368 (74,80%)
Student loan from a bank	68 (13,82%)
Bursary from corporate institution	49 (9,96%)
Loan from National Student Financial Aid Scheme	16 (3,25%)
Bursary from National Student Financial Aid Scheme	21 (4,27%)

4.2.4 Possible consequences of a graduate tax

Question 4 and question 5 focused on the possible consequences if a graduate tax were imposed. Question 4 focused on whether the imposition of a graduate tax would deter or have deterred the respondents from pursuing a degree. 34% of respondents indicated that the imposition of a graduate tax would deter or would have deterred them from pursuing a tertiary degree, while 66% stated that they would still pursue a tertiary degree even though they might be liable to pay graduate tax.

Figure 10: Likelihood of graduate tax deterring pursuit of tertiary studies



The correlation between the different respondent groups and the possible deterrence from pursuing a tertiary education was determined by applying a chi-square test to the responses to question 1 and question 4. Table 2 below contains the results of the test.

Table 3: Correlation between respondent groups and deterrence from pursuing tertiary studies

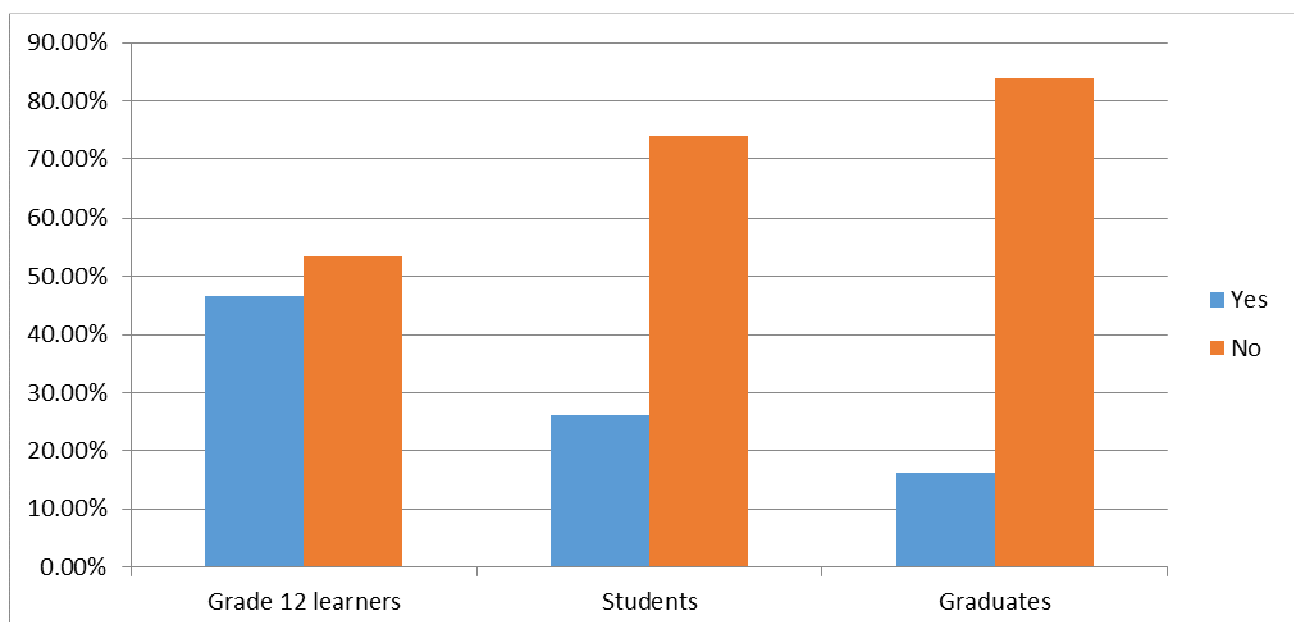
Group	Yes	No	Total
Grade 12 learners	100 (46,51%)	115 (53,49%)	215 (100%)
Students	53 (26,11%)	150 (73,89%)	203 (100%)
Graduate professionals	12 (16,22%)	62 (83,78%)	74 (100%)
Total	165 (33,54%)	327 (66,46%)	492 (100%)

The p -value of 0,0001, which is less than 0,05 (confidence level of 95%), indicates that there is a statistically significant relationship between whether the respondent is a grade 12 learner, a student or a graduate professional and the deterrence from pursuing tertiary studies.

Based on the results of table 2, grade 12 learners would more likely be deterred from pursuing a tertiary education if a graduate tax were imposed than students and graduate professionals. The results of question 4 reveal that graduates who already understand the benefits of a tertiary degree would be less likely to be deterred from pursuing a tertiary degree.

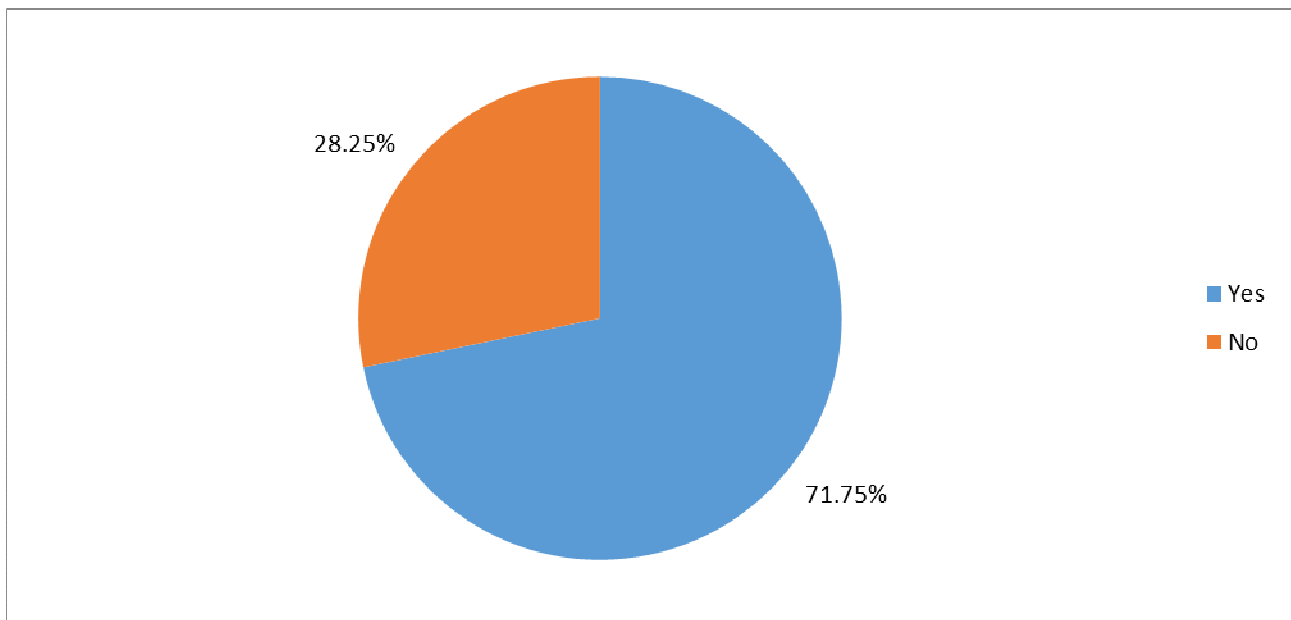
Figure 11 below shows the correlation between the different respondent groups and the possible deterrence from pursuing tertiary studies if a graduate tax were imposed.

Figure 11: Correlation between respondent groups and deterrence from pursuing tertiary studies



Question 5 focuses on whether the implementation of a graduate tax would lead to an outflow of skills, as graduates would be likely to seek employment outside South Africa. 72% of respondents indicated that if a graduate tax were imposed, they would seek employment outside South Africa to avoid the possible tax burden brought on by a graduate tax. Only 28% of respondents stated that they would still work in South Africa even if a graduate tax were imposed. This shows that the imposition of a graduate tax would lead to vital skills, knowledge and taxable income being lost to the economy (Harris, 2010).

Figure 12: Likelihood of pursuing career opportunities outside South Africa



The correlation between the different respondent groups and the possible outflow of respondents was determined by applying a chi-square test to the responses to question 1 and question 5. Table 3 below contains the results of the test.

Table 4: Correlation between respondent groups and the possible outflow of respondents

Group	Yes	No	Total
Grade 12 learners	161 (74,88%)	54 (25,12%)	215 (100%)
Students	154 (75,86%)	49 (24,14%)	203 (100%)
Graduate professionals	38 (51,35%)	36 (48,65%)	74 (100)

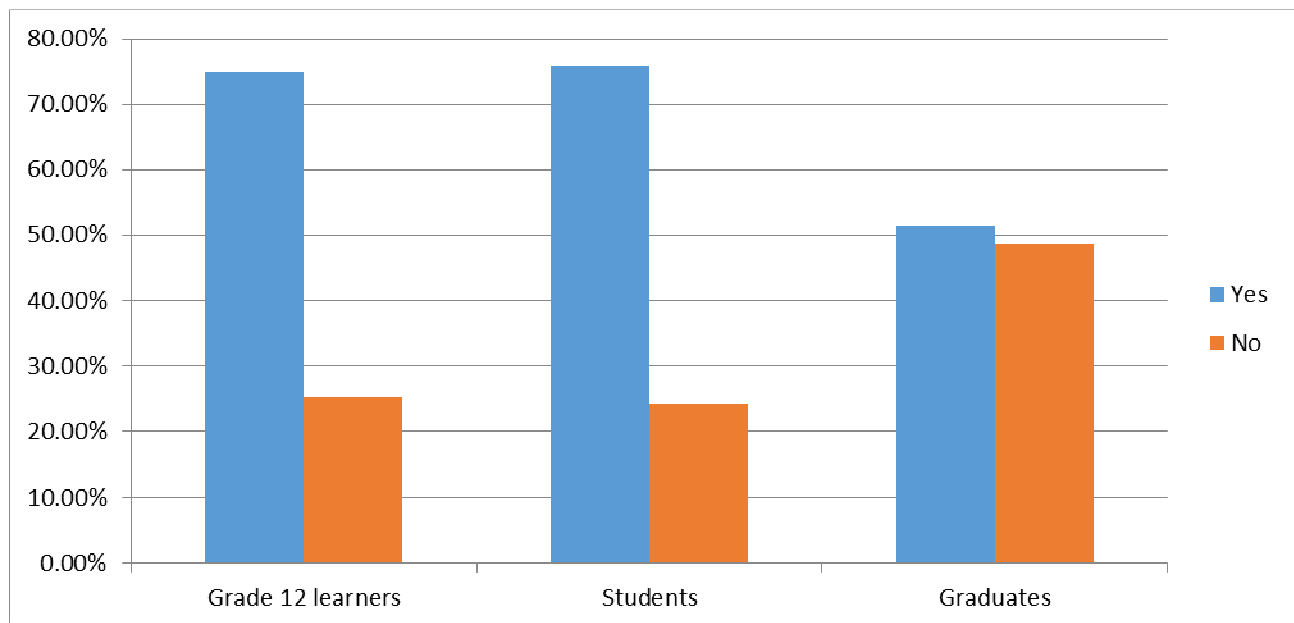
Total	353 (71,75%)	139 (28,25%)	492 (100%)
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The p -value of 0,0001 (confidence level of 95%) indicates that there is a relationship between whether the respondent is a grade 12 learner, a student or a graduate professional and the deterrence from pursuing tertiary studies if a graduate tax were imposed.

According to the results of table 3, grade 12 learners and students would most likely seek employment outside South Africa if a graduate tax were imposed on graduate professionals. The responses to question 5 show that graduates who are already employed in South Africa would be less likely to seek employment outside South Africa.

Figure 13 below shows the correlation between the different respondent groups and the possible outflow of graduates if a graduate tax were imposed.

Figure 13: Correlation between respondent groups and possible outflow of graduates



4.3 CONCLUSION

In this chapter the data collected by means of the questionnaire was analysed. Firstly the respondents were divided, on the basis of their demographic background, into grade 12 learners, graduates currently studying at a tertiary institutions and graduate professionals.

Secondly, the respondents' understanding of the term graduate tax was analysed. The results showed that most respondents understood graduate tax to be an additional tax on persons with degrees.

Thereafter, the ways in which the respondents would fund, were funding or had funded their tertiary education was analysed. It was found that most respondents funded their tertiary education through private funding.

Lastly the possible consequences of the imposition of a graduate tax were analysed, which included whether graduate tax would deter persons from pursuing a tertiary education. The second possible consequence was whether persons who obtained a tertiary degree would rather seek employment outside South Africa to avoid paying graduate tax.

The final chapter will summarise the significant findings of the study. The limitations of the study will be discussed and suggestions for further research will be made. Finally, a conclusion will be drawn from the literature review and the findings of the data collected.

5 CHAPTER 5: CONCLUSION AND IMPLICATIONS

5.1 INTRODUCTION

The purpose of this study was to determine the scope of a possible graduate tax by reviewing international literature on a proposed graduate tax and the possible consequences of implementing such a tax in South Africa.

This chapter summarises the findings from the research performed together with the literature reviewed, highlights the limitations of the study and offers suggestions for future research. Lastly, a conclusion will be drawn from the literature review and the findings of the data collected.

5.2 SUMMARY OF FINDINGS

Graduate tax entered the South African public discourse during February 2013 when the ANC, at its 53rd National Conference which was held in December 2012, proposed it as an alternative means of funding tertiary education in South Africa. Currently, there are a number of questions regarding a proposed graduate tax that need to be answered. The following issues all require clarification:

- Who will be taxed?
- For how long will a graduate have to pay graduate tax?
- At what rate will graduate tax be levied?
- From which date will this tax be levied?

A graduate tax will lead to double payment of tertiary education fees if:

- graduates' tertiary education was paid for from savings, as this will mean that they will be effectively taxed for their benefactors being financially prudent, and for not being a burden on state resources during the period of their studies.

- The same applies to graduates who funded their tertiary education by taking out student loans from either a commercial bank or the NSFAS. In both cases, students have to pay back the loan with interest after their studies have been completed. This will most likely take a number of years. If a graduate tax has to be paid under these conditions, students at the start of their professional careers will receive a lower net salary than if such a tax were not implemented on top of the repayment of the loan. This will place a disproportionate strain on the income and savings potential of such graduates, and for already impoverished graduates it will create even more financial distress.
- If graduates who received a bursary from a corporate institution have to pay graduate tax, it would be as if they were indirectly paying for their own bursary, whereas the institution who supplied the bursary will receive the benefit of a deduction in terms of section 10(1)(mB) of the South African Income Tax Act, 58 of 1962.

Graduates who funded their studies through a bursary from the NSFAS would in effect be repaying a part of their bursary. Since public funding is utilised by the NSFAS when granting student bursaries, this scenario would see the graduate tax as effectively refilling the coffers of the institution, enabling the NSFAS to grant bursaries to a new generation of prospective graduates. In this scenario, a graduate tax would seem to be fair.

Numerous factors should be evaluated to ascertain whether a graduate tax will be feasible, such as:

- The autonomy of tertiary education institutions
- The quality of tertiary education
- The effects on the economy when graduate professional elect to seek employment outside South Africa
- The administrative requirements of such a tax
- The levels of income inequality in the economy
- Redressing historical imbalances
- The general level of the education of the labour force
- The demand for skilled graduate professionals in the labour market

Given the factors mentioned above, and specifically the socio-economic realities facing South Africa, instituting a graduate tax may have the unforeseen and unwanted consequence of discouraging prospective students from pursuing a tertiary education. As shown by the results of the questionnaire, 34% of respondents would be or would have been deterred from pursuing a tertiary education if a graduate tax were payable. The responses of the grade 12 learners should be highlighted, as 46% would be deterred from pursuing a tertiary degree – and they are the future workforce of South Africa.

The imposition of a graduate tax may also result in an outflow of graduates seeking employment outside South Africa, depriving the economy of much needed skills. As the results of the questionnaire show, 72% of respondents would probably seek employment outside South Africa if a graduate tax were imposed. It is important to note that according to the responses to the questionnaire, grade 12 learners and students are most likely to seek employment outside South Africa. Graduates are less likely to seek employment elsewhere, as they have invested themselves in furthering their careers in South Africa, have started earning a steady salary and have experienced the benefit of a tertiary education in South Africa.

5.3 LIMITATIONS OF THE STUDY

The main limitation of this study concerns the scope of the survey. It was administered only in Gauteng and to only 500 respondents, which is not a demographically representative sample. Not enough respondents from previously disadvantaged backgrounds were included in the study.

Secondly, little information is available on how a graduate tax would be imposed in South Africa and who would be affected; therefore the perceptions of the public differ substantially. If more information on how such a tax would be implemented is made available, the public perception of such a tax might change.

5.4 SUGGESTIONS FOR FUTURE RESEARCH

Future research on the subject of graduate tax would be beneficial, especially if more information could be obtained from the ANC as regards the features of a graduate tax. Further studies including other provinces in South Africa and grade 12 learners at previously disadvantaged public schools would be beneficial.

5.5 CONCLUSION

Based on the results of this study, it is concluded that the overall perception of a graduate tax is that it is an additional tax on persons who are in possession of a tertiary degree. This does not agree with the literature reviewed. The literature states that a graduate tax is a tax payable to recoup the cost of tertiary education where education is provided to students at no cost. As it is not yet certain what a graduate tax in South Africa would entail, such a tax could potentially be an additional tax on persons with tertiary degrees.

This study and international research show that graduate tax has many more disadvantages than advantages, as discussed in this study. It is not simply a case of who should be taxed and when, but also whether it is a feasible method of raising funds to pay for tertiary education in South Africa.

Even if the imposition of a graduate tax did not deter persons from pursuing a tertiary degree, the study found that it would lead to graduates seeking employment outside South Africa. To achieve economic growth in South Africa and address income inequality, the labour force must become more skilled. The availability of more graduates from tertiary institutions is critical to the achievement of this goal, and any obstacle to achieving this is counter-productive and should not be pursued. As such, implementing a graduate tax in South Africa could do more harm than good.

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APPENDIX A
- Data collection instrument -

Questionnaire

Dear respondent

Thank you for your willingness to complete this survey. The purpose of the survey is to determine the public perception on the imposition of the proposed graduate tax. The survey should not take more than 5 minutes to complete. This is an anonymous and confidential survey. You cannot be identified and answers you provide will be used for research purposes only.

Please answer all the questions. There are no right or wrong answers. We are interested in understanding your perception on the imposition of the proposed graduate tax.

Q1. Please tick the category that is applicable to you.

Grade 12 learner	<input type="checkbox"/>
Student at tertiary institution	<input type="checkbox"/>
Graduate from tertiary institution	<input type="checkbox"/>

Q2. What do you understand under the term graduate tax?

Q3. Which of the followings sources of funding will you use / are currently using / did use to fund your tertiary studies? (Please tick applicable box)

Private funding	<input type="checkbox"/>
Student loan from bank	<input type="checkbox"/>
Bursary from corporate institution	<input type="checkbox"/>
Loan from National Student Financial Aid Scheme	<input type="checkbox"/>
Bursary from National Student Financial Aid Scheme	<input type="checkbox"/>

Q4. Would graduate tax deter or have deterred you from pursuing a tertiary degree?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

Q5. If a graduate tax is to be implemented in South Africa, would you be more likely to seek employment in your field outside South Africa?

Yes	<input type="checkbox"/>
No	<input type="checkbox"/>

**Thank you for completing the survey.
We appreciate your assistance.**

APPENDIX B
- Informed consent form -



**Informed consent for participation in an academic
research study**

Dept. of Taxation

**GRADUATE TAX: A SOUTH AFRICAN STUDY ON PROPOSED LEGISLATION,
IMPLEMENTATION AND PUBLIC PERCEPTION**

Research conducted by:

Mrs. G. Vlok (24023125)

Cell: 082 828 2325

Dear Respondent

You are invited to participate in an academic research study conducted by Gabrielle Vlok, a Masters student from the Department of Taxation at the University of Pretoria.

The purpose of the study is to ascertain the public perception on the imposition of the proposed graduate tax

Please note the following:

- This study involves an anonymous survey. Your name will not appear on the questionnaire and the answers you give will be treated as strictly confidential. You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 5 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor, Mrs. S.J. Pienaar at sare.pienaar@up.ac.za if you have any questions or comments regarding the study.

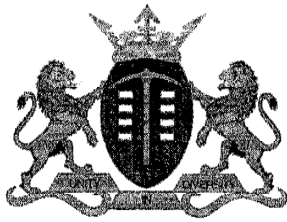
Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis.

Respondent's signature

Date

APPENDIX C
- GDE Conditional Research Approval Letter -



education
Department: Education
GAUTENG PROVINCE

**For administrative use:
Reference no D2014/198**

GDE CONDITIONAL RESEARCH APPROVAL LETTER

Date:	12 August 2013
Validity of Researcher	12 August 2013 to 20 September 2013
Name of Researcher:	Vlok Gabrielle
Address of Researcher:	2 Bumblebee Crescent Midfield Estate Midrand Estates; 1692
Telephone Number:	Tel: 087 940 1036
Fax Number:	Cell: 082 828 2325
Email address:	E-mail: GGABBY@MWEB.CO.ZA
Research Topic:	Graduate Tax: A South African Study on Proposed Legislation, Implementation and Public Perception
Number and type of schools:	4 Secondary schools
District/s/HO	1 District

Re: Approval in Respect of Request to Conduct Research

This letter serves to indicate that approval is hereby granted to the above-mentioned researcher to proceed with research in respect of the study indicated above. The onus rests with the researcher to negotiate appropriate and relevant time schedules with the school/s and/or offices involved to conduct the research. A separate copy of this letter must be presented to both the School (both Principal and SGB) and the District/Head Office Senior Manager confirming that permission has been granted for the research to be conducted.

The following conditions apply to GDE research. The researcher may proceed with the above study subject to the conditions listed below being met. Approval may be withdrawn should any of the conditions listed below be flouted:

1. *The District/Head Office Senior Manager/s concerned must be presented with a copy of this letter that would indicate that the said researcher/s has/have been granted permission from the Gauteng Department of Education to conduct the research study.*
2. *The District/Head Office Senior Manager/s must be approached separately, and in writing, for permission to involve District/Head Office Officials in the project.*

David Makhado
2013/08/13

Making education a societal priority

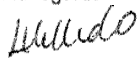
Office of the Director: Knowledge Management and Research

9th Floor, 111 Commissioner Street, Johannesburg, 2001
P.O. Box 7710, Johannesburg, 2000 Tel: (011) 355 0560
Email: David.Makhado@gauteng.gov.za
Website: www.education.gpg.gov.za

3. A copy of this letter must be forwarded to the school principal and the chairperson of the School Governing Body (SGB) that would indicate that the researcher/s have been granted permission from the Gauteng Department of Education to conduct the research study.
4. A letter / document that outlines the purpose of the research and the anticipated outcomes of such research must be made available to the principals, SGBs and District/Head Office Senior Managers of the schools and districts/offices concerned, respectively.
5. The Researcher will make every effort obtain the goodwill and co-operation of all the GDE officials, principals, and chairpersons of the SGBs, teachers and learners involved. Persons who offer their co-operation will not receive additional remuneration from the Department while those that opt not to participate will not be penalised in any way.
6. Research may only be conducted after school hours so that the normal school programme is not interrupted. The Principal (if at a school) and/or Director (if at a district/head office) must be consulted about an appropriate time when the researcher/s may carry out their research at the sites that they manage.
7. Research may only commence from the second week of February and must be concluded before the beginning of the last quarter of the academic year.
8. Items 6 and 7 will not apply to any research effort being undertaken on behalf of the GDE. Such research will have been commissioned and be paid for by the Gauteng Department of Education.
9. It is the researcher's responsibility to obtain written parental consent of all learners that are expected to participate in the study.
10. The researcher is responsible for supplying and utilising his/her own research resources, such as stationery, photocopies, transport, faxes and telephones and should not depend on the goodwill of the institutions and/or the offices visited for supplying such resources.
11. The names of the GDE officials, schools, principals, parents, teachers and learners that participate in the study may not appear in the research report without the written consent of each of these individuals and/or organisations.
12. On completion of the study the researcher must supply the Director: Knowledge Management & Research with one Hard Cover bound and an electronic copy of the research.
13. The researcher may be expected to provide short presentations on the purpose, findings and recommendations of his/her research to both GDE officials and the schools concerned.
14. Should the researcher have been involved with research at a school and/or a district/head office level, the Director concerned must also be supplied with a brief summary of the purpose, findings and recommendations of the research study.

The Gauteng Department of Education wishes you well in this important undertaking and looks forward to examining the findings of your research study.

Kind regards



Dr David Makhado

Director: Knowledge Management and Research

2013/08/13

Making education a societal priority

Office of the Director: Knowledge Management and Research

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