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YUNIBESITHI YA PRETORIA

**THE FACTORS INFLUENCING ATTITUDES OF NAMIBIAN TAXPAYERS TOWARDS
TAXATION**

by

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“Trust in the LORD with all your heart and lean not on your own understanding. In all your ways acknowledge him, and he will make your paths straight.” – Proverbs 3:5-6 (KJV)

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ABSTRACT

THE FACTORS INFLUENCING ATTITUDES OF NAMIBIAN TAXPAYERS TOWARDS TAXATION

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The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Ideally any government would want one hundred percent compliance which would mean optimal tax collection. Tax compliance is influenced by the behaviours of taxpayers which are shaped by their attitudes, and such attitudes are influenced by various factors. Understanding taxpayers' behaviours in terms of factors that influence their attitudes towards tax compliance is therefore important in encouraging higher levels of compliance and minimisation of non-compliance. It is important for any government and revenue collecting authority to understand the reasons why taxpayers choose not to comply with tax laws as such understanding will have an impact on both the equity and efficiency of the economy.

Keywords:

Attitudes of taxpayers

Tax morale

Tax ethics

Tax compliance

Paying taxes

Taxpayers

Behaviour of taxpayers



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DIE HOUDING VAN NAMIBIESE BELASTINGPLIGTIGES TEENOR BELASTING

Deur

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Graad: MCom (Belasting)

Die bereiking van 'n voldoende vlak van belastingnakoming aan die kant van die belastingpligtiges is van wesentlike belang vir enige regering by die invordering van belasting. In die ideale geval soek enige regering een honderd present voldoening wat optimale belastinginvordering sou beteken. Belastingnakoming word beïnvloed deur die gedrag van belastingpligtiges wat bepaal word deur hulle houding, en daardie houding word weer beïnvloed deur verskeie faktore. Dit is belangrik om belastingpligtiges se gedrag teenoor belastingnakoming te verstaan om sodoende hoër vlakke van nakoming aan te moedig en om nie-nakoming te minimiseer. Dit is belangrik vir alle regerings en inkomsteinvorderingsowerhede om die redes te verstaan waarom belastingpligtiges verkies om nie belastingwetgewing na te kom nie aangesien dit 'n impak het op beide die billikheid en doeltreffendheid van die ekonomie.

Sleutelwoorde:

Houding van belastingpligtiges
Belastingmoraal
Belastingetiek
Belastingnakoming
Belastingbetaling
Belastingpligtiges
Gedrag van belastingpligtiges



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THE FACTORS INFLUENCING ATTITUDES OF NAMIBIAN TAXPAYERS TOWARDS TAXATION

CHAPTER 1

INTRODUCTION AND PROBLEM STATEMENT

1.1 BACKGROUND

Taxation is important to any country, even though as a subject it is not favoured nor understood. These sentiments are echoed by Gcabo and Robinson (2007:363) as they note that even though taxpayers recognise that it is justifiable to pay their taxes and that in return they expect benefits from the government in the form of public services, paying taxes is still not popular and it is unlikely that this would change. Despite the fact that taxation is not favoured by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens (Oberholzer 2008:46).

Steinmo (in Rakner, 2002:2) stressed the importance of revenue as the lifeblood of the state and that taxation is the primary mechanism of revenue generation. He further emphasised that taxation is considered the most economically efficient way of transferring resources from the private to the public sectors.

During his presentation at the World Social Forum in Nairobi, Cobham (2007) highlighted the four main goals of taxation to be:

- the raising of revenue with which governments can drive human development by providing systems of health, education and social security and the provision of a successful economy through regulation, administration and investment infrastructure;
- the reduction of poverty and inequality to ensure that benefits for development are felt by all through redistribution;
- the appropriate utilisation of taxes and subsidies to ensure that all social costs and benefits of production or consumption of a particular good are reflected in the



market price, for example, the taxation of tobacco to limit damage to the health of citizens. This is especially true in the context of Namibia where “sin taxes”, that is, taxes on cigarettes and alcohol, are increased annually. Whether such increases in actual fact succeed in discouraging citizens to consume cigarettes and alcohol is beyond the scope of this research paper; and

- the strengthening and protection of channels of political representation.

An effective tax system is essential for any country. The benefits of an effective tax system were highlighted during a conference held in Pretoria in conjunction with South African Revenue Service (SARS) (2008) as:

- the mobilisation of the domestic tax base as a key mechanism for developing countries to escape aid or single resource dependency;
- the reinforcement of government legitimacy through promotion of accountability of governments to taxpaying citizens, effective state administration and good public financial management;
- the promotion of economic growth and reduction of extreme inequalities that contribute towards significant improvements in the lives of citizens; and
- the achievement of a fairer sharing of the costs and benefits of globalisation.

Due to the changing tendencies in the global market environment, income tax bases are continually thinning as governments’ ability to tax capital flows deteriorate. It is therefore imperative that tax strategies and tax policies are designed appropriately and monitored continuously in order for revenue authorities to optimise revenue collection and ultimately support their strategies (Gcabo & Robinson, 2007:358).

An effective and efficient tax collection system is vital in order to ensure revenue maximisation. The efficiency and effectiveness of tax collection is a crucial indicator of how successful governments are in raising revenue needed to perform their functions and the degree to which they are able to ensure that their citizens meet their tax paying obligations. (Smith, 2003:4.) Cummings, Martinez-Vazquez, Mckee and Torgler (2006:2) point out that encouraging high levels of tax compliance in developing and transition

economies is a challenge for policy makers. The authors further emphasise that high levels of compliance is necessary for efficiency, equity and the development of social capital.

Tax evasion is rife in almost all societies and since it is perpetrated by human beings (taxpayers), it is important to understand the reasons for why it happens. This can be achieved by obtaining an understanding of the attitudes, behaviours and motives of taxpayers from a psychological point of view. Research in the field of taxation dates as far back as the late 1950s and was mostly dominated by economics while the psychological aspect was left out. Over the years however, there has been an increase in the psychological aspects of tax research. Taxpayers' behaviours which are linked to the psychological aspect of tax have been investigated from both a political perspective, which mainly focused on tax law complexity and shadow economy, and from an economic perspective, which focused on rational decision-making and the impact of tax audit, fines, tax rates and tax compliance. Nevertheless, research has yet to be integrated into a comprehensive model of taxpayers' behaviours. Insight into taxpaying behaviours is therefore of practical relevance from a fiscal and academic point of view. (Kirchler, 2009:1-2.)

1.2 PROBLEM STATEMENT

The literature available on Namibian tax is mainly from economic and political points of views and these studies are geared towards what the Namibian government can and should do with regard to tax policies as well as lessons to be learned from other countries. There is very little literature regarding the attitudes of the taxpayers in Namibia towards taxation and the factors that may influence such attitudes.

As mentioned earlier, tax evasion is rife in all societies and revenue generation through taxes is a critical element to any government. It essential to understand the attitudes of taxpayers in Namibia in order to strive towards optimised revenue generation through effective and efficient tax collection by the Namibian government and ensuring equal redistribution of public goods and services for all citizens.



1.3 PURPOSE STATEMENT

The main purpose of this study is to determine the attitudes of taxpayers in Namibia towards taxation and the factors that might influence such attitudes.

1.4 RESEARCH OBJECTIVES

The study will aim to achieve the following objectives:

- to determine the attitudes of taxpayers in Namibia towards taxation;
- to determine the various demographic, economic and other factors that might influence a taxpayers' attitude towards taxation; and
- to evaluate which of the identified factors would have the most influence on the attitudes of the Namibian taxpayers.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

Attitudes of taxpayers play a significant role in taxpayers' behaviour. Therefore, it is important to understand the factors that influence such attitudes that impact profoundly on tax compliance and tax morale. Tax compliance has a direct impact on tax revenue generated by the Namibian revenue authority which is essential for the effective running of the Namibian government for the well-being of its citizens. This study is therefore important from a fiscal policy perspective as well as from an academic perspective.

1.6 DELIMITATIONS AND ASSUMPTIONS

1.6.1 Delimitation

The limitation of this study is that secondary data was obtained instead of primary data. The literature review was limited to studies conducted in Namibia, the Republic of South Africa (RSA), the United States of America (USA), and Tanzania. The entire study is therefore based on previous studies conducted by other researchers on the subject of

factors influencing attitudes of taxpayers towards taxation and that in itself has been limited to the limitations included in those studies.

1.6.2 Assumptions

Although different countries have different tax policies, taxation is based on the same principles worldwide. It is therefore assumed that taxpayers of the countries included in the study will have similar attitudes and similar factors will influence their attitudes.

1.7 DEFINITION OF KEY TERMS AND ABBREVIATIONS

In this study, the terms as described below have been used in the context as defined below.

Attitudes: Ajzen (1991:4) defines an attitude as a disposition to respond favourably or unfavourably to an object, person, institution or event. The author further notes that although formal definitions of attitudes vary, most contemporary social psychologists seem to agree that the characteristics attributed to attitudes are its evaluative nature. Ajzen also argues that because attitude is a hypothetical construct which is inaccessible to direct observation, it must be inferred from measurable responses and given the nature of the construct, these responses must reflect positive or negative evaluations of the attitude object. Beyond this requirement however, there is virtually no limitation on the kinds of responses that can be considered.

According to Kirchler (2009:49), definitions of attitude refer to the cognitive, affective and conative or behavioural facets. He explains cognitive responses to be expressions of beliefs about characteristics or attributes of an event or situation, for example: the belief that taxes are useful for the provision of public goods and services, or, that taxes are spent on wasted projects. He further explains affective responses as feelings towards the attitude object, for example: feelings related to taxes as a loss of earnings or evaluation of taxes as a means for income redistribution. Conative or behavioural responses are



explained as intentions and actions with respect to the attitude object, for example: responses to loopholes in the tax law.

Tax compliance: Tax compliance is the willingness of taxpayers to pay their taxes (Kirchler, 2009:21). Tax compliance in the context of this study also refers to filing of tax returns as and when they fall due as per relevant legislation.

Non-compliance: Non-compliance can be described as the failure to meet tax obligations whether or not such failure is intentional or unintentional, for example, not submitting a tax return due to the lack of knowledge that such submission is required by law (Kirchler, 2009:21).

Tax avoidance: Tax avoidance is the attempts made to reduce tax liability by legal means, taking advantage of loopholes in the law and the “creative designing” of one’s own income and deductions (Kirchler, 2009:22).

Tax evasion: Tax evasion is illegal and involves the deliberate breaking of the law in order to reduce the amount of taxes due. However, it excludes, for example, inadvertently non-compliance resulting from calculation errors or inadequate knowledge of tax laws (Kirchler, 2009:22).

Subjective tax knowledge: Subjective tax knowledge is ordinary people’s understanding of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge. The important matter is how such knowledge is organised to form a meaningful representation (Kirchler, 2009:31-32).

Tax gap: The tax gap is defined as the difference between the expected and the actual revenue generated by tax authorities. Such a gap exists due to individuals and businesses understating their incomes or overstating their deductions. The existence of the mentioned gap is also due to taxpayers not filing the required returns or only filing such returns after they are legally due. The assessment errors made by tax authorities are also explanation of the mentioned gap (Gcabo & Robinson, 2007:358).

Tax: Tax is defined by Price Waterhouse Coopers (2009:39) as “something that is paid to government (by businesses or individuals) to fund government expenditure, excluding payments where there is a specific return of value (for example, rents, and licence fees).” Tax in the context of this study will include all type of taxes levied by a government on profits (income tax), wealth (pay-as-you-earn (PAYE) and consumption of goods and services (for example, value added-tax (VAT), customs and excise duties and municipal rates and taxes).

Namibian taxpayers: Namibian taxpayers refer to citizens that are liable for tax and the general population in Namibia, since almost everyone pays consumption taxes on goods and services through VAT and municipal rates and taxes.

Tax related issues: Tax related issues in the context of this study refer to tax systems and policies, tax rates, the manner in which tax monies are spent by the government and the relationship between tax authorities and taxpayers, as well as redistributions of public goods and services to all citizens.

Tax morale: Tax morale for this study refers to taxpayers’ motivation to comply with the relevant tax law as it is applicable to them. Schmolders (in Kirchler, 2009:99) defines tax morale as the “attitude of a group or the whole population of taxpayers regarding the question of accomplishment or neglect of their tax duties”.

The abbreviations used in this study are summarised in Table 1.

Table 1: Abbreviations

Abbreviation	Meaning
ICAN	Institute of Chartered Accountants in Namibia
IRS	Internal Revenue Service
MOF	Ministry of Finance
PAYE	Pay-As-You-Earn
ROR	Receiver of Revenue
RSA	Republic of South Africa
SACU	Southern African Customs Union
SARS	South African Revenue Service
SMS	Short message service
SWAPO	South West Africa People’s Organisation
TRA	Tanzania Revenue Authority
UK	United Kingdom
USA	United States of America



Abbreviation	Meaning
VAT	Value-added tax
www	World Wide Web

1.8 RESEARCH AND DESIGN METHODS

A non-empirical study was conducted by reviewing existing literature on the attitudes of taxpayers towards taxation. A basic and exploratory research was completed to gain an understanding of the factors that may influence the attitude of a taxpayer towards taxation.

In summary, a detailed search of the literature was undertaken, guided by the research objectives. Criteria were developed to determine whether a literature data item is to be included in the final synthesis of information. An attempt was made to obtain all the literature published on the topic by searching multiple databases and analysing the references that appeared in the selected literature data items. Each document was then reviewed in a systematic and consistent manner to assess the validity and reliability of the literature data items in relation to the research objective. Various electronic databases were searched with the use of the key words included in this research paper. The databases used were Google, Google Scholar, EBSCO and Jstor.

1.9 STRUCTURE OF DISSERTATION

Chapter 1: Introduction

Chapter one provides an introduction and background to the study and outlines the problem and purpose statements as well as the research objectives. The importance and benefits of the study, the delimitations that are inherent thereto and the assumptions made are also highlighted. The key terms and abbreviations used in the study are defined and the research and design methodology explained. The chapter concludes with the outline of the structure of the entire dissertation.



Chapter 2: Tax compliance and non-compliance

Chapter two provides an overview of the available literature on tax compliance and how it interrelates with tax evasion and tax avoidance. The factors influencing attitudes of taxpayers based on the Fischer model are also highlighted. The literature is broken down into tax evasion, taxpayers' behaviours, determinants of taxpayers' behaviours and finishes with an overall conclusion on the factors influencing attitudes of taxpayers.

Chapter 3: The Namibian tax systems and taxpayers

Chapter three provides an overview of the history of the tax system in Namibia. It also highlights the studies previously conducted in Namibia with regard to taxation. In addition, some newspaper extracts of taxpayers airing their views on tax related issues are also included. The chapter culminates with a conclusion on the attitudes of taxpayers in Namibia.

Chapter 4: International studies conducted on taxpayers

Chapter four explores the studies conducted on taxpayers in the RSA, the USA and Tanzania. A brief background of the tax system in each country is outlined as well as a summary of the type of study that has been used to review the correlating tax system. A conclusion is then derived for each country based on the factors influencing attitudes of taxpayers in that country.

Chapter 5: Conclusions

Chapter five brings concludes this study and provides a list of identified factors from previous studies that influence the attitudes of taxpayers and recommendations for future research on Namibian taxpayers.

1.10 SUMMARY

Chapter one provided an introduction and background to the study and outlined the problem and purpose statements and stated the research objectives that this study aims to achieve. The importance and benefits of the study, the delimitations that are inherent thereto and the assumptions made were explained. The key terms and abbreviations used in the study were defined and the research and design methodology was described. The chapter concluded with an outline of the structure of the entire dissertation.

Chapter 2 elucidates the findings from the literature, the focus being on tax compliance and non-compliance. It will serve to explain how tax compliance is interrelated with tax evasion and tax avoidance.

CHAPTER 2

TAX COMPLIANCE AND NON-COMPLIANCE

2.1 INTRODUCTION

The purpose of this chapter is to study the existing literature on tax compliance and non-compliance. Tax non-compliance includes tax evasion. The chapter also aims to put into perspective the importance of understanding the factors influencing taxpayers' attitudes in the context of tax compliance, tax avoidance and tax evasion, and how the three are linked.

2.2 TAX COMPLIANCE

The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Ideally any government would want one hundred percent compliance which would mean optimal tax collection. Tax compliance is influenced by the behaviours of taxpayers which are shaped by their attitudes, and such attitudes are influenced by various factors. Understanding taxpayers' behaviours in terms of factors that influence their attitudes towards tax compliance is therefore important in encouraging higher levels of compliance and minimisation of non-compliance. (Berenson, 2007:1.) It is important for any government and revenue collecting authority to understand the reasons why taxpayers choose not to comply with tax laws as such understanding will have an impact on both the equity and efficiency of the economy (Devos, 2005:222).

Tax compliance is the willingness of taxpayers to pay their taxes (Kirchler, 2009:21). It is therefore an important factor for the collection of tax revenue. Taxpayers make conscious decisions on whether or not to comply with tax laws. An assumption can be made that taxpayers' knowledge and concepts of taxation form the basis of their judgments, evaluations and perceptions of fairness, willingness and ability to comply with the law. Nevertheless, it is important to gain an understanding of taxpayers' behaviours as they will most probably behave in accordance with the subjective knowledge that they have.



Subjective knowledge does not focus on whether the knowledge is correct or not, but instead focuses on the knowledge that taxpayers have and how such knowledge is organised to form a meaningful representation. (Kirchler, 2009:31-32.) From a Namibian perspective, this is true where the taxpayers express themselves on tax issues based on the knowledge that they have as well as their perceptions. In certain cases such knowledge is often misplaced.

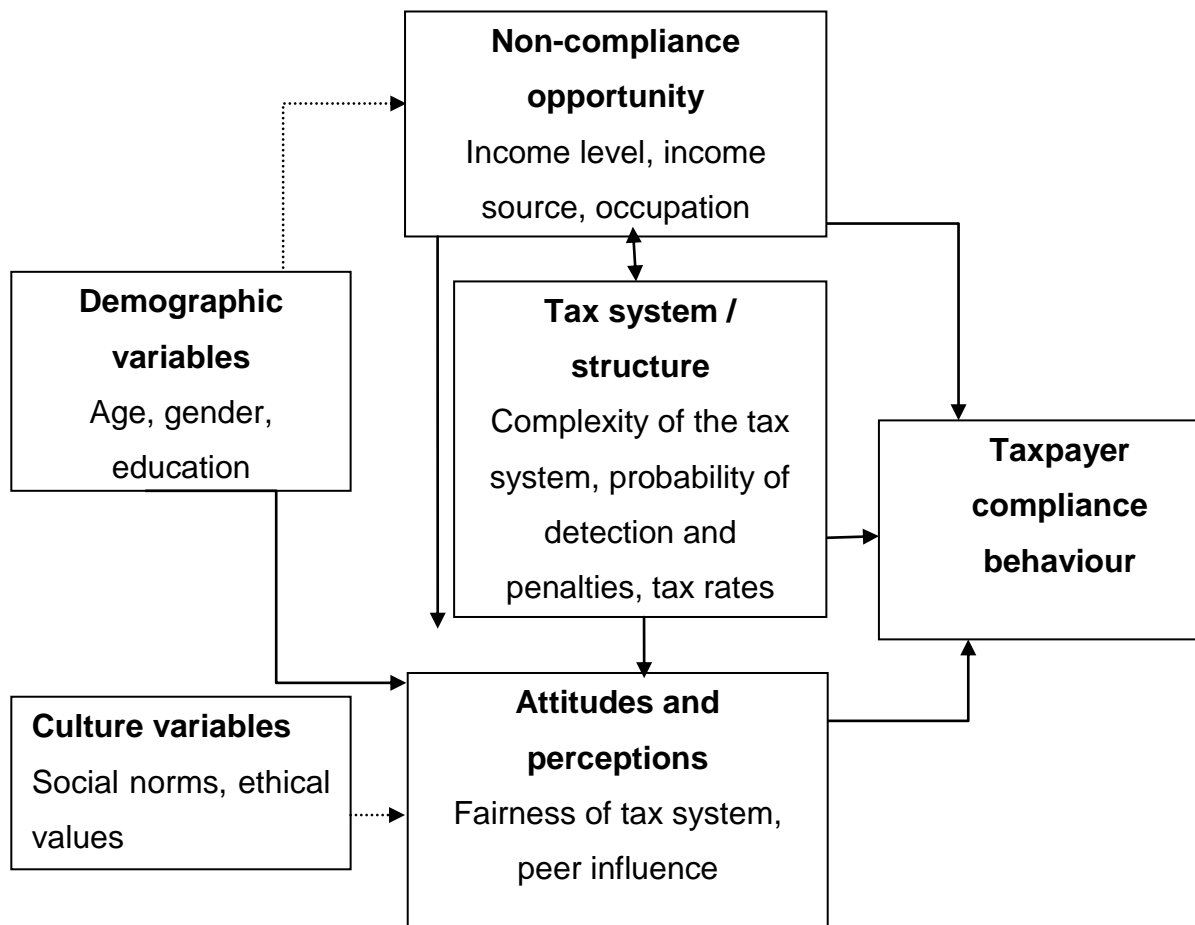
Kirchler (2009:29) notes that when people discuss issues that are socially relevant to them, for example, religion, economic issues or taxes, they do not do so because they are experts in that particular field but instead are exchanging lay knowledge in an attempt to understand and evaluate the issues at stake. The concepts that they construct while interacting socially are termed social representations.

Social representations offer explanations in terms of a series of social phenomena, such as attitudes, values, norms, stereotypes, attributions, and myths and ideologies. Despite the fact that individuals are the holders of social representations, such social representations are part of shared social construction processes rather than individual cognitive processes. Kirchler (2009:58) emphasises that taxpayers' social representations of tax authorities and taxes and their attitudes towards the two are important in encouraging an understanding and acceptance of fiscal policy. It therefore follows that taxpayers' attitudes, judgments, behaviours and intentions are more affected by what they think rather than what the actual reality is.

Tax laws are criticised for being too complex to be fully understood by ordinary taxpayers, and knowledge about taxes is generally limited. Therefore, representations and evaluations of taxes are generally a product of myth and misperceptions. As a result, it may be argued that social representations are part of determinants of tax compliance. (Kirchler, 2009:30, 39.) Cummings *et al* (2005:4) also confirm that tax compliance is a complex behavioural issue and investigation thereof requires the use of a variety of methods and data sources.

The modified Fischer model in Figure 1 indicates that tax compliance is influenced by five factors, namely demographic variables, culture variables, attitudes and perceptions, tax systems and structures and non-compliance opportunity. The different variables of the model incorporate economic, sociological and psychological factors into a comprehensive manner. (Chau & Leung, 2009:34.)

Figure 1: Modified Fischer tax compliance model



Source: Chau and Leung (2009:35)

Each of the variables in the modified Fischer model will be discussed in the following sections.



2.2.1 Demographic variables

According to the modified Fischer model (2009:35-36), demographic variables, which consist of age, gender and education, indirectly have an influence on taxpayers' compliance through their impact on non-compliance opportunities, attitudes and perceptions.

With regard to age, conducted research studies have found that tax compliance is higher in older taxpayers and lower in younger taxpayers. This is due to the fact that younger taxpayers are more willing to take risks and are less sensitive to sanctions (Chau & Leung, 2009:35).

Different results have been achieved by different research studies with regard to the influence that gender has on taxpayers in relation to tax compliance. Some studies found that females are more compliant than their male counterparts due to their traditional conforming roles and moral restraints, while other research studies have found that a higher proportion of tax evasion was conducted by women. (Chau & Leung, 2009:35.) It can therefore be concluded that gender may or may not have an influence on tax compliance.

Education as a demographic variable refers to the taxpayers' ability to comprehend and comply or not comply with tax laws. Research on Australian taxpayers found that taxpayers with tertiary education reported higher tax compliance while taxpayers without tertiary education reported lower levels of compliance. (Chau & Leung, 2009:35-36.)

2.2.2 Culture variables

Culture variables consist of social norms and ethical values. Different social norms and ethical values create different incentives for tax compliance. Cultural dimensions affecting tax compliance are individualism and collectivism. In an individualism culture, people focus on themselves rather than on the group to which they belong. In a collectivism culture, people follow and subscribe to the values of the group to which they belong. Research on

culture has found that the USA has a high individualism culture while China has a high collectivism culture. (Chau & Leung, 2009:38.)

2.2.3 Attitudes and perceptions

Attitudes and perceptions are influenced by the fairness of the tax system and peer influence. Research has found that where tax systems are considered to be fair, tax compliance is found to be higher. Similarly, where the tax systems are found to be unfair, tax compliance is found to be lower. (Chau & Leung, 2009:36-37.) The same sentiments were echoed by Cummings *et al.* (2005:3) where it is noted that when individuals view paying taxes as a fair fiscal exchange, tax compliance is enhanced.

Peer influence refers to taxpayers' associates and includes friends, relatives and colleagues. It is reflected in the individual's expectations in relation to the group's tax behaviour of his or her peers. Taxpayers with peers that do not comply are more likely not to comply and vice versa. (Chau & Leung, 2009:37.)

2.2.4 Tax system or structure

The complexity of tax systems, probability of detection and penalties and tax rates affect the effectiveness of a tax system. The more tax laws become complex the lower the compliance levels. Simple, understandable and clear tax rules enhance tax compliance. (Chau & Leung, 2009:37-38.)

The complexity of tax laws makes it difficult for ordinary taxpayers to understand. Although taxes are not part of everyday conversations, people will normally try and make sense of the contributions that they make to the government through the payment of taxes. When trying to make such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent tax behaviour. (Kirchler, 2009:29-30.)



Complex tax laws are a concern worldwide. Tax laws have become so complex that even experts such as accountants, lawyers and tax officers have difficulty in interpreting many of the legislative provisions. Research conducted on the linguistic analysis of tax laws found that high level abstraction in the written language combined with long and complex sentences resulted in unnecessary complexities, making it difficult for taxpayers to understand the laws. Several countries have attempted to simplify their tax laws but to no avail, for example, New Zealand's tax laws were written in simplified English, but they still faced the same administrative and compliance problems as before the simplification. (Kirchler, 2009:7.)

It is proposed that a complete reformation of the law and integration of specific rules into principles be applied as a measure to simplify complex tax laws. Specific tax rules lead to creative tax compliance as they allow taxpayers to make use of the available loopholes within those rules through the construction of complex business structures that are extremely difficult to understand and evaluate by tax officials. Often it is also impossible to identify whether such structures are legal or not in relation to the tax laws. In the end, all this leads to a cat-and-mouse legal drafting culture of loophole closing and re-opening as it is impossible for tax laws to cover all possible scenarios in an evolving environment. It is argued that principled integrity of rules will allow for judicial enforcement of the principles in relation to unusual transactions. (Kirchler, 2009:11.)

In general, high audit probabilities and severe penalties have been found to encourage tax compliance (Chau & Leung, 2009:37-38). Over the years, researches have come up with different models with regard to taxes. The most popular ones are the economic model and the rational model. The economic model of tax non-compliance assumes that taxpayers make strategic decisions. The rational model emphasises that taxpayers' nature is to behave dishonestly and therefore, control and punishment are measures to combat such behaviours. (Kirchler, 2009:167.)

Generally, penalties are the predominant regulatory measures in almost all tax laws. It was found that some approaches examining tax systems for detecting strategies to improve compliance are solely outcome-oriented without considering the human and social factors.



It was also found that based on a large number of empirical studies, a majority of taxpayers are inherently honest and willing to pay their share of taxes. Although taxpayers find the tax laws complex and even though they are not always able to pay for expert advice, it does not mean they will find aggressive strategies to reduce their taxes within the legal scope; rather, they will strive to prepare and file their tax returns correctly. (Kirchler, 2009:167-168.)

2.2.5 Non-compliance opportunity

Non-compliance opportunity can affect taxpayers' compliance directly through their income level, source of income or occupation, and indirectly through their attitudes and perceptions. Previous studies have found that as income increases, tax evasion increases. However, some studies found that taxpayers in the lower income group tend to evade tax more compared to those that are in the higher income group. Income derived from self employment and additional income sources not subject to withholding taxes are more prone to tax evasion. Different occupations are also more prone to tax evasion. (Chau & Leung, 2009:36.)

As mentioned earlier, tax compliance has different facets. One can either strictly comply with the law or take advantage of the loopholes in the law to pay the least tax possible but still be within the law. This form of compliance is called tax avoidance and is discussed in the next section.

2.3 TAX AVOIDANCE

Tax avoidance refers to the payment of the least tax possible by taking advantage of the loopholes within the law (Kirchler, 2009:22). This poses a danger to the collection of tax revenue as the least possible tax is paid over to the authorities which in some instances will be no tax paid at all. In today's ever changing business environment, tax authorities cannot cover all the possible scenarios of business structures. Big companies therefore take advantage of loopholes in the law when considering the set up of business structures.



As a result, tax authorities will constantly have to close loopholes to avoid the many grey areas in the tax laws. The closing of loopholes is therefore an ongoing process.

The relationship and interaction between tax authorities and taxpayers is important to tax compliance as generally, both parties form basic assumptions about each other's goals and strategies. Tax authorities will assume the role of "hunters or cops" by applying strategies to catch the "robbers" if they perceive taxpayers to be rational in maximising their individual profits. Likewise, if taxpayers perceive themselves as being victimised by the tax authorities, they will adopt the respective role of "robbers" and try to escape the law through creative methods. On the other hand, if tax authorities believe in taxpayers' willingness to comply with tax laws and recognise that due to the complexity of the law innocent mistakes may be made by taxpayers when filing their returns, they (tax authorities) will assume the role of advisors with the principal goal of assisting taxpayers in complying with the law. An advisory approach by the tax authorities is likely to be perceived by the taxpayers as empathetic and fair. This will lead to taxpayers displaying fair behaviour which in turn is likely to increase tax compliance and thereby tax revenue. (Kirchler, 2009:168.)

As mentioned earlier, tax authorities are constantly trying to cover loopholes in the law. In Namibia, for example, withholding tax on interest was introduced effective as from 1 March 2009. This was done mainly to ensure that people declare their interest income received from financial institutions and pay the required tax thereon. Prior to the introduction of this legislation, many people did not declare or pay tax on their interest income and the Receiver of Revenue (ROR) did not have the administrative capacity to ensure that everyone receiving interest income declare and pay the required tax thereon. The administration of this new legislation lies with the financial institutions who are required to withhold 10% from all interest expenses accruing to their customers and must pay the withheld amounts to ROR on a monthly basis.

As mentioned earlier, the least tax possible is paid with regard to tax avoidance. However, with regard to tax evasion, no tax is paid at all at any point in time. Tax evasion is discussed in the next section.



2.4 TAX EVASION

Kirchler (2009:22) defines tax evasion as illegal and involving the deliberate breaking of the law in order to reduce the amount of taxes due. The author however stresses that it excludes unintentional non-compliance resulting from calculation errors or inadequate knowledge of tax laws.

Tax evasion is a world-wide phenomenon that is prevalent in almost all societies and has been in existence for as long as taxes have been implemented. It is also a concept that is difficult to understand or to combat completely and is a huge challenge to tax authorities and a threat to the tax base of a country. It is therefore important to understand the factors that influence or cause taxpayers to evade tax.

In the context of developing countries, finding the correct explanation for tax evasion can be a challenge. In order to understand these explanations, it is necessary to explore societal attitudes towards tax compliance. (Gcabo & Robinson, 2007:357.) In light of the above, researchers have come up with various theories to make sense of the reason why tax evasion takes place. One such theory is the *expected utility theory* which relates to decision making in terms of uncertainty. The expected utility theory views decision makers as rational and their preferences as determined by various benefits. Such benefits are weighed by their respective probabilities. The expected utility theory assumes that taxpayers are risk averse. Since the expected utility theory is based on economic reasoning for tax evasion, it will interchangeably be referred to as the economic theory. (Gcabo & Robinson, 2007:361.)

The economic theory, as explained above, describes tax evasion behaviour as a function of the probability of detection and the size of the penalties imposed. However, it was found that increasing penalties and audits on tax evasion alone is not sufficient and depends on the reasons why taxpayers comply or fail to comply. The suggestion is that in addition to the economic approaches describing and predicting taxpayer behaviour, social and psychological aspects of tax evasion should be considered. (Gcabo & Robinson, 2007:362, Oberholzer, 2007:16.)

The psychological theory in explaining tax evasion is based on social comparisons. Under this theory, individuals compare their situation with other groups and select information from those that are similar to theirs. Vogel's study (in Gcabo & Robinson, 2007:362), distinguishes between internalisation, identification and compliance, and specifies three objective factors that help determine tax evasion, namely: the individual exchange relationship with the government, social orientation, and opportunities for tax evasion. The mentioned factors have both direct and indirect effects on tax attitudes and tax evasion (Gcabo & Robinson, 2007:362).

Another way of explaining tax evasion is through the prospect theory which is based on the assumption that people will evaluate gains or losses from present circumstances as a reference point. In considering whether to evade or not evade tax, taxpayers weigh up four factors before making a decision. These factors are: material consequences, normative expectations, socio-legal attitudes, and expressive factors. (Gcabo & Robinson, 2007:363; Oberholzer, 2007:25-26.)

Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion improves government's revenue (Smith, 2003:4). Reduction of tax evasion is generally done through imposing penalties and subjecting taxpayers to tax audits. Cummings *et al.* (2005:3) argue that reducing tax evasion through imposition of high penalties or increasing the frequency of tax audits is not sufficient as there are many factors that cause taxpayers to evade tax. The authors defend their argument by stating that extreme penalties may backfire by creating a setting in which bribery and corruption are more prevalent and the end result may be lower tax compliance and a general loss of trust in the public institutions. Their solution is that in designing effective policies for reducing tax evasion, an understanding of the behavioural aspects of the taxpayer's tax compliance decision is required. Therefore, if it is found that individual attitudes toward tax compliance are functions of social and cultural norms, enhancing such norms will be a desirable policy instrument to complement the usual enforcement options such as penalties and tax audits.



In support for Cummings *et al.*'s argument, Kirchler (2009:169-170) is of the view that tax audits will only be successful in a system with high tax evasion rates. Despite the success of tax audits in such environments, the author points out that such a strategy may create a "cop-like" mentality with tax officials "hunting" the tax evaders rather than a customer-relations approach aiming at the fair interaction between tax officials and taxpayers.

Tax audits are also costly and may have undesired effects. It is more effective to apply knowledge accumulated in studies of behavioural and psychological economics as a measure of detecting tax evasion. It is important to consider that tax authorities' perception of taxpayers and the manner in which they interact with such taxpayers will determine the relationship between the two (taxpayers and tax authorities). An approach that is directed towards enhancing voluntary compliance is more effective. Mutual respect and honesty are likely to result if tax authorities treat taxpayers as fair partners rather than unwilling participants that will evade tax any possible chance they get. Establishing a contractual relationship between tax authorities and taxpayers or a psychological contract between the two will be difficult if control and punishment are used as tools to enforce tax payments. Therefore respectful client-oriented interaction and acknowledgement of individuals' rights often remain the only possible means of creating an empathic understanding which is appropriate to increase trust, tax morale and voluntary compliance. (Kirchler, 2009:170.)

2.5 CONCLUSION

According to the modified Fischer model, tax compliance is influenced by demographic variables, cultural variables, attitudes and perceptions of taxpayers, tax systems and structures and non-compliance opportunities. Tax compliance is an important factor for any government as high levels thereof would mean an increase in revenue collection. Different factors will have an influence on the taxpayers' attitudes and such attitudes shape their tax behaviours which in turn have an influence on their tax compliance. It is therefore important to understand the factors that influence the attitudes of taxpayers.

The demographic variables which have an influence on the taxpayers' non-compliance opportunity and their attitudes and perceptions, consist of age, gender and education.



Conducted research studies have found that tax compliance is higher in older taxpayers and lower in younger taxpayers due to younger taxpayers being more willing to take risks and less sensitive to sanctions. Based on different research studies, it may be concluded that gender may or may not have an impact on tax compliance. Australian research studies found that taxpayers with tertiary education reported higher tax compliance while taxpayers without tertiary education reported lower levels of compliance.

The modified Fischer model points out that different social norms and ethical values create different incentives for tax compliance. Tax compliance will therefore be affected depending on whether the society is based on an individual or collective culture. When tax systems are considered to be fair, tax compliance is found to be higher.

The complexity of tax laws makes it difficult for ordinary taxpayers to understand. Although taxes are not part of everyday conversations, people will normally try and make sense of the contributions they make to the government through the payment of taxes. When trying to make such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent behaviour in relation to tax.

Non-compliance opportunity can affect taxpayers' compliance directly through their income level, source of income or occupation, and indirectly through their attitudes and perceptions. As income rises, tax evasion increases. Self employment and additional income not subject to withholding taxes are more prone to tax evasion.

The uncertainty in the tax law makes it difficult for taxpayers to follow the law and for the tax authorities to clearly decide what is legal and what is at the fringe of the law. This creates opportunities for exploitation of the law without actual violation thereof.

Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion will improve government's revenue. Reduction of tax evasion is generally done

through imposing penalties and subjecting taxpayers to tax audits. However, these are not sufficient measures to reduce tax evasion as decisions to evade tax are influenced by various factors. Extreme penalties may fail by creating a setting in which bribery and corruption are more prevalent and the end result may be lower tax compliance and a general loss of trust in tax authorities. The appropriate solution would be to understand the behavioural aspects of the taxpayer's tax compliance decision.



CHAPTER 3

THE NAMIBIAN TAX SYSTEM AND TAXPAYERS

3.1 INTRODUCTION

The focus of this chapter is to provide an overview of the history of the tax system in Namibia. Previous studies conducted in Namibia with regard to taxation are also included as well as newspaper extracts of taxpayers airing their views on tax related issues.

3.2 HISTORY OF THE TAX SYSTEM IN NAMIBIA

Namibia's current tax system was initially inherited from the South African colonial rule. Namibia obtained its independence on 21 March 1990; and after 20 years of independence, approximately 30 amendments have been affected to the Income Tax Act No.24 of 1981. Rakner (2002:9) observes that the tax system as inherited from the South African colonial rule mainly favoured the interests of the white people.

The Namibian government had two choices at independence, being either to implement a policy of drastic redistribution of resources which would discourage new foreign investments, or to implement a policy of encouraging foreign and domestic investments through private enterprises and private savings at the expense of continued socio-economic disparities between the White and Black people. The latter choice was chosen by the Namibian government with the hope that market-oriented policies would further economic growth. (Rakner (2009:12.)

The Namibian tax system is on a source basis, that is, only income received or accrued from a source or a deemed source within Namibia is taxable in Namibia. Tax returns are filed on a self-assessment basis, that is, the taxpayers complete the information in the tax returns and the ROR will then assess them based on the information provided. Any additional information or clarity required by the ROR on assessment is requested from the taxpayers. It can therefore be said that tax compliance is on a voluntary basis.

The ROR, under the Ministry of Finance (MOF), is responsible for the interpretation, administration and application of the tax law. The taxing authority is thus centralised at the central level of Government. The types of taxes administered by the ROR are as follows:

- income tax;
- VAT;
- customs and excise; and
- fuel levies.

The municipalities have separate taxing authorities and their only source of income is property taxes and various forms of user charges (Rakner, 2002:5).

There is currently no capital gains tax, estate duty or donations tax in Namibia. Since its independence, Namibia has maintained a liberal economic policy regime which is investor friendly and has, until recently, relied on income from its Southern African Customs Union (SACU) pool, which contributed the most to the country's revenue (Rakner, 2002:4). Free trade agreements concluded between member states of SACU (Botswana, Lesotho, Namibia, South Africa and Swaziland) proposes the terms of functionality that include reduced or nil customs duties that are levied by the importing contracting party on goods purchased or originating in the other contracting party. These free trade agreements have contributed to the decrease in the SACU revenue pool, which means that more emphasis needs to be placed on other sources of fiscal revenue. (Price Waterhouse Coopers, 2009:30.) Various authors have highlighted this reduction as a threat to the Namibian tax base which already is considered as narrow (Price Waterhouse Coopers, 2009:30; Rakner, 2002:17; Smith, wa Kariuki, Bolo, De v Graaf, Emslie, Hayes, Le Roux, Miler, Norman and Wilholm, 2002:10).

Rakner (2002:5) notes that the tax base in Namibia appears limited and that the Namibian government has made few efforts to extend its tax net to include the informal sector. The author further notes that the tax base is not used to its full potential due to tax evasion and numerous tax exemptions that are considered to erode the tax base.



The three main sources of revenue for the Namibian Government come from customs and excise, VAT and income tax (Smith *et al.*, 2002:10). According to a survey conducted by Price Waterhouse Coopers (2009:28), the Namibian Government tax revenue to GDP was 32, 9% in 2007 while that of the RSA, the United Kingdom (UK) and Australia were 27, 7%, 37, 4% and 30, 9% respectively for the same year. It may therefore be argued that Namibia's tax share at that time was high by international standards.

3.3 STATISTICS FROM THE MINISTRY OF FINANCE

Table 2 below indicates the revenue received from the different taxes, the total percentage of each tax and the percentage increase year-on-year in each tax category.

Table 2: Trends and year-on-year in tax revenue over the past Medium Term and Expenditure Framework for period 2006/07 to 2009/10

Financial year	Tax category						
	Income tax on individuals N\$ ' 000	Company taxes N\$ ' 000	Other taxes on income and profits N\$ ' 000	Taxes on properties N\$ ' 000	Domestic goods and services N\$ ' 000	Taxes on international trade and transactions N\$ ' 000	Other taxes N\$ ' 000
2006/7	3 374	2 161	141	142	3 197	6 6698	130
2007/8	3 714	2 834	181	149	4 082	8 085	138
2008/9	4 606	3 269	194	171	4 339	8 502	175
2009/10	4 818	2 763	162	195	4 981	8 585	175
Percentage total							
2006/7	21,3%	13,6%	0,9%	0,9%	20,2%	42,3%	0,8%
2007/8	19,4%	14,8%	0,9%	0,8%	21,3%	42,1%	0,7%
2008/9	21,7%	15,4%	0,9%	0,8%	20,4%	40,1%	0,7%
2009/10	22,2%	12,7%	0,8%	0,9%	22,9%	39,5%	0,8%
Year-on-Year Change							
2006/7	16,1%	37,4%	45%	29,1%	-2,3%	72,1%	15,1%
2007/8	10,1%	31,1%	28,7%	4,8%	27,7%	20,7%	5,7%
2008/9	24,0%	15,3%	7,1%	14,9%	6,3%	5,2%	3,1%
2009/10	4,5%	-15,5%	-16,5%	14%	14,8%	1,0%	23,0%

*The remaining 0.2 percent falls within the category of withholding tax on interest introduced in 2009/10

Source: Fiscal Policy Framework for 2010/11-2012/13 MTEF (2010:8).



Table 2 above reveals that the highest revenue contribution during the 2009 and 2010 financial year came from taxes on international trade and transactions (39, 5%). Taxes on international trade and transactions consist of customs and excise duties. Taxes from domestic goods and services (VAT) is the second largest contributor to tax revenue (22, 9%) closely followed by income tax on individuals (PAYE) (22, 2%). Company taxes (12, 7%), taxes on properties (0.9%) and other taxes (0.8%) contribute the least amount of tax to the governments' tax revenue.

3.4 STUDIES CONDUCTED ON TAXATION IN NAMIBIA

Very little research has been completed on the attitudes of taxpayers in Namibia towards taxation. The available literature on taxation in Namibia is mostly from a policy, political and economical point of view.

As mentioned earlier, tax evasion is rife in all societies and Namibia is no exception. Rakner (2002:5) notes that tax evasion appears to be widespread throughout Namibia and is a major challenge for the ROR. According to the author, the high levels of tax evasion in Namibia stem from the anti-apartheid struggle era when people were encouraged not to pay their taxes as a manner of protest against the colonial regime at the time. Sadly, the same tendencies have continued into the independence era. The Namibian Tax Consortium (2002:22-23) attribute tax compliance being on a voluntary basis and the significant deficiencies in the application of the law as contributing factors to the high levels of tax evasion in Namibia.

As mentioned earlier, the ROR, under the MOF, is responsible for the interpretation, administration and application of the tax laws in Namibia. Rakner (2002:6) highlights that this system renders the transparency of the ROR questionable. The same sentiments are echoed in a study conducted by The Namibian Tax Consortium (2002:27) where it was pointed out that the relationship between the ROR and the MOF is a challenge for effective tax administration. The Consortium further notes that the reason for the lack of separation in duties between the ROR and the MOF is attributed to the shortage of skilled and experienced employees within the ROR which is also primarily explained by the inability of



the ROR to pay competitive remuneration to attract skilled and experienced employees. The challenge for the MOF is therefore to create funding to enable it to pay skilled and experienced employees competitive salaries.

According to Rakner (2002:3), Namibia's tax share of 32% of GDP was considered to be high by international standards and as a result there have been few incentives for the Namibian government to broaden its tax base or alter its taxes. In addition, having liberal economic policies for an extended period of time, Namibia has since had to implement progressive social policies due to the revenue windfalls from the SACU pool.

Rakner (2002:4) is of the view that the Namibian Government has attempted to address economic inequalities on the expenditure side of the budget, rather than to re-evaluate the revenue side.

There are three different income tax forms denoted by different colours for individual taxpayers. The brown form is for employees who only receive salaries from their employers but no car or entertainment allowance. The blue form is for employees who receive salary income that includes a car allowance or income from renting out of property. The yellow form is for sole proprietors, that is, those who carry on business in their own names. These forms have different submission dates. The brown and blue forms are both due for submission at the ROR on or before 30 June of each year while the yellow form is due for submission at the ROR on or before 30 September each year. Individual taxpayers are responsible for completing the correct form, as well as completing each form in the correct manner. Furthermore, the taxpayers often fill out these forms incorrectly and are penalised by the ROR for this human error. Kotze (2004:11) is of the opinion that penalising taxpayers for incorrectly completing their tax returns is an unfair treatment towards taxpayers and contributes to poor tax morale. The author believes that a fair tax system will contribute to positive tax morale, thus the ROR should strive for a fair and equitable tax system at all times.

3.5 THE NAMIBIAN PUBLIC VOICE ON TAX RELATED MATTERS

As noted by Kirchler (2009:28), people normally try to make sense of their contributions to the communities when taxes are due, or when government spending is contested, or when new taxes are introduced. After reading Namibian newspapers and listening to their local radio stations, it is evident that Namibian taxpayers are vocal about the manner in which they would prefer their taxes to be utilised by the government and are greatly opposed to corruption in government as it negatively impacts on the spending of collected tax revenue.

The Namibian, which is one of the main newspapers in Namibia, has since 2007/2008 introduced a system inviting the public to send Short Message Service (SMS's) to air their views on any topic. A full page in the newspaper has been dedicated to these SMS's and is printed on a daily basis from Monday to Friday.

This study includes some SMS's from the public in Namibia concerning Namibian tax issues. It is worth noting that most of the SMS's were based on the current happenings in the country at that time. The relevance of including these SMS's in the study is that these are taxpayers' honest opinions, views and attitudes and are not based on interviews, or questions asked by anyone but simply how the taxpayers feel at the time. It can therefore be argued that such taxpayers have no reason to be "politically correct" when airing their views. These views can therefore be a starting point for future research on the attitudes of taxpayers in Namibia towards taxation and the factors that might influence such attitudes. Another reason for the inclusion of the SMS's in this study is the fact that no research on the attitudes of taxpayers in Namibia towards taxation could be found. In light of the above, it is not possible to identify the factors that may influence the attitudes of taxpayers in Namibia towards taxation, but the opinions from the public will assist in determining the attitudes of the taxpayers in Namibia.

The SMS's have been quoted, in paragraphs 3.5.1 to 3.5.5, as they appeared in the newspaper without being corrected for grammatical or spelling errors. They have also

been grouped together according to the type of tax issue that they relate to, that is, government spending, tax administration and introduction of new legislation.

3.5.1 Tax rates in relation to the benefits received

Based on the SMS's below, it appears that taxpayers in Namibia feel that they pay too much in taxes and yet they do not receive the necessary benefits from doing so.

“Ministry of Health, why do you allow people to beg for donations from the community to pay for their sick suffering kids? Can't you build a hospital for innocent poor people who can't afford exorbitant medical bills? Our tax is already sky high and now we are like being forced to help each other through generosity while State hospitals are there to cater for the needs of the sick. I also want to know from the doctors why they are charging such high fees to poor people for a single operation? What went through your (doctors) minds when you watch on TV a crying mother begging for money so that her child can undergo surgery? Please let God have mercy on us so that we can accommodate the needy”. (Anon. 2009:6.)

“Ministers got a salary hike of 24%. Do they really need that? The ordinary citizens got nothing apart from paying a tax of 35%. No wonder the poor remain poor and rich continue to get richer. Opposition parties, please speak on our behalf. Venaani, Fillemon Moongo and others you must have your say now on the burning issues. Mind you soon the nation will go to the polls. This increase shows that Swapo leaders only care about themselves”. (Anon. 2009:6.)

“It is rather disappointing that the Deputy Finance Minister thinks musicians must pay tax. What has the Government done for the past 19 years to contribute to the music industry? Nothing! They should not expect anything from poor Namibian musicians!” –Menrose. (Anon. 2009:6.)

“Can the Government bailout Katima Mulilo. Buy them earth moving equipment at least. It's a risk to drive your vehicle there. What are plans to solve the problem?”



“Where is the development that you preach on the media, if all we see is people crying for their cars every year. And the politicians get 24%, and taxpayers 0%. That’s poor leadership” – Dickuh. (Anon. 2009:6.)

3.5.2 Government spending

Based on the SMS’s below, it appears that taxpayers in Namibia feel that the taxes collected by the government are not utilised appropriately.

“Madam Finance Minister. Stop duping Namibian into believing that Air Namibia generates billions in revenue for the country! Whether it is Air Namibia or any other airline that would still be the case regardless. Only difference we wouldn’t have to waste taxpayers’ money on a bankrupt airline and rather use it on schools and hospitals”. (Anon. 2009:6.)

“War Vets not voting? Who cares? This nonsense of war vets and struggle kids must stop immediately. We the taxpayers of Namibia owe you zilch. SWAPO must use their own resources to address their own problems and keep their hands off our tax money” – No-exile war veteran. (Anon. 2009:6.)

“Many people have lost their jobs through bad decisions, victimisation, rumours, having them taken by people in high positions etc. When it ends up in court taxpayers pay for these poor decisions in thousands and millions of dollars. To ensure no such poor decisions are taken hold them accountable to”. (Anon. 2009:6.)

3.5.3 Paying taxes and service delivery

Based on the SMS’s below, it appears that taxpayers in Namibia believe that they are entitled to certain levels of service delivery from the government by virtue of them being taxpayers.



“Ministry of Education, are the UNAM and Polytechnic libraries for public use too? I always have a problem at the Polytechnic or the external studies room as they do not want to allow you inside. We pay taxes. Please clarify”. (Anon. 2009:20.)

“Since we are being charged tax on airtime, when do we get our tax returns? Please Government review the tax policy, we are dying of hunger because of being taxed on everything”. (Anon. 2009:6.)

3.5.4 Tax administration

Based on the first SMS below, it appears that the taxpayer is aware of the importance of tax revenue for the government and that it is everyone’s duty to pay their share. The second SMS indicates that the taxpayer is knowledgeable about taxation as they are aware that those that are below 18 years of age are most probably below the tax threshold and will therefore not qualify as taxpayers.

“Tax has always been a sensitive subject. If everyone registered for tax, the liability on each individual would be less as more people contributed to government revenue. To encourage people to register, I suggest that only registered taxpayers be allowed to vote. Let everyone earn their right to vote, equally”. (Anon. 2009:25.)

“May I respond to the SMS that linked the ‘right to vote’ to the ‘paying of tax’. If people who don’t pay tax are barred from voting, it will mean the following: violation of the supreme law of Namibia – excluding those who earn salaries that are below the cutline of qualifying to pay tax – excluding the unemployed youth who are 18 years and above - excluding pensioners and many other potential voters. My party (yours too) can’t afford losing so many votes” – Amkoshi. (Anon. 2009:6.)

3.5.5 Introduction of new legislation

The SMS’s below relate to taxpayers’ resistance to the introduction of withholding tax on interest received by natural persons from financial institutions and unit trusts.



“Tax on savings, 24% salary increment, stopping issuing new passports and many more. All these are only coming when we are heading for elections, thus making the president unpopular with the public. Mr President must think twice of these tactical games Swapo is playing on him” – Amkoshi. (Anon. 2009:6.)

“On the one hand Government decreases VAT on certain basic foodstuff and on the other hand it taxes us on interest earned on savings. Who is fooling who?”. (Anon. 2009:6.)

3.5.6 Summary

From the above SMS's it is evident that some citizens felt that because they paid taxes they have a right to certain benefits, the right to inform government on how and when the taxpayers' money should be utilised and also the right to vote. It is also evident from the above SMS's that party politics was linked to the paying of taxes. Corruption from government officials and lack of accountability on how state funds are utilised appeared to be a reason that people would not want to pay tax. Equal distribution of government resources also appeared to be a concern for taxpayers. The fact that Namibia was set to have its presidential elections in November 2009, it was felt that government used taxpayers' money to lobby votes from the public. Although politics determined the formulation and implementation of tax policies, Rakner (2002:6) notes that the debates over tax policy in Namibia only involved a small section of the public authorities. The author further notes that taxation did not appear to be an important issue in election campaigns. Service delivery was considered to be a benefit that taxpayers felt they deserved by virtue of them paying their taxes.

3.6 CONCLUSION

Very little research has been completed on the attitudes of taxpayers in Namibia. The available literature on taxation in Namibia is mostly from a policy, political and economical point of view.

Research conducted on Namibian taxpayers indicated that a high level of tax evasion was considered to be huge challenge to the ROR's tax base. In addition the lack of segregation of duties within the ROR was also highlighted to be a problem for taxpayers. This may be an indication of the lack of trust of the tax authority by the taxpayers. High tax rates were also indicated as problems by taxpayers.

Corruption from government officials and lack of accountability on how state funds are utilised were highlighted as reasons that will ensure taxpayers not want to pay their taxes. Taxpayers expect public services to be provided by the government by virtue of them paying their taxes, and they also expect such services to be equally distributed among all the citizens. It also appears that taxpayers feel that the taxes that they pay are too much in relation to the benefits that they receive from the government. It is also evident that taxpayers feel that there is an inequality of income distribution by the government to the public



CHAPTER 4

INTERNATIONAL STUDIES CONDUCTED ON TAXPAYERS

4.1 INTRODUCTION

In this chapter, previous research conducted on taxpayers in the RSA, the USA and Tanzania are explored. A brief background of the tax system in each country is outlined as well as a summary of the type of study that has been reviewed. A summary is made for each country on the factors influencing attitudes of taxpayers in that country and an overall conclusion for the chapter is provided.

4.2 SOUTH AFRICA

4.2.1 Introduction

Income tax in South Africa is administered in terms of the Income Tax Act No 58 of 1962. The South African residents are taxed on their income on a world-wide basis and non-residents on a source basis (South Africa). The South African Revenue Service (SARS) which is an autonomous body is responsible for the administration and collection of taxes.

4.2.2 Background of the study

Oberholzer (2008:46) notes that there appears to be a substantial tax gap between the tax that is theoretically collectable from economically active persons in South Africa and the tax that is actually collected. The author attributes the tax gap to non-compliance with tax legislation by taxpayers and potential taxpayers. The attitudes and perceptions of taxpayers are cited by the author as one of the causes of non-compliance. It is against this background that the author considers it important to determine taxpayers' perceptions towards taxation. Such understanding will influence the government regarding taxation and will also protect the country's tax base.



In order to gain an understanding of the perceptions of taxpayers towards taxation, Oberholzer (2007) conducted a study that focused on the perception of taxpayers towards taxation. The study comprised of natural persons from different population groups in South Africa. The secondary objective for the study included, amongst other things, the following (Oberholzer, 2007:7-8):

- to determine perceptions about general tax-related issues amongst South Africa taxpayers;
- to determine the various demographic, economic, or other factors that might influence a taxpayers' attitude with regard to general tax-related issues, tax evasion and tax compliance statements; and
- to investigate the relationship between taxpayers' views with regard to a specific tax-related statement and their attitude towards tax evasion and tax compliance.

The respondents were categorised according to demographic, economic and other factors. The demographic factors include the respondents' age, gender, population group, home language and level of education. The economic factors include the respondents' employment status, whether or not they earn a second income and their earning potential. The other factors include the respondents' level of support for the government at that time and their relationship with SARS. The relationship with SARS consisted of whether or not the respondents were registered with SARS or whether or not they had prior dealings with SARS. (Oberholzer, 2007:104.)

Oberholzer's study was based on questionnaires which included predetermined statements relating to general tax related issues, tax evasion and tax compliance. The findings from that study are outlined in the next section.

4.2.3 Findings and analysis of the study

With regard to general tax related issues, respondents were requested to indicate whether they agreed, disagreed or had no opinion on predetermined statements (Oberholzer, 2007:1010). The responses of the respondents are summarised in Table 3 below.



Table 3: Responses regarding respondents' attitudes towards general tax-related statements

	Percentage of respondents who agreed with the statement	Percentage of respondents who disagreed with the statement	Percentage of respondents who had no opinion regarding the statement
1. A large proportion of taxes are used by the government for meaningless purposes	58,46%	32,69%	8,85%
2. It is unfair to pay tax	16,54%	73,46%	10,00%
3. Income tax rates must be reduced	77,31%	15,38%	7,31%
4. The VAT rate must be reduced	82,31%	11,54%	6,15%
5. The income tax rate (%) should be the same regardless of the amount of income earned (i.e. everybody pays income tax using the same percentage irrespective of the amount you earn)	37,31%	43,85%	18,84%
6. I do not know why I have to pay tax	31,54%	56,54%	11,92%
7. Waste and corruption in government is high	87,69%	6,93%	5,38%
8. Rich people (those that earn more) should pay tax at a higher rate	63,08%	28,46%	8,46%
9. Tax is very complicated – I do not know how to calculate my own tax liability	37,69%	37,69%	24,62%
10. The amount of tax I have to pay is reasonable considering the benefits received	24,23%	38,46%	37,31%
11. The government does not provide enough information about how they use taxpayers' money	51,92%	23,85%	24,23%

Source: Oberholzer (2007:102)

Statements one, seven and eleven in Table 3 above relate to the utilisation of tax revenue by the government, the provision of information by the government on the manner in which the taxpayers' money have been utilised and waste and corruption in the government. These three statements will be dealt with together as they all relate to the government and

taxes. The factors that influence the respondents' views on all three statements will be discussed individually for each statement.

According to the findings in Table 3, a significantly high majority of the respondents (87, 69%) agreed that waste and corruption in the government is high. More than half of the respondents (58, 46%) felt that a large proportion of taxes were used by the government for meaningless purposes. There is a need for the government to provide more information on the utilisation of taxpayers' money as just over half of the respondents (51, 92%) were of the view that the government does not provide enough information about how they use taxpayers' money.

The views of the respondents that agreed that waste and corruption in government is high were not influenced by any individual demographic, economic or other factor. Since this response was indicated by a significantly high majority of the respondents, the finding should be a matter of concern to the government. (Oberholzer, 2007:134-135.)

The factors that influenced the views of the respondents regarding the utilisation of taxpayers' money by the government and provision of information on the utilisation of such money were the respondents' age group, population group, level of education, employment status, earnings potential, registration with SARS, level of support for the government and views relating to income distribution (Oberholzer, 2007:104).

Although a high proportion of all age groups agreed that a large proportion of taxes were used by the government for meaningless purposes, the older respondents (those that are over the age of 50) (61, 54%) agreed to a larger extent compared to the younger respondents (those that are between the ages of 21 and 49) (57, 14%). It may be argued that older respondents might be more aware of the need to provide for their retirement and therefore will be more critical of the manner in which the government utilises tax revenue. (Oberholzer, 2007:105.) The perception of the respondents towards the provision of information by the government on how the taxpayers' money is utilised was not influenced by their age (Oberholzer, 2007:104).



A large majority of the White (84, 81%), Indian (70%) and Coloured (63, 41%) population groups felt that a large proportion of taxes were used by the government for meaningless purposes. More than half of the Black population group (55, 00%) however did not share the same view. It may be argued that since the Black population group are the majority voters of the government, they may have been more supportive of it and the manner in which it utilises tax revenue. (Oberholzer, 2007:106.) With regard to the lack of information by the government that relate to the utilisation of taxpayers' money, the Coloured (80,49%), Indian (52,50%) and White (45,57%) population groups were of the view that not enough information is provided by the government with regard to the manner in which taxpayers' money is utilised. Only (45%) of the respondents from the Black population group held the same view. Although this is a lower percentage compared to the other population groups, it is still the majority of the respondents from the Black population groups. These findings were indicative of the need for greater transparency regarding the utilisation of tax revenue. (Oberholzer, 2007:156.)

Respondents in possession of a higher qualification (60%) and those in possession of a grade 12 / matric certificate (64.04%) agreed that a large proportion of taxes were used by the government for meaningless purposes. The respondents that did not complete secondary school (44, 64%) agreed with the statement to a lesser extent. Respondents that were more educated were more aware of waste and corruption in the government as reported in the media since they were able to read about it. As a result they were more critical of the manner in which the government utilise tax revenue compared to their counterparts that were less educated. (Oberholzer, 2007:106-107.) The views of the respondents towards the provision of information by the government on how the taxpayers' money is utilised was not influenced by their educational background (Oberholzer, 2007:104).

Self-employed respondents (77, 78%) agreed to a larger extent that a large proportion of taxes were used by the government for meaningless purposes followed by the salaried respondents (64, 39%) compared to those that were unemployed (45, 54%). Self-employed respondents pay their taxes by means of provisional tax payments as opposed to salaried employees whose taxes are automatically deducted from their salaries by their



employers. It may therefore be argued that self-employed respondents would be more aware of tax matters compared to the salaried respondents and may be more concerned with the manner in which their taxes have been utilised. (Oberholzer, 2007:107.) Self-employed respondents (70, 73%) are of the view that the government does not provide enough information on the utilisation of taxpayers' money and 58, 42% of those that are unemployed agreed with them. Only (43, 18%) of the salaried respondents hold the same view. Since self-employed respondents pay their taxes through provisional tax payments, they may be more critical of the lack of information about the use of taxpayers' money than the salaried respondents who have their tax deducted by their employers. (Oberholzer, 2007:157.)

The respondents that earn more than R10 000 per month before deductions (72, 31%) and those that earn between R2 918 and R10 000 per month before deductions (68, 42%) agreed to a greater extent that a large proportion of taxes were used by the government for meaningless purposes compared to 40% of those earning less than R2 918 per month before deductions. The respondents that earned below the tax threshold are not paying tax but they benefit from tax revenues through social programmes. Therefore, they will be more supportive of the government and the manner in which it allocates tax revenues. (Oberholzer, 2007:107-108.) The views of the respondents towards the provision of information by the government on how the taxpayers' money is utilised was not influenced by the amount of income that they earn (Oberholzer, 2007:104).

The respondents that are registered with SARS (66, 67%) agreed to a greater extent that a large proportion of taxes were used by the government for meaningless purposes compared to 49, 18% of those that are not registered with SARS. Those that are registered with SARS are more likely to be paying tax and therefore will be more critical of the utilisation of tax revenues by the government. (Oberholzer, 2007:109.)

The respondents that had consulted with SARS in the past (60, 13%) agreed more strongly that not enough information was provided by the government on how they utilised taxpayers' money compared to 39, 22% of those that have not done so. The respondents that had prior dealings with SARS may have been positively influenced by the SARS



officials during their interaction with regard to the communication by government on how it spent taxpayers' money. (Oberholzer, 2007:159.)

Ignoring the respondents that did not have an opinion on the utilisation of the government's funds, 80, 43% of those that did not support the government and 75% of those that were neutral in their support for the government, agreed that a large proportion of the taxes were used by the government for meaningless purposes. Of those that supported the government, 52, 43% were more content with the manner in which the government utilised tax funds while 47, 57% agreed that tax funds were used by the government for meaningless purposes. Overall it appeared that the majority of the respondents expressed a great deal of concern regarding the government's utilisation of tax funds. It can be concluded that respondents who supported the government at that time believed, to a lesser extent than other respondents, that a large proportion of taxes were used by the government for meaningless purposes. (Oberholzer, 2007:110.)

Again ignoring the responses of the respondents that did not have an opinion on information regarding the government's spending of taxpayers' money, the study found that 88, 64% of the respondents that did not support the government agreed that not enough information was provided by the government on how it utilises tax funds. Those that were neutral in their support for the government (85, 45%) and 50% of those that did not support the government echoed the same sentiments. It can therefore be concluded that respondents that did not support the government agreed to a fairly greater extent than those that did support the government that not enough information was provided by the government on how it spent taxpayers' money. (Oberholzer, 2007:159-160.)

Of the respondents that were of the opinion that everyone should be entitled to keep the income that they earn, 74, 19% were of the view that a large proportion of taxes were used by the government for meaningless purposes while only 53, 54% of those that believed that all income should accrue to the government which should distribute it equally among all South Africans had the same views (Oberholzer, 2007:111). Although those that preferred all the income to accrue to the government was only 53, 54% compared to 74, 19% of those that believed otherwise, it is still more than half of the response rate from

that group indicating that the majority of the respondents were of the view that government is using taxes for meaningless purposes. This should be a cause for concern for the South African government.

The respondents' views regarding the provision of information by the government of the utilisation of tax funds was influenced by whether or not they were more or less likely to evade tax. A high majority of the respondents that are more likely to evade tax (78, 26%) agreed that not enough information was provided by the government on the utilisation of tax revenue. It may therefore be argued that the number of tax evasion cases could potentially be reduced with an increased in communication regarding the utilisation of tax funds. (Oberholzer, 2007:177.)

The less tax compliant respondents (72, 34%) agreed that the government did not provide enough information on the utilisation of tax funds and only 47, 42% of those that were more tax compliant shared the same views. It may be argued that an increase in communication regarding the utilisation of tax funds by the government may help reduce incidences of tax evasion. (Oberholzer, 2007:192-193.)

A high percentage of the respondents that are more likely to evade tax (78,26%) agreed that a large proportion of taxes were used by the government for meaningless purposes compared to 8.70% of those that were less likely to evade tax. Based on these findings, it may be argued that people evade tax as they are of the view that tax revenue is used by the government for meaningless purposes. Therefore, the government needs to address corruption and investigate the possible misuse of tax revenue to encourage taxpayers to become more positive towards paying their taxes. (Oberholzer, 2007:170.)

Of the respondents that were found to be less tax compliant, 74, 47% agreed that a large proportion of taxes were used by the government for meaningless purposes. An increased drive by the government to minimise the misuse of tax revenue, if implemented, would be likely to create a more positive tax culture. (Oberholzer, 2007:184.)

Statements two, six and ten in Table 3 above relate to the payment of taxes. They will therefore be dealt with together in the next section. The factors that influence the respondents' views on all three statements will be discussed individually for each statement.

Table 3 indicated that a large majority of the respondents (73, 46%) believe that it is not unfair to pay tax and more than half of the respondents (56, 54%) are of the view that they know why they have to pay tax. Although the majority of the respondents (38, 46%) felt that the benefits that they received from the government were reasonable in relation to the tax that they paid, the low percentage is a cause for concern. Even though the majority of the respondents felt that it is not unfair to pay tax and that they knew why they had to pay tax, 37, 31% of the respondents expressed no opinion with regard to the benefits that they received in relation to the taxes that they paid. This may be an indication that people are not aware of the benefits that they receive from paying taxes.

The factors that influenced the respondents' views on the fairness of paying tax are population groups, earnings potential, level of support for the government, respondents' views on income distribution and their level of tax compliance (Oberholzer, 2007:104).

Although the majority of the population groups were of the view that it is not unfair to pay tax, the Indian (90%), Black (85%) and Coloured (73%) population groups agreed to a greater extent when compared to the White population group (50, 63%). The low response rate from the White population group may be attributed to the fact that they may feel that they receive fewer benefits from tax revenue as a large proportion of the government's budget is allocated to uplifting the previously disadvantaged South Africans. (Oberholzer, 2007:112.)

Respondents earning less than R2 917 per month before deductions (81%) were of the view that it is not unfair to pay tax. Those earning more than R10 000 per month before any deductions (76, 92%) and the middle income earners (those earning between R2 917 and R10 000) (63, 13%) were also of the view that it is not unfair to pay tax. Low and higher

income earners appear to be the most satisfied with the current tax regime compared to the middle income earners. (Oberholzer, 2007:112-113.)

Respondents that supported the government (91, 81%) agreed to a greater extent than those that did not support the government (52%) and those that were neutral in their support of the government (64%) that it is not unfair to pay tax. Of the respondents that felt it is unfair to pay tax, those that did not support the government (48%) recorded the highest response rate. It may be argued that the fiscal perception of a respondent affects the respondents' perception towards the fairness of paying tax. (Oberholzer, 2007:114.)

A great proportion of the respondents who are more tax compliant (75, 59%) did not feel that it is unfair to pay tax compared to 63, 83% of those who are less tax compliant. This finding is as expected as the less tax compliant respondents may believe that the amount of tax they actually do pay is fair regardless of the fact that they have not been fully compliant. (Oberholzer, 2007:185.)

Of the respondents that were of the view that it is unfair to pay tax, 27, 42% of those that believed that everyone should be entitled to keep the income they earn agreed to a greater extent than those that were of the view that all income should accrue to the government which should distribute it equally amongst all South Africans (13, 13%). Based on these findings, it appeared that respondents that trusted the government with the distribution of tax funds are more positive about the fairness of tax than those that believed that everyone should be entitled to keep the income that they earn. (Oberholzer, 2007:115.)

There is no relationship between the respondents' views concerning the unfairness of the tax system and their attitudes towards tax evasion (Oberholzer's, 2007:171).

The factors that influenced the respondents' views with regard to knowing why tax had to be paid are age, population groups, level of education, employment status, registration with SARS, prior dealings with SARS, level of support for the government and views on income distribution (Oberholzer, 2007:104).

The majority of the Indian (92, 50%), Coloured (75, 61%) and Black (54%) population groups were of the view that they knew why they had to pay tax while only 31, 65% of the White population group indicated that they knew why they had to pay tax. Of the respondents that indicated that they did not know why they had to pay tax, the White (45, 57%) and the Black (34%) population groups agreed to a greater extent compared to the Coloured (21, 95%) and Indian (7, 50%) population groups. It may be argued that the White population group may have felt alienated from democratic government and the Black population group may be more reluctant to pay tax on the grounds that the tax burden should be borne by those that benefited from racial privilege in the past. (Oberholzer, 2007:129-130.) The response of the White population group ties in with the finding above with regard to the fairness of paying tax where the majority believed that it is unfair to pay tax

A significant majority of the respondents that support the government (76, 37%) and 50% of those that did not support the government indicated that they knew why they had to pay tax. Only 41% of those that were neutral in their support for the government indicated that they did not know why they had to pay tax. Respondents who support the current government possibly trust the government with the allocation of tax money to a greater extent than those that did not support the government and are therefore more positive about paying tax. (Oberholzer, 2007:133.)

The findings of Oberholzer's study indicated that 41, 94% of all the respondents felt that everyone should be entitled to keep the income they earn as they did not know why they had to pay tax while only 28, 28% of those that felt that all income should accrue to the government, who should distribute it equally to all citizens, held the same views. Based on these findings it may be concluded that those believing that they should keep all the income they earn would not support the payment of tax. (Oberholzer, 2007:134.)

The older respondents (those that are older than 50 years) agreed to a lesser extent than the younger respondents (those that are below 49 years) that they knew why they had to pay tax. Based on these findings, it may be concluded that since the older respondents



may no longer be employed and would most probably receive earnings from their pensions or savings, they would not want these amounts to be taxed. (Oberholzer, 2007:129.)

The languages spoken by the respondents influenced their views on paying taxes. The English speaking respondents (78, 85%) indicated that they knew why they had to pay tax. They were followed by the respondents that speak Black languages (52, 28%) and those that speak Afrikaans (48, 15%) who also indicated that they knew why they had to pay tax. Based on these findings, it appeared that Afrikaans speaking respondents agreed to a lesser extent compared to the other language groups that they knew why they had to pay tax. These findings are however inconclusive as both the Black and White language groups indicated mixed responses. (Oberholzer, 2007:131.)

Educational background of the respondents influenced their perceptions with regard to paying taxes and knowing why it is important to do so. Of all the respondents that indicated that they knew why they had to pay tax, those in possession of a higher education qualification (73, 33%) indicated the highest response rate compared to 55, 36% of those who did not complete secondary school and 43, 86% of those with a grade 12 / matric qualification. These finding appear to be inconclusive as those that did not complete secondary school indicated a higher response than those that have grade 12 / matric. (Oberholzer, 2007:131.)

The employment status of the respondents influenced their perception towards paying tax. Those that are unemployed (43, 56%) agreed that they did not know why they had to pay tax and 37, 04% of the self-employed respondents echoed the same sentiments. Salaried respondents (21, 21%) however agreed to a lesser extent. The high response rate from the unemployed respondents may be attributable to the fact that they do not pay tax while those that are self-employed may resent paying tax on their business profits. (Oberholzer, 2007:131.)

With regard to knowing why they have to pay tax, the perceptions of the respondents were influenced by whether or not they were registered as taxpayers with SARS. The study found that of the respondents not registered with SARS, 37, 7% indicated that they did not



know why they had to pay tax compared to 26, 09% of those that are registered. These findings may be explained by the fact that those that are not registered with SARS are generally low-income earners of the South African population that are below the tax threshold and may therefore not understand the need to pay tax. (Oberholzer, 2007:132.)

The study found that depending on whether or not the respondents were more or less likely to evade tax, their perceptions regarding paying tax differed. Of those that are more likely to evade tax, 56, 52%, noted that they do not know why they have to pay tax. To provide a more positive tax culture, the government should provide more information to all citizens with regard to taxes. (Oberholzer, 2007:173-174.)

The interaction with SARS officials influenced the respondents' perception of paying taxes. Those that consulted with SARS officials in the past (69, 91%) were of the view that they knew why they had to pay tax while only 48, 10% of those that had not consulted with SARS officials claimed to know why they had to pay tax. It may be argued that those that consulted with SARS officials in the past may be those that were registered as taxpayers as they are in a taxpaying position. They may have a greater understanding of the need to pay tax and in addition SARS officials may have positively influenced their attitudes. (Oberholzer, 2007:132.)

The factors that influenced the respondents' views with regard to the benefits that they received in relation to the tax that they pay are age, population groups, home language, level of education, employment status, earning of additional income, earning potential, registration with SARS, prior dealings with SARS, level of support for the government, views on income distribution, taxpayers' levels of tax compliance and their likelihood to evade tax. (Oberholzer, 2007:104.)

The White (62, 03%), Coloured (56, 10%) and Indian (50%) population groups did not believe that the tax that they paid is reasonable in relation to the benefits that they received. The Indian population group is split in half as 50% agree that the tax that they paid is reasonable in relation to the benefits that they receive. Of the respondents that expressed no opinion on the reasonableness of tax paid in relation to benefits received,

the Black population indicated the highest response rate (67%). Again, it may be argued that the Black respondents were not aware of the benefits that they receive from paying taxes. (Oberholzer, 2007:148.)

The respondents that did not support the government (60%) disagreed to a greater extent that the tax they pay is reasonable in relation to the benefits that they receive compared to 40% of those that were neutral in their support for the government and 27, 27% of those that did support the government (Oberholzer, 2007:153).

Only 27, 27% of the respondents that believed that income earned should accrue to the government and they should distribute it equally amongst all South Africans felt that the tax that they paid was reasonable in relation to the benefits that they received. On the other hand, only 14, 52% of those that felt that everyone should keep the income that they earn believed that the tax that they paid was reasonable in relation to the benefits that they received. Respondents who trusted the government with the distribution of tax revenue were more likely to be more positive about the current level of benefits received from the government. (Oberholzer, 2007:154.)

The older respondents (those that are older than 50 years) agreed to a greater extent that the tax they paid was not reasonable in relation to the benefits that they received compared to the younger respondents (those that are 49 years or younger) (Oberholzer, 2007:146).

The different language groups also influenced the respondents' perceptions of the benefits that they received from the government in relation to the tax that they paid. The Afrikaans speakers had the highest response rate (60, 19%) and felt that the amount of tax they paid was not reasonable in relation to the benefits they received. They were followed by 51, 92% of the English speakers. Less than ten percent of the respondents who speak Black languages (8, 25%) did not believe that the tax they paid was reasonable in relation to the benefits that they received, while 25, 77% felt that the amount of tax that they paid was reasonable in relation to the benefits that they received and more than half (54, 64%) had no opinion in the matter. The responses from the Black speaking language groups may be



attributed to the fact that they may not be aware of the benefits that they receive from paying taxes. (Oberholzer, 2007:148.)

The educational background of the respondents influenced their responses on how they viewed the amount of tax that they paid in relation to the benefits that they received. Of all the respondents in possession of a higher education qualification, 38, 89% felt that the amount of tax they paid was reasonable in relation to the benefits that they received. Only 21, 05% of those with grade 12 / matric certificate and 7, 14% of those that did not complete secondary school shared the same sentiments. The higher response rate from those with a higher educational background may be attributable to the fact that they better understand the need to contribute towards government spending than the less educated respondents. (Oberholzer, 2007:149.)

The employment status of the respondents also influenced their responses on how they viewed the amount of tax that they paid in relation to the benefits that they receive. Salaried respondents (42, 42%) agreed more strongly that the amount tax that they paid was reasonable in relation to the benefits that they received in comparison with the self-employed (7, 41%) and unemployed respondents (4, 95%). These findings may be attributed to the fact that salaried respondents may possibly experience the impact of tax, which is deducted by the employer to a lesser extent than those that are self-employed and thus directly involved in calculating their own tax liability. These findings do not however explain the low response rate from the unemployed respondents as they are not paying any taxes. (Oberholzer, 2007:149.)

The registration status of the respondents with SARS also influenced their perception of the amount of tax paid in relation to the benefits received. Those that were registered with SARS as taxpayers (39, 31%) agreed more than those that were not registered (7, 38%) that the amount of tax they paid was reasonable in relation to the benefits that they received. These findings may be attributed to the fact that those that are registered with SARS as taxpayers fall within a higher tax bracket and may be more educated than those that are not registered and thus, may better understand the need to pay tax in order to provide social benefits for South African citizens. (Oberholzer, 2007:152.)

The interaction with SARS officials influenced the respondents' perception on the amount of tax paid in relation to the benefits received. Those that consulted with SARS officials in the past (43, 14%) agreed more strongly than those that had not done so (12, 03%) that the amount of tax that they paid was reasonable in relation to the benefits that they received. It may be argued that prior dealings with SARS officials may have positively influenced respondents' perceptions concerning the benefits provided by the government in return for taxes paid. (Oberholzer, 2007:152.)

The respondents' perception of the amount of tax paid in relation to the benefits received was influenced by whether or not they earned additional income. Those earning additional income (27, 87%) were of the view that the amount of tax that they paid was reasonable in relation to the benefits that they received. Only 23, 12% of those that did not earn additional income held the same view. (Oberholzer, 2007:149-150.)

The earning potential of the respondents influenced their views on the amount of tax paid in relation to the benefits received. Those that earned below the tax threshold (low-income earners) (7%) agreed that the amount of tax that they paid was reasonable in relation to the benefits that they received while only 33, 85% of those earning more than R10 000 (high income earners) and only 35, 79% of those earning between R2 918 and R10 000 per month before deductions (middle income earners) held the same view. It may be argued that most high income earners were most probably more educated and therefore would have a greater understanding of the need to contribute income to the government to provide for social and other benefits. (Oberholzer, 2007:150.)

The less tax compliant respondents (70, 21%) were of the view that the tax they paid was not reasonable in relation to the benefits that they received and 31, 46% of those that were more tax compliant shared the same views. Taxpayers who were satisfied with the amount and fairness of taxation being levied against their income were more likely to be more tax compliant and hence the reason why they indicated a lower response rate compared to those that are less tax compliant. (Oberholzer, 2007:191.)



The respondents' views regarding the reasonableness of tax paid in relation to benefits received were influenced by whether or not they were more or less likely to evade tax. An overwhelming majority of the respondents that were more likely to evade tax (86, 95%) were of the opinion that the amount of tax that they paid was not reasonable in relation to the benefits that they received. This finding is expected as taxpayers who are not satisfied with the amount and fairness of taxation being levied against their income would be more likely to evade tax. (Oberholzer, 2007:176.)

Statements three, four, five and eight in Table 3 above relate to tax rates and will therefore be dealt with together. The factors that influence the respondents' views on all three statements will be discussed individually for each statement.

According to Table 3, the majority of the respondents (82, 31%) felt that the VAT rates are too high and should be reduced while 77, 31% felt that the income tax rates are too high and should be reduced. A high majority (63, 08%) also believed that those who earn more should pay tax at a higher tax rate. This is supported by the majority of the respondents (43, 85%) that did not support the notion that the same tax rates should apply to everyone regardless of the amount earned. They preferred a progressive tax rate as opposed to a fixed tax rate. Progressive tax rates increase as income increases, thus those who earn more will be taxed at a higher rate compared to those who earn less. The income tax rates in South Africa are progressive. As aforementioned, a higher majority preferred to have a reduction of VAT rates compared to a reduction of income tax rates. It may be argued that this is due to the fact that everybody is subject to VAT since it is consumption tax. It is therefore expected that even those that are not registered as taxpayers with SARS would agree that VAT rates should be reduced.

The factors that influenced the views of the respondents regarding the income tax rates were population groups, earning potential, registration with SARS and level of support for the government (Oberholzer, 2007:104).

The respondents' population group had an influence on their perception of the income tax rates. Although a high proportion of all the population groups agreed that income tax rates

must be reduced, the Black population group (66%) agreed to a lesser extent compared to the other population groups that income tax rates must be reduced. The Coloured population group (92, 69%) agreed the most of all the other population groups followed by the White population group (82, 28%) and the Indian population group (80%). The Black population group are the majority of the voters in South Africa and they also have the majority representation in the government. As a result they may be more in favour of the current fiscal policies hence the reason why they agreed to a lesser extent compared to the other population groups that income tax rates must be reduced. The high response rate for the Coloured, Indian and White population groups may be attributed to the fact that they may no longer perceive themselves to be considered part of the previously disadvantaged groups in the country. (Oberholzer, 2007:116.)

The earning potential of the respondents had an influence on their perceptions of the income tax rates. Middle income earners (84, 21%) and high income earners (83, 08%) agreed to a larger extent that income tax rates must be reduced compared to 67% of the low income earners. The fact that low income earners agreed to a lesser extent may be attributed to the fact they were most probably not subject to tax, thus they were less likely to believe that tax rates should be reduced. (Oberholzer, 2007:117.)

The respondents' registration status with SARS had an impact on how they viewed income tax rates. Of those that are registered as taxpayers with SARS, 84, 78% agreed that income tax rates must be reduced compared to 68, 85% of those that were not registered. This can be attributed to the fact that those that were registered with SARS pay income tax, thus a reduction in the income tax rates would mean more income after tax for them. (Oberholzer, 2007:118.)

The level of support for the government influenced the respondents' views on the reduction of income tax rates. Those respondents that did not support the government (98%), agreed to a greater extent that income tax rate must be reduced compared to 74, 54% of those that supported the government and 70% of those that were neutral in their support for the government. (Oberholzer, 2007:118.)



An overwhelming majority of the respondents that were less tax compliant (91, 49%) agreed that income tax rates must be reduced (Oberholzer, 2007:186).

The factors that influenced the views of the respondents regarding the VAT rates were their employment status, earning potential, level of support for the government and views on income distribution (Oberholzer, 2007:104).

The earning potential of the respondents had an influence on their perceptions of the VAT rates. The majority of the respondents agreed that VAT rates must be reduced. High income earners agreed to a larger extent (87, 69%) closely followed by middle income earners (87, 37%) and low income earners (74%). (Oberholzer, 2007:120.)

The level of support for the government influenced the respondents' views on the reduction of VAT rates. Although a high proportion of all the respondents agreed with the statement, those that did not support the government (98%) agreed to a greater extent than those that did support the government (77, 27%) and those that were neutral in their support for the government (80%) that VAT rates must be reduced. The high response from the majority of the respondents is attributed to the fact that all individuals are subject to VAT on their purchases of goods and services. (Oberholzer, 2007:121.)

The respondents' views on the income distribution by the government influenced their responses with regards to the reduction of the VAT rates. A significantly high majority of those that believed that everyone should be entitled to keep the income that they earn (91, 94%) agreed that VAT rates must be reduced compared to 79,29% of those that believed that all income earned should accrue to the government who should distribute it equally amongst all South Africans. (Oberholzer, 2007:122.)

An overwhelming majority of the respondents that were less tax compliant (97, 87%) agreed that VAT rates should be reduced. Of those that were more tax compliant, 78, 85% shared the same views. (Oberholzer, 2007:187.)



The factors that influenced the respondents' views on whether or not the income tax rate should be the same for all taxpayers regardless of the amount of their earnings were population group, home language, earning of additional income, earning potential, registration with SARS, support for the government and the taxpayers' level of compliance. (Oberholzer, 2007:104.)

The perceptions of the respondents on whether or not a fixed rate should be paid by all taxpayers regardless of the income that they earn are influenced by their population groups. The Indian (97, 50%) and Coloured (87, 80%) population groups are more in favour of a fixed tax rate for everyone regardless of their earnings, while the Black (71%) and the White (49, 37%) population groups are against a fixed tax rate for all taxpayers. The high response rate from the Coloured and Indian population groups can be attributed to their strong entrepreneurial tendencies; therefore a fixed tax rate would enable them to retain a large proportion of their business profits as opposed to the progressive rate where their income tax liability will increase as their income increase. (Oberholzer, 2007:123.)

The earning potential of the respondents had an influence on their views regarding a fixed income tax rate for all taxpayers irrespective of the amount that they earned. High income earners (49, 23%) agreed more strongly in comparison to low income earners (34%) and middle income earners (32, 63%) that everyone should pay a fixed tax rate of tax regardless of their income. The high income earners would prefer a fixed tax rate as opposed to a progressive tax rate as they would fall in a higher tax bracket. (Oberholzer, 2007:124.) However, the response from the middle income earners cannot be explained as it would have been expected that they would prefer a fixed tax rate to a greater extent compared to the low income earners.

The respondents' registration status with SARS had an impact on their perceptions of fixed rates for all taxpayers. Of those that were registered as taxpayers with SARS, 42, 03% were in favour of paying a fixed rate of tax regardless of their income compared to only 37, 97% of those that were not registered. Those that were registered were the ones above the tax threshold thus they would prefer a fixed tax rate as opposed to a progressive tax rate. (Oberholzer, 2007:126.)



The level of support for the government influenced the respondents' views concerning fixed income tax rate for all taxpayers regardless of the income that they earn. Those that did not support the government (60%) were in favour of a fixed tax rate compared to 50, 91% of those that supported the government and 43% of those that were neutral in their support for the government. Respondents that were in favour of the government therefore agreed more strongly with progressive tax rates. This may be attributed to the fact that tax revenues are used partly for the social uplifting of those members of the population who were previously economically disadvantaged who also happen to be the voting majority in South Africa. (Oberholzer, 2007:127.)

The earning of additional income influenced the respondents' views concerning a fixed income tax rate for all taxpayers regardless of the income earned. Of all the respondents that earned additional income, 55, 74% would have preferred a fixed income tax rate compared to 31,66% of respondents that were not earning additional income. Since respondents earning additional income are likely to fall within a higher tax bracket they would prefer a fixed income tax rate as opposed to progressive tax rates. (Oberholzer, 2007:124.)

The different language groups influenced the respondents' views on a fixed income tax rate for all taxpayers. English speaking respondents (76,92%) and Afrikaans speaking respondents (40,74%) were more in favour of a fixed income tax rate for all taxpayers regardless of the amount earned compared to the Black language speakers (13,40%). This finding is consistent with the population groups as the Indian and Coloured population groups are more likely to be English and Afrikaans speaking. The English and Afrikaans speakers are more likely to have their own businesses and a fixed income tax rate would enable them to retain a larger proportion of their business profits. Due to the economic disadvantages suffered by the Black population group whose home languages are predominantly African, it may be argued that they may view a fixed income tax rate for all taxpayers regardless of the amount earned as unfair and thus the low response rate. (Oberholzer, 2007:124.)



The respondents' views regarding a fixed income tax rate by all taxpayers regardless of the income earned, was influenced by whether or not they were more or less likely to evade tax. Of those that were more likely to evade tax, 56, 52% indicated they would prefer a progressive tax rate rather than a fixed tax rate. Should they choose to evade tax, they would have reduced taxable income and therefore they would save more tax if they paid at a progressive tax rate as opposed to a fixed tax rate. (Oberholzer, 2007:172-173.)

Those that are less tax compliant (76, 60%) agreed that the same tax rates should be paid by all taxpayers regardless of the income that they earn. Only 28, 64% of those that were more tax compliant shared the same views. It therefore appeared that respondents with a negative attitude towards tax compliance would prefer a fixed tax rate to be applied by all taxpayers regardless of their income. (Oberholzer, 2007:188.)

The factors that influenced the respondents' views on whether or not those that earn more should pay tax at a higher rate were gender, population group, educational background, earning of additional income, registration with SARS, prior dealings with SARS and the taxpayers' level of tax compliance (Oberholzer, 2007:104).

The population group of the respondents influenced their views on whether or not those that earn more should pay tax at a higher rate. Based on the findings of Oberholzer's study, a high proportion of all population groups agreed that those that earn more should pay tax at a higher rate. The Black (72%), White (73, 42%) and Coloured (65, 85%) population groups agreed to a greater extent compared to the Indian (17, 50%) population group. A significantly high majority of the Indian population group (82, 50%) did not agree that those that earn more should pay tax at a higher rate. (Oberholzer, 2007:135-136.) The response rate of the Coloured population group is contradictory to their responses regarding a fixed tax rate for all taxpayers as mentioned in the previous paragraph. The responses of the Indian population group supported their responses in the previous paragraph with regard to a fixed tax rate for all tax payers. It may therefore be argued that a different factor may have been at play here and not population groups.



The respondents' registration status with SARS had an influence on their views regarding whether or not those that earn more should pay tax at a higher rate. Those that were not registered as taxpayers with SARS (68, 03%) agreed to a greater extent that those that earn more should pay tax at a higher rate compared to 58, 70% of those that were registered with SARS. It therefore appears that non-registered taxpayers were more in favour of the progressive tax rates than those were registered. Registered taxpayers would generally not agree with paying tax at a higher rate and would therefore prefer a fixed tax rate. (Oberholzer, 2007:137.)

The earning of additional income influenced the respondents' view concerning the payment of tax at a higher rate by those that earn more. The respondents that did not earn additional income (65, 33%) agreed more strongly that those that earn more should pay tax at a higher rate compared to 55, 74% of those that earned additional income. (Oberholzer, 2007:135-137.) These findings are expected as those that earn additional income would prefer a fixed income tax rates as opposed to a progressive tax rate as the additional income would place them in a higher tax bracket.

The gender of the respondents influenced their views on the payment of tax at a higher rate by those that earn more. Females (70, 49%) were more in favour of the progressive tax rates than the males (56, 52%); that is, those that earn more should pay tax at a higher tax rate. It may be argued that because females have traditionally earned less than their male counterparts, they did not pay tax at the highest rate and therefore may be more in favour of progressive tax rates. (Oberholzer, 2007:135.)

The level of education of the respondents influenced their on the payment of tax at a higher rate by those that earn more. Those with higher educational qualification (51, 1%) did not agree that those that earn more should pay tax at a higher tax rate. Those that did not complete secondary school (71, 43%), and 68, 42% of those that completed grade 12 / matric were in support of the progressive tax rates. Respondents with a higher education are likely to prefer a fixed rate as they would probably have a higher earnings capacity and would therefore be taxed at higher tax rates if the progressive tax rates are applied. (Oberholzer, 2007:136.)



Those that were less tax compliant (53, 19%) did not agree that those that earn more should pay tax at a higher rate while only 23% of those that were more tax compliant shared the same views. Based on these findings it appeared that those that were less tax compliant would prefer a fixed income tax rate to be applied to all taxpayers. This is in line with the previous finding relating to a fixed income tax rate to be used by all taxpayers regardless of their income. (Oberholzer, 2007:189.)

Oberholzer's study (2007:172) found that there was no relationship between the respondents' views concerning the reduction of tax rates and VAT rates and their attitudes towards tax evasion. According to the author, these findings were not what might have been expected.

According to Table 3, the responses regarding tax complexity is fairly equally distributed among the respondents that agreed, disagreed or had no opinion thereon. An equal percentage of the respondents (37, 69%) agreed and disagreed that tax is very complicated and as a result they are not able to calculate their own tax liability. A lower percentage of the respondents (24, 63%) had no opinion regarding the complexity of tax.

The factors that influenced the respondents' views on the complexity of tax were gender, population group, home language, educational background, employment status, earning of additional income, earning potential, registration with SARS, prior dealings with SARS, the level of support for the current government and the taxpayers' level of tax compliance (Oberholzer, 2007:104).

Gender influenced the views of the respondents with regard to the complexity of tax. Females (43, 44%) agreed to a greater extent that tax is very complicated and as a result they are not able to calculate their own tax liability. Only 32, 61% of the males held the same views. It may be argued that since traditionally fewer females were employed while males were regarded as the main providers, it may not have been necessary for the females to understand the working of tax to the same extent as males. (Oberholzer, 2007:139.)



The population groups of the respondents influenced their views relating to the complexity of tax. More than half of the White respondents (51, 90%) were of the view that tax is very complicated and hence they were not able to calculate their own tax liability. A higher percentage of the Indian (60%) and Coloured (56, 10%) population groups did not find tax to be complicated and so calculating their own tax liability was not found to be very difficult. The majority of the respondents from the Black population group (55%) had no opinion on the matter. It may be argued that the White respondents were the only population group that was paying tax during the apartheid era so they are more familiar with the complexity of tax legislation, hence the higher response rate. (Oberholzer, 2007:139 -140.)

The different languages spoken by the respondents had an influence on their views concerning the complexity of tax. The Afrikaans speaking respondents (53, 85%) believed that tax is very complicated and hence they were unable to calculate their own tax liability. The majority of the English speaking respondents (57, 38%) did not find tax to be complicated. The majority of the respondents from the Black language groups had no opinion in the matter. It may be argued that Afrikaans and English speaking respondents are higher income earners due to the economic discrimination from the past and therefore they are more aware of the complexity of tax. (Oberholzer, 2007:140.)

The level of education of the respondents had an influence on their views concerning the complexity of tax. The respondents that were in possession of higher educational qualifications (63, 33%) did not find tax to be complicated and only 23, 68% of those that had grade 12 / matric and 25% of those that had not completed secondary school held the same view. These findings are as expected as those with a higher level of education would logically find it easier to understand tax legislation to the extent necessary to calculate their own tax liability. (Oberholzer, 2007:141.)

The employment status of the respondents had an influence on their views concerning the complexity of tax. The unemployed respondents (39, 60%) and salaried respondents (38, 64%) agreed to a greater extent that tax is very complicated and hence they did not know how to calculate their own tax liability. Only 25, 93% of the self-employed respondents



held the same view. Unemployed respondents were not in tax paying positions and hence did not need to calculate their tax liability. Employed respondents also did not have to worry about calculating their own tax liability as this is done for them by their employers. Self-employed residents on the other hand need to calculate their own tax liability and since they are involved they are more likely to view tax as less complicated. (Oberholzer, 2007:140-142.)

The study found that there was a difference in perceptions of the respondents that earned additional income and those that did not earn additional income. Of those that earned additional income, 44, 26% were of the opinion that tax is very complicated and that they did not know how to calculate their own tax liability and only 35, 68% of those that did not earn additional income shared the same view. Since individuals that earn additional income are required to calculate their own tax liability, they are more likely to view tax as complicated. These findings are however in contrast of the findings relating to self-employed respondents who agreed to a lesser extent that tax is complicated. (Oberholzer, 2007:142.)

The earning potential of the respondents had an influence on their views concerning the complexity of tax. The middle income earners (54, 74%) agreed to a greater extent that tax is very complicated and hence they did not know how to calculate their own tax liability. Only 31% of low income earners and 23, 08% of the high income earners shared the same view. The low response rate from the high income earners may be attributed to the fact that they were more educated and thus found it easier to understand tax legislation. The high response rate from the middle income earners and the low income earners can however not be explained as it is not what would have been expected. (Oberholzer, 2007:142.)

The respondents' registration status with SARS had an influence on their views concerning the complexity of tax. Those that were registered as taxpayers with SARS (53, 62%) agreed to a greater extent compared to 19, 67% of those that were not registered that tax is very complicated and hence they did not know how to calculate their own tax liability. These findings may be attributed to the fact that those that were registered are regularly



confronted with tax-related issues and may have been more aware of the complexity of tax legislation. (Oberholzer, 2007:144.)

Previous interaction with SARS officials influenced the views of the respondents concerning the complexity of tax. Those that had prior dealings with SARS officials (61, 76%) did not find tax to be complicated compared to 22, 15% of those that had no prior dealings with SARS officials. It may be argued that previous interaction with SARS officials may have positively influenced respondents' perceptions regarding tax complexity and of calculating their own tax liability. (Oberholzer, 2007:144-145.)

The level of support for the government influenced the views of the respondents concerning the complexity of tax. Of those that did not support the government, 52% agreed that tax is very complicated and hence they did not know how to calculate their own tax liability at the same time 42% of those that did not support the government did not believe that tax is very complicated. A high majority of those that supported the government (40, 91%) also did not feel that tax is very complicated. Based on these findings, it appears that those that did not support the government may have stronger opinions regarding the complexity of tax. (Oberholzer, 2007:145.)

The more tax compliant respondents were fairly divided between those that agree that tax is very complicated and as a result they were not able to calculate their own tax liability (34, 74%), those that did not feel that tax is complicated (35, 21%) and those that had no opinion in the matter (30, 05%). The less tax compliant respondents all had an opinion regarding this matter with 51, 06% agreeing that tax is complicated and 48,94% stating that tax is not complicated. (Oberholzer, 2007:190.)

The respondents' views regarding the complexity of tax laws was influenced by whether or not they were more or less likely to evade tax. A significantly high majority of those that were more likely to evade tax (73, 91%) were of the view that tax is very complicated and as a result they were not able to calculate their own tax liability. Based on this finding, it may be deduced that the complexity of tax structures appears to have a negative influence on taxpayers' willingness to contribute to the fiscus. (Oberholzer, 2007:175.)



Table 4 below outlines the respondents' attitudes and perceptions towards statements that relate to tax evasion. They were requested to indicate whether they agreed, disagreed or had no opinion with regard to various statements relating to tax evasion.

Table 4: Responses regarding respondents' attitudes towards statements related to tax evasion

Statement relating to tax evasion	Percentage of respondents who agreed with the statement	Percentage of respondents who disagreed with the statement	Percentage of respondents who had no opinion regarding the statement
The fiscal authorities (SARS) would notice if I decide to evade tax	61,15%	16,15%	22,70%
Government receives enough tax so it does not matter if some people evade tax	19,62%	64,23%	16,15%
The burden of tax is so heavy that many people are forced to evade it in order to survive	45,77%	39,62%	14,61%
Since so many other people are evading tax, I cannot be blamed for evading tax	12,31%	68,46%	19,23%
I work hard for the income that I receive so I should be allowed to keep it all to myself	24,23%	60,77%	15,00%
People evade tax because the risk that the authorities will find out is low	45,38%	30,38%	24,24%
Wealthy people (those that earn more) evade tax more often than poor (those that earn less) people	63,85%	16,92%	19,23%

Source: Oberholzer (2007:162)

Based on the findings in Table 4 above, the majority of the respondents (64, 23%) did not agree that the government receives enough tax so it does not matter if some people evade tax. The majority of the respondents (60, 77%) did not agree that they should be allowed to keep all their income to themselves as they work hard for it. However, less than half of the majority of the respondents (45, 77%) were of the view that many people were forced to evade tax in order to survive as the burden of tax is so heavy. It may be argued that taxpayers do not evade tax due to the fear of been detected. This is indicated by a high majority of the respondents (61, 15%) who agreed that SARS would notice if they decided to evade tax. At the same time, less than half of the majority of the respondents (45, 38%) agreed that people evade tax because the risk that the authorities will find out is low. The majority of the respondents (60, 77%) did not agree that they cannot be blamed for



evading tax since so many other people are doing the same. It was agreed by the majority of the respondents (63, 85%) that those that earn more evaded tax more often than those that earned less. The responses regarding the statement related to tax evasion are consistent with the findings that people generally believe that is not unfair to pay tax.

The views of the respondents regarding tax evasion were influenced by their age, population group, educational background and views relating to income distribution. The manner in which the mentioned individual factors influenced the views of the respondents relating to tax evasion is discussed below. The rest of the factors not mentioned here did not influence the respondents' views with regard to tax evasion.

It was found that the older respondents (those that are older than 60 years) did not believe that tax evasion is acceptable. They are therefore less likely to evade tax. Respondents belonging to the White population group believe that it is not wrong to evade tax. They are therefore more likely to evade tax. Another argument is that they may be less supportive of the government and paying tax, thus the reason why they are more likely to evade tax. (Oberholzer, 2007:164-165.)

Respondents in possession of a higher education qualification did not believe that tax evasion is justifiable. They are therefore less likely to evade tax. Those that have not completed school are of the view that tax evasion is justifiable. They are therefore more likely to evade tax. (Oberholzer, 2007:166.)

Those that believed that they should keep their own income as they worked hard for it were more likely to evade tax compared to those that believed that the government should be in charge of income distribution to all citizens (Oberholzer, 2007:167).

Table 5 below outlines the responses of the respondents relating to general tax compliance statements.

Table 5: Percentage of respondents that responded positively with regard to general tax compliance statements

General statement	Percentage of respondents that provided a “yes” response
Every year I report all of my income to the fiscal authorities (SARS) when I submit my income tax return	51,15%
I would consider not reporting all of my income to the fiscal authorities (SARS) when I submit my income tax return in future	18,15%
I have sometimes made higher deductions than legally permitted when I submit my income tax return	17,69%
I would consider making higher deductions than legally permitted when I submit my income tax return in the future	20,77%
I would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should	31,54%
If a tax advisor advises me not to declare all of my income, I would take his advice	40,38%

Source: Oberholzer (2007:178)

Based on the findings in Table 5, the majority of the respondents (51, 15%) indicated that they would report all of their income to SARS on submission of their income tax returns. It appeared that 40, 38% of the respondents would take the advice of their tax advisor if they were advised by them not to declare all of their income. Some of the respondents (31, 54%) indicated that they would still accept a job if the employer offers not to deduct any tax from their salary even though the employer is required to do so by law. Although a high majority of the respondents indicated that they would report all of their income to SARS on submission of their income tax returns, 18, 15% of the respondents indicated that they would in future consider not reporting all of their income to SARS on submission of their income tax. A few of the respondents (17, 69%) admitted that they have sometimes made higher deductions than legally permitted when submitting their income tax returns and 20, 77% indicated that they would consider doing the same in the future. Based on these findings, it appears that the majority of the respondents are tax compliant. This is also supported by the findings that indicated that the majority of the respondents do not feel that it is unfair to pay tax. These findings are further supported by the low percentage of the respondents that were less likely to evade tax compared to those that were more likely to evade tax.

Oberholzer’s study found that age, population group, prior dealings with SARS and views relating income distribution are factors that influenced the perceptions of the respondents

with regards to tax compliance (Oberholzer, 2007:163-164). The manner in which each of the mentioned factors affected the respondents' perception towards tax compliance is discussed below.

It was found that respondents over the age of 60 years were less likely to evade tax compared to the younger respondents (those that are below the age of 60 years) (Oberholzer, 2007:180).

Although it was found that respondents belonging to the White population group were more likely to evade tax (Oberholzer, 2007:165), it was also found that both Black and White respondents were likely to be tax compliant than respondents from both the Coloured and Indian population groups (Oberholzer, 2007:180-181).

Based on the findings from Oberholzer's study, it was found that respondents who had consulted with SARS officials in the past were more likely to comply with tax requirements than those who had not consulted with SARS officials. It therefore appeared that personal contact with tax authorities had a positive impact on taxpayer compliance levels. (Oberholzer, 2007:182.)

The respondents' views on income distribution influenced their attitudes towards tax compliance. Those who were of the opinion that everyone should be entitled to keep the income they earn were somewhat less tax compliant than those who believed that all income earned should accrue to the government, who should distribute it equally among all South Africans. (Oberholzer, 2007:183.)

Oberholzer's study found that there was a relationship between the respondents' views with regard to the specific tax evasion statement and their attitudes towards tax compliance (Oberholzer, 2007:194). The manner in which respondents' views with regard to a specific tax evasion statement influenced their tax compliance behaviour is discussed below.



It was found that there is no relationship between the risk of discovery by SARS if tax evasion takes place and the respondents' attitude towards tax compliance (Oberholzer, 2007:194).

Of the respondents that were less tax compliant, 61, 70% agreed that since the government received enough money it did not matter if some people evaded tax. Only 10, 33% of those that were more tax compliant shared the same views. It appeared as if the perception that the government receive enough money is a motivation for taxpayers to not comply with the tax requirements. (Oberholzer, 2007:195.)

The less tax compliant respondents (80, 85%) were of the view that people were forced to evade tax because the tax burden is so high. Only 38, 03% of those that were more tax compliant share the same views. It appeared as if the financial hardships contributed to non - tax compliance behaviour. (Oberholzer, 2007:196.)

The less tax compliant respondents (23, 40%) agreed to a greater extent than those that were more tax compliant (9, 86%) that they cannot be blamed if they choose to evade tax as many other people were doing the same thing (Oberholzer, 2007:197).

The respondents that were less tax compliant (57, 45%) agreed that they should be allowed to keep all their income as they worked hard for it; compared to 16, 09% of those that were more tax compliant. It therefore appeared that another possible reason for taxpayers not complying with tax may be greed. (Oberholzer, 2007: 198.)

The respondents that were less tax compliant (82, 98%) were of the opinion that people who earned more evade tax more compared to people who earned less. Only 59, 62% of those who are more tax compliant shared the same view. It may be argued that people that evade tax might be those with higher income who have greater opportunities to legally avoid paying tax. (Oberholzer, 2007:199.)

Table 6 below outlines the respondents' opinion with regard to the punishment for tax evasion. The respondents were presented with a range of crimes which occur frequently in



a South African context. They were requested to indicate which penalty they considered to be appropriate for each crime. The possible penalties ranged from no penalty, fine or imprisonment. (Oberholzer, 2007:200.)

Table 6: Crime and appropriate penalties indicated by the respondents

Type of crime	Percentage of respondents who indicated that there should be no penalty for criminals	Percentage of respondents who indicated that there should be a fine for criminals	Percentage of respondents who indicated criminals should be imprisoned
Shoplifting	1,15%	55,77%	43,08%
Housebreaking	-	10,38%	89,62%
Tax evasion	5,77%	79,23%	15,00%
Drunken driving	0,38%	42,31%	57,31%
Failing to report additional income	8,46%	83,08%	8,46%
Hijacking	-	1,15%	98,85%

Source: Oberholzer (2007:200)

From Table 6 above, it is clear that most respondents supported some form of punishment for tax evasion and failing to report additional income. The majority of the respondents regarded a fine to be appropriate punishment. If imprisonment was an indicator of how seriously a particular crime was regarded, it is clear that tax evasion and failing to report additional income were regarded as far less serious than other crimes with only 15% and 8,46% respectively of respondents proposing imprisonment as a penalty. (Oberholzer, 2007:200-201.)

4.2.4 Summary

Based on the above, South African taxpayers did not feel that it is unfair to pay tax and they have indicated that they knew why they had to pay tax. However, only a few of the respondents were of the view that the amount of tax that they paid was reasonable in relation to the benefits that they received from the government. These responses were influenced by the respondents' population groups, earnings potential, level of support for the government respondents' views on income distribution, age, level of education, employment status, registration with SARS, and prior dealings with SARS.

The income tax rates and VAT rates were considered to be high and should be reduced. Progressive income tax rates were preferred by the majority of the respondents as they were of the opinion that those that earned more should pay tax at a higher rate. Flat tax rates for all taxpayers regardless of the income that they earn were not supported. These views were influenced by the respondents' population groups, earning potential, registration with SARS, level of support for the government, employment status, views on income distribution, home language, earning of additional income, gender, educational background, and prior dealings with SARS.

Waste and corruption in the government was considered to be high. This view was not influenced by any individual demographic, economic or other factor. It was also believed that a large proportion of taxes were used by the government for meaningless purposes; therefore taxpayers were of the opinion that the government needed to provide more information on the utilisation of taxpayers' money. These views were influenced by the respondents' age group, population group, level of education, employment status, earnings potential, registration with SARS, level of support for the government and views relating to income distribution.

The majority of the respondents felt that they were unable to calculate their own tax liability as the tax laws are complicated. Their view was influenced by their population groups, gender, home language, level of education, employment status, earning of additional income, earning potential, registration with SARS and prior dealings with SARS.

4.3 UNITED STATES OF AMERICA

4.3.1 Introduction

Taxes in America are administered by the USA Internal Revenue Service (IRS) which is a bureau of the Department of the Treasury and is considered to be one of the world's most efficient tax administrators. Its mission is to provide America's taxpayers top quality services by helping them understand and meet their tax responsibilities and to enforce the

law with integrity and fairness to all. The role of the IRS and the taxpayers are noted below:

- the taxpayers' role is to understand and meet his or her obligations; and
- the IRS's role is to help the large majority of the compliant taxpayers with the tax law while ensuring that the minority who are unwilling to comply pay their fair share of taxes.

Taxes are levied in terms of section 7801 of the Internal Revenue Code (IRS, 2011).

By the late 1970s, the IRS had already identified more than 60 factors likely to determine taxpayer behaviour (Kirchler, 2009:2)

The USA uses a self-assessed taxpaying system that is reliant on voluntary compliance by taxpayers. Even though most of the taxpayers comply voluntarily with tax laws, intentional non-compliance is noted to be a serious and pervasive problem in the USA. (Reckers, Roark and Sanders, 1994:825.)

4.3.2 Background of the studies

The IRS Oversight Board conducts an annual survey to gain deeper understanding of taxpayers' attitudes. The first survey was conducted in 2002 and was based on telephonic interviews conducted through structured questionnaires. The survey was aimed at gathering insights into taxpayers' views concerning customer service, funding priorities, IRS performance and other tax administration matters. The interview consisted of 1 000 respondents made up of equal numbers of male and female adults all 18 years of age and above (IRS Oversight Board, 2011:1). Since taxpayers' attitudes shape their behaviour, it is relevant to highlight some of the findings in the IRS Oversight Board's 2010 survey in this study.

Another study conducted by three professors in the USA aimed to investigate the US taxpayers' perception of the severity of tax evasion relative to other offences in general and white-collar crimes. Tax evasion was compared to twenty other offences, including, murder, rape, child molestation, robbery, accounting fraud, child labour, insider trading,



welfare fraud, shoplifting, prostitution, speeding running a red light and illegal parking. The study was in the form of a survey and included MBA students and graduate tax students from California and North Carolina who are male and female. The survey considered whether the demographic factors of the respondents (age, gender, education or income level and political affiliation) influenced their perception of tax evasion. (Blanthorne, C., Burton, H., and Karlinsky, S., 2005:2-6.)

The tax gap in the USA, that is, the amount of tax that is theoretically owed versus the amount of tax that is actually paid, was found to be very high. This was attributed to tax evasion by self-employed individuals, although the IRS Commissioner at that time was of the view that non-compliance is a problem for all taxpayers. It is against this background that the survey on the perception of tax evasion was conducted. (Blanthorne *et al.*, 2005:4.)

4.3.3 Findings and analysis of the study

Respondents were asked how much, if any, is an acceptable amount to cheat on income taxes. The options given to them ranged from a little here and there, as much as possible, not at all or do not know, not asked or no reply (the last three options will be referred to as *no opinion* for the rest of this section of the study). An overwhelming majority of the respondents (87%) indicated that there is no acceptable amount that one can cheat on in respect of their income taxes. (IRS Oversight Board, 2011:2.)

Furthermore, respondents were presented with tax related statements and for each statement they were requested to indicate whether they completely agree, mostly agree, mostly disagree, completely disagree or if they have no opinion. The tax related statements for which respondents were asked to indicate their opinions on were as follows:

- it is every American's civic duty to pay their fair share of taxes;
- everyone who cheats on their taxes should be held accountable;
- it is everyone's personal responsibility to report anyone who cheats on their taxes;
- taxpayers should just have to pay what they feel is a fair amount; and



- the more information and guidance the IRS provides, the more likely people are to correctly file their returns.

An equal high majority of the respondents (both 69%) completely agreed that it is every American's civic duty to pay their fair share of taxes and that everyone who cheats on their taxes should be held accountable. In line with the aforementioned finding, the majority of respondents (42%) completely disagreed and 28% mostly disagreed that taxpayers should pay what they feel is a fair amount. Combining the total percentage of the respondents that disagreed (whether completely or mostly), that taxpayers should pay what they feel is a fair amount, it is clear that a high majority of the respondents (70%) share this view. (IRS Oversight Board, 2011:3.)

Combining the percentages of the respondents that completely agreed and those that mostly agreed, it was found that 62% of the respondents felt that it is everyone's personal responsibility to report anyone who cheats on their taxes. Again combining the percentages of the respondents that completely agreed and those that mostly agreed, it was found that the majority of the respondents (85%) are of the view that people are more likely to file their returns correctly if more information and guidance is provided by the IRS. (IRS Oversight Board, 2011:3.)

Respondents were requested to indicate how important it is to them as taxpayers that the IRS ensures that different kinds of taxpayers honestly pay what they owe to the taxing authorities. The options given for their responses ranged from very important, somewhat important, not very important, not at all important and no opinion. The taxpayers were categorised into low-income taxpayers, high-income taxpayers, small businesses and corporations. A high majority of the respondents indicated that it is very important that the IRS ensures that all taxpayers honestly pay the IRS what they owe. Corporations received the highest percentage (indicated by 85% of the respondents), followed by high-income taxpayers (indicated by 78% of the respondents), small businesses (indicated by 73% of the respondents) and low-income earners (indicated by 69% of the respondents). (IRS Oversight Board, 2011:4.) The low percentage received for low-income earners may be

attributed to the fact that low-income earners are already struggling financially and so respondents may feel that the IRS should be more lenient on them.

In an effort to gain an understanding on the reasons that motivate taxpayers to report and pay their taxes honestly, respondents were requested to indicate how much influence certain factors had on their decision to pay and report their taxes honestly. The listed factors were: fear of an audit, belief that their neighbours are reporting and paying their taxes honestly, third parties reporting their income to the IRS and their personal integrity. The options given for their responses ranged from great deal of influence, somewhat of an influence, very little influence, not at all an influence and no opinion. Personal integrity was listed by the majority of the respondents (80%) as having a great deal of influence on whether or not they report and pay their taxes honestly. Combining the responses of the respondents that indicated that a certain factor has an influence on their decision to report and pay their taxes honestly (that is, those that indicated that a certain factor either had a great deal of influence or somewhat of an influence), it was found that 66% of the respondents felt that the possibility of third parties reporting their income to the IRS influenced their decisions to report or pay their taxes honestly and 64% confirmed that their decisions to report or pay their taxes honestly is influenced by fear of an audit. Interestingly enough, the survey found that the majority of the respondents (51%) felt that the belief that their neighbours are reporting and paying their taxes honestly has no influence on their decision to report and pay their taxes honestly. This finding is after combining the results of all the respondents that indicated that the belief that their neighbours are reporting and paying their taxes honestly either had very little influence or no influence at all on their decisions to report or pay their taxes honestly. (IRS Oversight Board, 2011:5.)

Taking into account the resources that the IRS has at its disposal to complete its functions, respondents were requested to indicate whether they agree with the following statements:

- the IRS maintains a proper balance between its enforcement activities and its customer service programs;
- the IRS devotes too much of its resources to customer service programs and not enough to its enforcement activities; and



- the IRS devotes too much of its resources to enforcement activities and not enough to its customer service programs.

The majority of the respondents (46%) agreed that the IRS maintains a proper balance between its enforcement activities and customer service programs while 32% agreed that the IRS devotes too much of its resources to enforcement activities and not enough to its customer service programs. (IRS oversight board, 2011:14.)

With regard to the funding of the IRS, respondents were given a list of statements relating to funding for the IRS and they were requested to indicate whether they completely agree, mostly agree, mostly disagree, completely disagree or have no opinion with each of the given statements. The statements relating to funding for the IRS are as follows:

- the IRS should receive extra funding to enforce tax laws and ensure that taxpayers pay what they owe; and
- the IRS should receive extra funding so it can assist more taxpayers over the phone and in person.

The survey found that the majority of the respondents agreed that the IRS should receive extra funding so it can assist more taxpayers over the phone and in person (indicated by 61% of the respondents), while 58% of the respondents agreed that the IRS should receive extra funding to enforce tax laws and ensure that taxpayers pay what they owe. These findings are after the results of all the respondents that indicated that they agreed (whether completely or mostly) with the given statements have been combined. (IRS oversight board, 2011:15.)

According to the findings of the survey relating to taxpayers' perceptions on tax evasion, it was found that tax evasion is perceived as less serious in comparison to white-collar crimes investigated (such as: welfare fraud, insider trading, child labour and accounting fraud). The respondents from the conservative part of the country (North Carolina) rated tax evasion more serious than those that are from the liberal part of the country (California). Similarly, MBA students rated tax evasion as more serious compared to the graduate students. Interestingly enough, the survey found that personal characteristic of



the respondents such as age, gender, education, income level or political affiliation, did not influence respondents' perception towards tax evasion. (Blanthorne *et al.*, 2005:5.)

Respondents rated violent crimes such as murder, rape and child molestation as more severe than tax evasion. In contrast violent crimes were also ranked higher than white-collar crimes. (Blanthorne *et al.*, 2005:8.)

In a study by Reckers *et al.* (1994:833), it was found that ethics, tax rates and withholding position (that is, whether or not the taxpayer is in a tax paying position or a refund position with the IRS) influenced a taxpayers' willingness to evade tax.

4.3.4 Summary

Taxpayers in America indicated that there is no acceptable amount that one can cheat on in respect of their income taxes. It was felt that it is every American's civic duty to pay their fair share of taxes and anyone who cheats on their taxes should be held accountable. However, taxpayers were of the view that it is the IRS's responsibility to ensure that all taxpayers pay their fair share of taxes. Taxpayers felt that if more information and guidance is provided by the IRS, people were more likely to file their returns correctly. These findings are an indication of a tax paying culture. The fact that the majority of the respondents feel that paying taxes is everyone's civic duty and that those that cheat on their taxes should be held accountable, may be an indication of trust by the taxpayers in the taxing authorities.

There is a high belief that the IRS maintains a proper balance between the enforcement activities and its customer service programs, however, 32% of the respondents still feel that the IRS denotes too much of its resources to enforcement activities and not enough to its customer service programs. This may be an indication that taxpayers may prefer customer services over controlling measures by the tax authorities.

Based on the above, it appears that the American taxpayers are very positive about paying taxes. This may be attributed to the fact that America is a developed country and they



have identified and understood the factors that influence taxpayers' attitudes toward taxation. This reinforces the importance of understanding the factors that influence taxpayers' attitudes in an effort to increase compliance and thereby increase tax revenue as well as tax morale.

Taxpayers perceive tax evasion as a less serious crime in comparison to White-collar crimes. The factors that influenced taxpayers' decision to evade tax are, their geographical locations, their level of education, their ethics, the tax rates and whether or not they are in a taxpaying position or a refund position with the IRS.

The identified social factors that influence Americans' attitudes towards paying tax are personal integrity, fear of an audit and third parties reporting their income to the IRS. The neighbours' behaviours somewhat had an influence on whether taxpayers paid their taxes. This finding is supported by Chau & Leung (2009:38) who found that Americans have a high individualism culture.

4.4 TANZANIA

4.4.1 Introduction

Income tax in Tanzania is administered in terms of the Income Tax Act of 2004 by the Tanzania Revenue Authority (TRA) which is a semi-autonomous agency of the Tanzanian Government under the general supervision of the Minister of Finance in Tanzania. Personal income tax for residents is based on their world-wide income while non-residents pay income tax on their Tanzanian source income.

4.4.2 Background of the study

Persistent public resistance to pay taxes, as reflected in the widespread tax evasion, was considered to be an important part of the problem of raising local government revenue in Tanzania. Building administrative capacity in the local authorities for the enhancement of revenue collection and the education and mobilisation of taxpayers were the prescribed

measures for addressing the problem of non-payment of taxes. However, in order to deal with the policy problem of revenue enhancement and tax evasion, the understanding of the factors influencing individuals' decision to pay or evade tax was considered to be important. The policy debate in Tanzania had to a large extent ignored taxpayers' views. As a result, a survey on the views of ordinary people on local government taxation in Tanzania was conducted. (Fjeldstad, 2004:1.)

The survey was conducted in October 2003 and comprised of 1 260 respondents from six different councils in Tanzania. The respondents were grouped according to socio-economic characteristics such as age, gender, size of household, education and occupation. Structured questionnaires were used to obtain citizens' views on taxation and tax evasion, who paid tax and why, service delivery, major problems in tax collection and who was to be blamed and the measures required to improve revenue collection (Fjeldstad, 2004:6). The results of the survey were compared across the different councils, however, for purposes of this study, only the results in total for all councils will be considered.

4.4.3 Findings and analysis of the study

Respondents were requested to indicate whether they pay any taxes, fees or charges (collectively referred to as taxes in this section of the study) by responding yes or no. The majority of the respondents (58, 7%) indicated that they do pay their taxes. Their responses were influenced by their age and level of education. (Fjeldstad, 2004:7.)

The older respondents (those that are between the age group of 30 to 49 years) (62, 1%), indicated to a greater extent that they do pay their taxes compared to only 52, 7% of the younger respondents (those that are between the age group of 18 to 29 years). Older respondents are expected to have taxable income compared to their younger counterparts, thus this finding is in line with what would have been expected. (Fjeldstad, 2004:7.)

Although the majority of all the respondents indicated that they do pay their taxes, those with higher levels of education (college or university) indicated so to a greater extent compared to those with lower levels of education (no formal schooling). According to the author, this finding is not surprising as people with higher levels of education are relatively better off than those with lower levels of education and as a result they will be more integrated into the formal and taxable economy. (Fjeldstad, 2004:8.)

According to the results of the survey, gender and religious beliefs were not found to have an influence on whether or not respondents paid their taxes (Fjeldstad, 2004:7).

To further expand on the question of whether or not respondents pay their taxes, they were requested to indicate the major reasons why people pay their taxes. In response to the question, they were presented with the following possible predetermined reasons:

- they will avoid disturbances;
- they anticipate public services;
- they have no opportunity to evade;
- they feel a certain obligation towards the government; and
- other reasons. (Fjeldstad, 2004:8.)

The majority of the respondents (45, 6%) were of the opinion that the main reason why people paid their taxes was to avoid disturbances. This is an indication that taxpayers regard the tax regime as harsh and unpleasant. According to the study, this response was influenced by the respondents' age, level of education and whether or not they were born in the council or had migrated from one council to another. (Fjeldstad, 2004:8.)

Of those that indicated that people pay their taxes to avoid disturbances, the younger respondents (those that are between the age group of 18 to 29 years) (47, 3%) agreed to a greater extent compared to the middle-age respondents (those that are between the age group of 30 to 49 years) (45, 8%) and the older respondents (those that 50 years and above) (43%). (Fjeldstad, 2004:9.) Based on these findings however, it may be argued that the age of the respondents had very little influence in this response as the responses from all the age groups are fairly evenly distributed.

With regard to the level of education of the respondents, those with vocational or adult education (50%) agreed to a greater extent that people pay their taxes to avoid disturbances compared to those with no formal schooling (48, 8%) those with primary education (45, 9%), those with secondary education (40, 6%) and those with college or university education (32, 1%) (Fjeldstad, 2004:9). This finding correlates with the fact that those with higher levels of education indicated the highest response rate that they pay their taxes compared to those with lower levels of education (Fjeldstad, 2004:8). It may be argued that those with higher levels of education are disturbed less by the tax authorities as they pay their taxes more readily.

The anticipation that the local authority will provide public services was indicated by 22, 6% of the respondents as another reason why people paid their taxes (Fjeldstad, 2004:8). According to the study, this response was influenced by the respondents' age, level of education and whether or not they are born in or has migrated to the council (Fjeldstad, 2004:9).

The older respondents (those that are above 50 years) (24, 3%) indicated to a greater extent that the anticipation of public services from the local authority was a major reason for people paying their taxes, in comparison to the younger respondents (those that are younger than 50 years). Although differences were noted between the respondents' level of education and their views regarding the anticipation of public services from the local authority as a reason for people paying their taxes, the findings appeared to be inconclusive. The respondents with college or university levels of education recorded the highest response rate (25%) followed by those with primary school level of education (24, 2%) and those with secondary school level of education (21, 7%). The other respondents with no formal schooling and those with vocational or adult education levels of education both had less the 20% response rates. (Fjeldstad, 2004:9.)

The respondents that had migrated to the council (23,6%) agreed to a slightly greater extent that people paid their taxes because they were anticipating public services from the local authority compared to those that were born in the council (22, 1%) (Fjeldstad, 2004:9).

From the study, it appears that having no opportunity to evade tax and a sense of obligation towards the government were not considered to be major reasons for people paying their taxes as only less than 10% of all the respondents indicated them as major reasons. However, of those that indicated a sense of obligation towards the government as a reason for paying taxes, the highest percentage came from the respondents with college or university level of education (21, 4%). (Fjeldstad, 2004:8-9.)

As mentioned above, only 22, 6% of the respondents were of the opinion that people pay their taxes because they are anticipating public services from the local authority (Fjeldstad, 2004:8). It may therefore be argued that citizens do not believe that their actions of paying taxes are reciprocated through the provision of public services, hence the low response rate.

In an effort to find out the perception of taxpayers towards tax evasion, respondents were asked whether they thought people would evade tax if given the opportunity. They had to indicate whether they agreed, neither agreed nor disagreed, disagreed or did not know. The majority of the respondents (48, 3%) agreed that people would evade tax if given the opportunity while 35, 2% of the respondents disagreed. The age of the respondents and the amount of time that they have lived in the council influenced their responses to this question. (Fjeldstad, 2004:10.)

The younger (51, 3%) and middle aged (50, 2%) respondents agreed to a greater extent that people would evade tax if given the opportunity in comparison to the older respondents (41, 4%) (Fjeldstad, 2004:10).

The study found that a larger share of the respondents that are migrants agreed that people would evade tax if the opportunity arose. However, the longer a migrant has lived in an area the more likely he or she was to have views on taxation similar to those who were born in the area. The respondent that has lived in the area between 2 to 5 years (65, 9%) agreed the most that people would evade tax if they find an opportunity to do so. (Fjeldstad, 2004:10.)



In an effort to increase and improve tax collection, respondents were asked to indicate what they regarded as the major problem in tax collection. The following statements were presented as options that respondents could choose from:

- tax revenues not spent on public services;
- high tax rates;
- dishonest tax collectors;
- too many taxes or fees;
- harassment by tax collectors;
- taxpayers unwilling to pay taxes;
- dishonest local government elected leaders; and
- dishonest parliamentarians. (Fjeldstad, 2004:11.)

According to the results of the survey, a high majority of the respondents (58, 4%) felt that one of the major problems that hampers tax collection is that taxes that are collected are not spent on public services (Fjeldstad, 2004:11). This supports earlier findings regarding the anticipation of public services from the local authority which only 22, 6% of the respondents considered as a reason why people pay their taxes (Fjeldstad, 2004:8). It can therefore be concluded that citizens do not feel that their actions of paying taxes are reciprocated by the local authorities through the provision of public services.

High tax rates and dishonest tax collectors are considered to be the second and third major problems to tax collection as indicated by 47, 9% and 45, 7% of the respondents respectively. The fact that dishonest tax collectors are considered a problem to tax collection may be indicative of a deep distrust among citizens on the ability or motivation of the local government to provide public services. (Fjeldstad, 2004:11.)

Only a fairly even number of respondents considered the existence of many taxes (indicated by 38, 9% of the respondents) and harassment by tax collectors (indicated by 38, 2% of the respondents) as problems to tax collection (Fjeldstad, 2004:11).

The survey found that the majority of the respondents (40, 9%) did not agree that dishonest parliamentarians are a problem to tax collection. It may be argued that citizens



do not view tax collectors and parliamentarians in the same light. However, only a smaller majority (31, 8%) disagreed that dishonest local government elected leaders are a problem to tax collection. It is interesting to note that the majority of the respondents (36, 7%) did not consider the unwillingness of taxpayers to pay their taxes as a problem to tax collection. It may therefore be argued that taxpayers are generally willing to pay their taxes provided that their actions are reciprocated by the local government. (Fjeldstad, 2004:11.)

After identifying the major problems to tax collection, respondents were requested to indicate who they thought was the most to blame for poor tax collection. The options ranged from tax collectors, council employees, central government authorities or TRA, licences and permit officers, local government elected leaders, parliamentarians and taxpayers. A high majority of the respondents (53, 7%) were of the opinion that tax collectors are the most to blame for poor tax collection. This response supports the earlier finding (Fjeldstad, 2004:11) where dishonest tax collectors were considered to be the third major problem to tax collection. Less than half of the respondents (49, 3%) were of the opinion that employees from the councils are to be blamed for poor tax collection. The central government authorities (indicated by 42, 6% of the respondents), licences and permit officers (indicated by 39, 8% of the respondents) and local government elected leaders (indicated by 37, 7% of the respondents) were also blamed for poor tax collection (Fjeldstad, 2004:14-15). In contrast, a high majority of the respondents did not agree that taxpayers (indicated by 47, 9% of the respondents) and parliamentarians (indicated by 41, 7% of the respondents) are to be blamed for poor tax collection. These responses are supported by the earlier findings where the majority of the respondents did not agree that dishonest parliamentarians and the unwillingness of taxpayers to pay their taxes are problems to tax collection. (Fjeldstad, 2004:11,14-15.)

Included in the survey were also questions relating to tax compliance and service delivery. With regard to service delivery, respondents were asked whether tax revenues collected in their area are used to provide public services. The majority of the respondents were of the opinion that the tax revenues collected in their area are not used to provide public services, while 34, 4% of the respondents indicated that they do not know whether the tax revenues collected in their area are used to provide public services. This response is an

indication that the majority of the respondents' belief that poor public services is a major explanatory factor behind tax compliance. (Fjeldstad, 2004:11-12.) The high percentage response of the 34, 4% of the respondents that indicated that they do not know whether the tax revenues collected in their area are used to provide public services, could be an indication that citizens are not aware of the benefits that they receive from paying taxes.

Respondents were further requested to indicate their views on hypothetical service delivery related statements by indicating whether they agreed, partly agreed, disagreed or do not have any opinion on each statement. The hypothetical service delivery related statements were:

- people should refuse to pay taxes until they get better services;
- people are willing to pay more taxes if public services improved; and
- people should contribute to better social services through more self-help activities.

A high majority of the respondents (74, 9%) agreed that people should contribute to better social services through more self help activities. Another high majority of the respondents (72, 7%) indicated that they were willing to pay more taxes if public services improved while 51% of the respondents felt that people should refuse to pay their taxes until they get better service delivery. Based on these findings, it can be concluded that poor public services were considered to be the most important explanatory factor behind poor tax compliance. (Fjeldstad, 2004:13.)

As noted above, the majority of the respondents are of the opinion that taxes collected are not spent on the provision of public services. As part of the questionnaire, respondents were asked what type of measures they thought would improve the use of tax revenue. The types of measures ranged from stronger punishment of government employees, stronger punishment of politicians, to more information on the allocation of tax revenues, and more information on collection; as well as more involvement of the police in tax collection, and more involvement of the military in tax collection as well as more fundamental changes. (Fjeldstad, 2004:18.)



The majority of the respondents (83, 3%) felt that stronger punishment of government employees is an appropriate measure to help improve the use of tax revenue while another majority of the respondents (79, 7%) were of the opinion that a stronger punishment of politicians will improve the use of tax revenue (Fjeldstad, 2004:18). These responses may be an indication that citizens feel that corruption in the government is high and as a result it hinders the correct use of tax revenue.

Based on the findings of the survey, it appeared that there was a great need for more information to be provided by the government on the allocation and collection of tax revenue. The majority of the respondents (77, 7%) agreed that the provision of more information on the allocation of tax revenues will help to improve the use of tax revenue. Furthermore, 74, 4% of the respondents agreed that the provision of more information on the collection of tax revenues will help to improve the use of tax revenue. (Fjeldstad, 2004:18.)

The involvement of the police and the military in the collection of taxes were indicated by 64, 3% and 60, 4% of the respondents respectively, as not having an impact on the improvement of the use of tax revenues. These high responses is an indication of taxpayers not wanting a “robber-cop” type of culture and preferred more trust from the tax collectors. (Fjeldstad, 2004:18.)

Respondents were asked to indicate who they would report the misuse of tax revenue to. The people that they could report such misuse to ranged from journalists, village authorities, ward offices, members of parliament, police, political party leaders and council authorities. The majority of the respondents (63, 7%) indicated that they would report any misuse of tax revenue to journalists. This is an indication of the name and shame style to discourage the misuse of tax revenue. Less than half of the respondents indicated that they would report the misuse of tax revenue to village authorities (indicated by 49, 6% of the respondents), ward offices (indicated by 47, 9% of the respondents), members of parliament (indicated by 47, 7% of the respondents), police officers (indicated by 45, 2% of the respondents), council authorities (indicate by 44, 1% of the respondents) and political leaders (indicated by 44, 7% of the respondents) .(Fjeldstad, 2004:16.)



4.4.4 Summary

In the study conducted by Fjeldstad (2004), it was evident that Tanzanian citizens generally paid their taxes and their decisions were not influenced by gender or religious beliefs. It was also found that people mainly paid their taxes to avoid disturbances or because they anticipated the provision of public services by the local authorities. Despite the fact that people generally paid their taxes, a high majority agreed that given a chance, they will evade paying taxes.

The majority of the respondents made it clear that their reasons for paying taxes are not influenced by the fact that they have no opportunity to evade tax or by feeling a sense of obligation towards the government. In fact, the majority indicated that people would evade tax if given the opportunity.

The majority of the respondents felt that collected taxes were not spent on public services and as a result they were of the view that they would refuse to pay their taxes should public services not improve. However, they also felt that should public services improve they would be more willing to pay their taxes.

Tax revenues not being spent on public services, high tax rates and dishonest tax collectors were indicated as major problems for tax collection. The respondents did not feel that the unwillingness of taxpayers to pay taxes was a problem for tax collection.

The majority of the respondents were of the view that stronger punishment of government employees and politicians was an appropriate measure to help improve the use of tax revenue.

Based on the findings of the survey, it appeared that there was a great need for more information to be provided by the government on the allocation and collection of tax revenue. Taxpayers believed that the provision of more information on the allocation of tax revenues and collection thereof will help to improve the use of tax revenue.

The involvement of the police and the military in the collection of taxes were indicated by the majority of the respondents as not having an impact on the improvement of the use of tax revenues. The majority of the respondents indicated that they will report any misuse of tax revenue to journalists.

The identified factors that influence Tanzanian's taxpayers' attitudes towards taxation were age, gender, level of education, the amount of time spent in the council and whether or not they are born in or migrated to the council.

4.5 CONCLUSION

Based on the findings in the previous studies conducted in the RSA, USA and Tanzania, it appears that taxpayers from all different countries do not feel that it is unfair to pay tax.

Tanzanian taxpayers indicated that they paid their taxes to avoid disturbances from their local authorities and because they anticipated the provision of public services from the local authorities. In contrast, taxpayers did not feel that a sense of obligation towards the government was motivation enough for them to pay their taxes. This is contrary to the American taxpayers who felt that it is every American's civil duty to pay their taxes.

On the other hand, personal integrity was found to be the major motivator in America for paying taxes. The possibility of third parties reporting their income to the IRS and fear of an audit were also indicated by American taxpayers as motivation for paying taxes.

In Tanzania, taxpayers were of the view that taxes that are collected were not spent on public services and this was seen as a major problem that hampered tax collection. The same sentiments were shared by the South African taxpayers who felt that waste and corruption in government was high and that a large proportion of taxes were used by the government for meaningless purposes. The American taxpayers did not appear to share the same sentiments as the majority indicated that the IRS should receive extra funding so that it could assist more taxpayers.



South African taxpayers would prefer the income tax rates and the VAT rates to be reduced. They would also prefer a progressive tax rate system as opposed to a flat tax rate for all taxpayers regardless of the amount of income that they earn. The Tanzanian taxpayers also believed that tax rates were high as they have indicated high tax rates and dishonest tax collectors as major problems hampering tax collection. The American taxpayers on the hand did not appear to be concerned with the tax rates as the majority indicated that they did not agree that taxpayers should pay what they feel is a fair amount.

Based on the study conducted in SA, it was found that the majority of the taxpayers did not believe that the amount of tax that they paid was reasonable in relation to the benefits that they received from the government. Similarly, the Tanzanian taxpayers indicated that people were willing to pay more taxes if public services were improved.

As mentioned in chapter two, tax evasion is a challenge for most governments. In the USA and SA it was found that tax evasion is considered as a less serious crime compared to criminal crimes and white-collar crimes. Taxpayers in the USA, however, are of the view that everyone who cheats on their taxes should be held accountable. The South African taxpayers are less likely to evade tax as the majority did not agree with tax evasion statements. Tanzanian taxpayers also appear to be less likely to evade tax as the majority indicated that they do not pay their taxes due to lack of opportunities to evade tax.

Both the South African and Tanzanian taxpayers indicated that there is a great need for the government to provide them with more information with regard to the utilisation of taxpayers' money.

The identified social factors that influenced Americans' attitudes towards paying tax were personal integrity, fear of an audit and third parties reporting their income to the IRS. The neighbours' behaviours had somewhat of an influence on whether taxpayers paid their taxes. The demographic factors that influence Americans' attitudes towards taxation were geographical location and level of education.

The identified factors that influenced Tanzanian's taxpayers' attitudes towards taxation were age, gender, level of education, the amount of time spent in the council and whether or not they are born in or migrated to the council.

The identified factors that influenced South African taxpayers' attitudes towards taxation were age, gender, population group, home language, level of education, employment status, earning of additional income, earning potential, registration with SARS, prior dealings with SARS, level of support for the government and taxpayers' view on income distribution.



CHAPTER 5

CONCLUSION

5.1 INTRODUCTION

Tax revenue is a fundamental income source for any government. It is therefore vital that collection thereof is maximised as far as possible. Various studies have found that there are several factors that influence the attitudes of taxpayers which subsequently shape their behaviour. An understanding of taxpayers' behaviours will therefore assist and empower governments in maximising revenue collection and adapting a helper attitude instead of a "hunter and cop" attitude. Education of taxpayers regarding the importance of paying taxes is also necessary and it may increase tax compliance.

The present study investigated the attitudes of taxpayers in Namibia towards taxation. It also investigated the various demographic, economic and other factors that influence the attitudes of taxpayers in the USA, RSA and Tanzania and evaluated which of those factors would have the most influence on the attitudes of Namibian taxpayers.

This chapter summarises the findings and conclusions of the study. A summary of the findings and conclusions relating to the research objectives is provided as well as a brief review of the limitation of the study and recommendations for future research. In the final section, the conclusion on the problem statement of the study is presented.

5.2 OBJECTIVES

The objectives of this study were to:

- determine the attitudes of taxpayers in Namibia towards taxation, this was discussed in paragraphs 3.5.1 to 3.5.6;
- determine the various demographic, economic and other factors that might influence a taxpayers' attitude towards taxation, this was discussed in chapter four; and

to evaluate which of the identified factors would have the most influence on the attitudes of the Namibian taxpayers. In paragraph 1.6.2, an assumption was made that taxpayers of the countries included in this study will have similar attitudes and similar factors will influence their attitudes. Based on the history that Namibia and SA shares, it may be argued that the identified factors that influence the attitudes of SA taxpayers will have the most influence on the attitudes of the Namibian taxpayers.

5.3 SUMMARY OF FINDINGS AND CONCLUSION OF THE RESEARCH

5.3.1 Attitudes of taxpayers in Namibia

No research on the attitudes of taxpayers in Namibia could be found. The attitudes of taxpayers in Namibia in this study are based on SMS's from the public relating to tax issues in Namibia.

It appears that Namibian taxpayers do not feel that the taxes they pay are reasonable in relation to the benefits that they receive from the government. It also appears that taxpayers feel that the government does not use taxpayers' money for meaningful purposes and as a result the distribution thereof is not done in a fair manner; for example, taxpayers are of the opinion that taxpayers money should rather be used for hospitals, education and infrastructure, instead of been used to bail out bankrupt para-statal or salary hikes for ministers.

Previous studies conducted on the Namibian tax policies and structures have revealed that tax evasion is widespread throughout Namibia and poses a threat to the Namibian tax base. One of the reasons for the high levels of tax evasion was attributed to the fact that people were encouraged during the apartheid era not to pay their taxes and the same tendency had continued post independence. The lack of transparency between the ROR and the MOF was also highlighted as contributing factor to the high levels of tax evasion.



It was also found that the Namibian tax base is very narrow and the government would need to look at widening it in order to maximise revenue generation and to avoid heavy reliance on foreign aid.

In light of the above, it will be in the best interest of the Namibian government to obtain an understanding of the attitudes of taxpayers in Namibia as well as the factors that may influence such attitudes. This will assist the government to increase tax compliance which in turn will increase revenue generation and reduce tax evasion.

5.3.2 Factors that influence the attitudes of taxpayers in RSA

Based on Oberholzer's study, it was found that South African taxpayers did not feel that it is unfair to pay tax and they have indicated that they do know why they had to pay tax. However, only a few of the respondents were of the view that the amount of tax that they paid was reasonable in relation to the benefits that they received from the government. Waste and corruption in the government was considered to be high.

The income tax rates and VAT rates were considered to be high and should be reduced. Progressive income tax rates were preferred by the majority of the respondents as they were of the opinion that those that earn more should pay tax at a higher rate. Flat tax rates for all taxpayers regardless of the income that they earn were not supported. The majority of the respondents felt that they were unable to calculate their own tax liability as the tax laws are complicated.

The identified factors that influenced South African taxpayers' attitudes towards taxation were age, gender, population group, home language, level of education, employment status, earning of additional income, earning potential, registration with SARS, prior dealings with SARS, level of support for the government and taxpayers' view on income distribution.



5.3.3 Factors that influence the attitudes of taxpayers in USA

Taxpayers in America indicated that there is no acceptable amount that one can cheat on in respect to their income taxes. It was felt that it is every American's civil duty to pay their fair share of taxes and anyone who cheated on their taxes should be held accountable. However, taxpayers were of the view that it was the IRS' responsibility to ensure that all taxpayers paid their fair share of taxes. Taxpayers felt that if more information and guidance was provided by the IRS, people were more likely to file their returns correctly.

There was a high belief that the IRS maintained a proper balance between the enforcement activities and its customer service programs, however, 32% of the respondents still felt that the IRS denoted too much of its resources to enforcement activities and not enough to its customer service programs. Tax evasion was perceived as a less serious crime in comparison to White-collar crimes.

The identified social factors that influence Americans' attitudes towards paying tax were personal integrity, fear of an audit and third parties reporting their income to the IRS. The neighbours' behaviours had somewhat of an influence on whether taxpayers paid their taxes. The demographic factors that influence Americans' attitudes towards taxation are geographical location and the level of education of the taxpayers.

5.3.4 Factors that influence the attitudes of taxpayers in Tanzania

Based on Fjeldstad's study, it was found that Tanzanian citizens generally paid their taxes and their decisions were not influenced by gender or religious beliefs. It was also found that people mainly paid their taxes to avoid disturbances or because they anticipated the provision of public services by the local authorities. Despite the fact that people generally paid their taxes, a high majority agreed that given a chance, they will evade paying taxes.

The majority of the respondents felt that collected taxes were not spent on public services and as a result they were of the view that they would refuse to pay their taxes should

public services not improve. However, they also felt that should public services improve they would be willing to pay more taxes.

Tax revenues not being spent on public services, high tax rates and dishonest tax collectors were indicated as major problems for tax collection. The respondents did not feel that the unwillingness of taxpayers to pay taxes was a problem for tax collection. It was therefore felt that stronger punishment of government employees and politicians were appropriate measures to help improve the use of tax revenue. There was a great need for more information to be provided by the government on the allocation and collection of tax revenue as that would help to improve the use of tax revenue. Taxpayers did not believe that the involvement of the police and the military in the collection of taxes will have an impact on the improvement of the use of tax revenues. However, reporting any misuse of tax revenue to journalists was indicated as an appropriate solution to improve the use of tax revenue.

The identified factors that influence Tanzanian's taxpayers' attitudes towards taxation were age, gender, level of education, the amount of time spent in the council and whether or not they are born in or migrated to the council.

5.3 LIMITATION OF THE STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCH

This study focused only on taxpayers that are natural persons. Secondary data was obtained instead of primary data. The limitations of the secondary data obtained will also apply to this study.

No research relating to attitudes of taxpayers in Namibia towards taxation could be found. It was therefore necessary to obtain secondary data. In order for the Namibian tax authority to increase its tax revenue, it would have to gain an understanding of the factors that influence the attitudes of taxpayers towards taxation. This can be done through a survey. The identified factors that have been found to influence the attitudes of taxpayers in this study can be used as part of the questions to be included in the survey. Since the



factors identified for Namibia were not based on a survey, the factors identified from the other countries can be incorporated into any future research. The survey can be completed through a combination of structured questionnaires which may include closed ended as well as open ended questions. Open ended questions will provide an opportunity for taxpayers to air their views without bias.

5.4 CONCLUSION

The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Tax compliance is influenced by the behaviours of taxpayers which are shaped by their attitudes, and these attitudes are influenced by various factors. Understanding taxpayers' behaviours in terms of factors that influence their attitudes towards tax compliance is therefore important in encouraging higher levels of tax compliance and minimisation of tax non-compliance.

According to the modified Fischer model, tax compliance is influenced by five factors that are namely demographic variables, culture variables, attitudes and perceptions, tax systems and structures and non-compliance opportunity.

Tax evasion is a challenge to tax authorities and a threat to a country's tax base. Since revenue generation is an important income source for any government, reducing tax evasion will improve government's revenue.

The findings in this study indicate that taxpayers are generally willing to pay their taxes. However, in return, they would prefer to see their actions reciprocated by the government through the provision of public services. It was also found that taxpayers would like to have information on the utilisation of taxpayers' money.



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