

# **PERCEPTIONS OF TAXATION: A COMPARATIVE STUDY OF DIFFERENT POPULATION GROUPS IN SOUTH AFRICA**

BY

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*“Praise the Lord, all you nations; extol him, all you peoples. For great is His love towards us, and the faithfulness of the Lord endures for ever.” - Psalm 117 (NIV)*

## ABSTRACT

In South Africa, there is a significant gap between the amount of tax that is theoretically collectable from economically active persons and that which is actually collected (commonly known as the “tax gap”). Non-compliance by taxpayers is one of the main causes of the tax gap. It has been established that one of the main factors leading to non-compliance, is the attitudes and perceptions of people.

Although the perceptions of previously disadvantaged groups in South Africa regarding taxation have been researched, this study extends prior research by investigating and comparing taxpayers’ perceptions amongst the four major South African population groups (that is, Black/African, Indian, Coloured and White). This is the main objective of this thesis.

This study specifically aimed to determine South African taxpayers’ perceptions regarding general tax-related, tax evasion and tax compliance issues. A number of demographic, economic or other factors that might influence respondents’ perceptions regarding these issues were also investigated.

The significance of this study is emphasised, in that it builds upon previous research, utilising insights from several disciplines and various theoretical perspectives.

The data for this study was collected from a sample of 260 South African taxpayers by means of face-to-face interviews, based on a questionnaire, compiled from an extensive literature review. The scope of the study was limited as it focused only on natural taxpayers within the Tshwane metropolitan area (which includes Pretoria, the capital city of South Africa) in Gauteng, as the purpose was not to generalise conclusions to the entire South African population. A further limitation of the study was that it focused on natural persons only; corporate taxpayers were excluded. Future research could extend this study by verifying the findings in other areas, amongst other population groups and corporate taxpayers.

This research concluded that tax compliance may depend upon several factors, other than deterrence, and that the perceptions of South African taxpayers are likely to be influenced by these factors. One of the main recommendations of the study is the need for comprehensive, widely based communication and education of taxpayers and potential taxpayers by the South African Revenue Services.

Keywords:

*South African taxpayers*

*Perceptions of taxation*

*Population groups*

*Taxpayer education*

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## LIST OF ABBREVIATIONS

CGT:	Capital Gains Tax
COSATU:	Congress of South African Trade Unions
GDP:	Gross Domestic Product
GLM procedure:	General linear model procedure
GST:	General Sales Tax
IRS:	Internal Revenue Service
JSE:	Johannesburg Stock Exchange
Lotto:	National Lottery
MarkData:	MarkData Pty (Ltd)
OECD:	Organisation for Economic Cooperation
RDP:	Reconstruction and Development Programme
SAICA:	South African Institute for Chartered Accountants
SARS:	South African Revenue Services
SAS:	Statistical Analysis Software
SITE:	Standard Income Tax on Employees
VAT:	Value-Added Tax

## CHAPTER 1: INTRODUCTION TO THE STUDY

### 1.1 INTRODUCTION AND BACKGROUND TO THE STUDY

Albert Einstein, as cited in Slemrod and Bakija (1996:xv), once said that the hardest thing in the world to understand is income tax. Nevertheless, it is vital that income tax is understood as it forms a critical element of how a government affects the lives of its citizens.

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

Taxes have been levied in South Africa since 1914. Every year the Minister of Finance presents the annual budget, in which the total intended government expenditure for the following year is detailed. During this process, the manner of funding the expenditure is also indicated. Government expenditure in South Africa is predominantly funded by means of revenue generated from tax levies (Mohr, Van der Merwe, Botha & Inggs, 1988:79-91; Venter, Hamel & Stiglingh, 2004:4). Table 1 provides a summary of government income for the 2005/2006 fiscal year as well as the estimated figures for 2006/2007.

**Table 1: Sources of government income**

Type of Tax	2005/2006 Outcome R Million	Percentage	2006/2007 Estimate R Million	Percentage
<b>Taxes on income and profits</b>	<b>230 804</b>	<b>55.30%</b>	<b>274 300</b>	<b>56.02%</b>
Personal income tax	125 645	30.11%	139 000	28.39%
Company tax	86 161	20.65%	114 771	23.44%
Secondary tax on companies	12 278	2.94%	15 700	3.21%
Tax on retirement funds	4 783	1.14%	2 750	0.56%
Other	1 937	0.46%	2 079	0.42%
<b>Taxes on payroll and workforce</b>	<b>4 872</b>	<b>1.17%</b>	<b>5 850</b>	<b>1.20%</b>
<b>Taxes on property</b>	<b>11 138</b>	<b>2.67%</b>	<b>10 345</b>	<b>2.11%</b>

<b>Domestic taxes on goods and services</b>	<b>151 362</b>	<b>36.27%</b>	<b>174 667</b>	<b>35.67%</b>
Value-added tax	114 352	27.40%	134 562	27.48%
Specific excise duties	14 547	3.49%	16 100	3.29%
Levies on fuel	20 507	4.91%	21 750	4.44%
Other	1 956	0.47%	2 255	0.46%
<b>Taxes on international trade &amp; transactions</b>	<b>18 202</b>	<b>4.36%</b>	<b>23 900</b>	<b>4.88%</b>
<b>Stamp duties and fees</b>	<b>793</b>	<b>0.19%</b>	<b>600</b>	<b>0.12%</b>
<b>State miscellaneous revenue</b>	<b>163</b>	<b>0.04%</b>	<b>-</b>	<b>-</b>
<b>Total tax revenue</b>	<b>417 334</b>	<b>100%</b>	<b>489 662</b>	<b>100%</b>

Source: Department of Finance: National Treasury. 2007. *Estimate of National Revenue*. [Online] Available from: <http://www.treasury.gov.za/documents/budget/2007/review/chap4.pdf> [Accessed: 2007-08-08].

The South African Revenue Service (SARS) was established by legislation to collect revenue and ensure compliance with tax law. Its vision has been, and still is, to become an innovative revenue and customs agency that enhances economic growth and social development and supports South Africa's integration into the global economy in a way that benefits all citizens (SARS, 2004a). In ten years of democracy, SARS has striven continuously to broaden the tax base, improve its service levels to taxpayers, and pursue enforcement initiatives that contribute directly to increased revenue yield which will finance government's developmental agenda (SARS, 2004b).

The present Minister of Finance in South Africa, Trevor Manuel, stated that the obligation to pay one's fair share of taxes, as and when they fall due, is part of the new morality which democratic governance must inculcate in every South African. He accepted that tax evasion and fraud are among the most insidious forms of criminality that plague the South African society and that millions of Rand are diverted on a daily basis from the fiscus by tax criminals. The government has no option but to support the energetic and innovative drive by SARS to improve compliance by thoroughly investigating any fraudulent scheme that comes to its attention. The government, therefore, commended the efforts of SARS to stamp out tax evasion and fraud and continues in its intention to show zero tolerance to any form of tax evasion and fraud (Manuel, 1999:58).

According to Adams (1921:536,556), a government's success or failure with the levying (collecting) of income tax rests primarily upon the honesty of taxpayers. The author further states that one of the factors that contributes to the dishonesty of taxpayers is the complexity

of the tax system, as it may lead to administrative failures. From the taxpayers' perspective, it is deduced that the most common complaint about taxes is straightforward – they are too high (Slemrod & Bakija, 1996:1).

Lewis (1982:39) supports this statement. He mentions that if you go into almost any English country pub, order some drinks, settle by the bar and work the subject of taxation into the conversation by asking the locals what their opinion of income tax is – a Clean Air Act version would be likely to include statements such as: “We pay too much tax”, “It’s the government that is to blame”, “It’s not worth working so hard anymore because anything you earn is taken away again”. Lewis (1982:41) states that taxes are always unpopular and only an idiosyncratic minority is likely to say that it pays too little tax. In addition, Sommer (1984:275) highlights that one thing is certain, namely, that everywhere in the world taxpayers want more value for their money collected in the form of taxes.

By distinguishing statutory taxes from effective payments, tax evasion defines a specific revenue deficiency, known as the “tax gap”. The tax gap merely portrays the wedge between economic reality and a purely legal construct called statutory taxes (Franzoni, 1998:3).

Both the Margo Commission (1986:§27) and the Katz Commission (1994:§5.1) dealt with tax morality and the tax gap in South Africa. The Katz Commission defines the tax gap as: “...the difference between the taxes that the law seeks to collect and those in fact collected”. The Margo Commission points out that this happens by means of both tax avoidance and tax evasion. Both of these studies quote estimates by the International Monetary Fund. These estimates showed that the tax gap in industrialised countries was in the order of 10% and that for the developing world, the average was 33%. The Katz Commission (1994:§5.5) went so far as to estimate that in South Africa the tax gap was 20%, which represented at that time an amount of R21 billion.

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

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

- deficiencies in administration, including poor collection;
- problems relating to recognition of income and expenditure;
- ineffective countering of avoidance; and
- a high level of evasion.

There is, by definition, no reliable way of determining the size of South Africa's tax gap. In developing countries, however, it is common cause that the gap is large and growing. A widening tax gap has adverse consequences. The failure of the collection agency to maintain effective administration of those areas of the tax system that require special assessment and auditing skills results in greater reliance being placed on revenue sources that are relatively easy to administer (for example, employees' tax) (Stewart, 1994:24).

Edwards (1997:64) remarked that the recommendations received from both the Margo and the Katz Commission were not implemented. According to *Finansies en Tegniek* [Finance Week] (1997:66), the tax morale in South Africa was, at that time, at its lowest level ever. In an article written by Ngwenya (1999:10), it is stated that: "South Africans have lost respect for the law to such an extent that our new heroes are big time criminals. We don't pay taxes and we happily buy stolen goods". This author blamed the lawlessness of South Africans on the fact that the majority of South Africans are angry because those who had wealth are losing it and those who never had wealth still do not have it. Pravin Gordhan, the present SARS Commissioner, disclosed that about R20 billion in taxes was lost to fraud and poor tax morality (Sawyer, 1998:6). Of the 44.4 million people living in South Africa in February 2001, 11.8 million were economically active, but only 6.7 million were registered taxpayers (Kemp, 2002).

In the pre-1994 South Africa, ramshackle tax legislation and ineffective tax collection allowed people to divert large amounts of income tax to tax shelters and tax havens. Some of the tactics employed were legal and some were not, but in both cases, the taxman was frustrated and relatively powerless. The shortfall was made up by lower-income taxpayers who were not in a position to make smart tax arrangements (Hazelhurst, 2003:64).

Hazelhurst (2003:64) notes that in the post-1994 South Africa, a series of legislative changes and the creation of a new revenue-collection system have created a tax dispensation in which there is better compliance and improved enforcement. He contends that, using state-of-the-art technology and 113 qualified forensic investigators at the Woodmead office in Sandton, Pravin Gordhan (the present SARS Commissioner) is closing the tax gap. However, this author notes that the gap still exists. It was estimated by Croome, a partner at Edward Nathan and Friedland (who was also the Chairman of the South African Institute of Chartered Accountants (SAICA)'s tax committee at that time), that five million economically active people are not registered for tax purposes (as cited by Hazelhurst, 2003:64).

Naidoo (2005:13) confirmed the view of Hazelhurst by stating that SARS has undoubtedly made significant strides in improving the administration of taxes. It has become more efficient and has increased its staff numbers and staff quality. SARS is now a far more effective tax-gathering machine than ten years ago. Laws have been tightened and, in fact, over the last decade there have been such a significant number of changes to the tax laws that they are now so complex that only a handful of tax experts can understand them. This, clearly, creates additional problems for compliance by taxpayers who do not have access to sophisticated tax specialists.

Naidoo (2005:13) continued by stating that despite all the efforts of SARS, there is still the perception that there is a significant tax gap in South Africa. A figure of R30 billion is bandied about in the press as the extent of the gap (Cokayne, 2002:6; Kemp, 2002; Leuvenink, 2003:1; Mabanga, 2004:11; Temkin, 2002:3; Temkin, 2003:1). Kemp (2002) is of the opinion that individual taxpayers make up the vast majority of the "tax gap".

The tax gap is made up of two parts - those who fail to register as taxpayers, as well as registered taxpayers who do not declare their full income (Hazelhurst, 2003:64; Delpont, 2000:15). According to Trevor Manuel, the present Minister of Finance, as cited by Loxton (2002:3), the tax gap in South Africa is occasionally due to ignorance, but is generally attributed to aggressive tax planning to reduce liabilities and to certain people who simply do not pay tax. Mabanga (2004:11) reported on an interview where Pravin Gordhan, the present

SARS Commissioner, remarked that every society has a tax gap and that in South Africa we had a tax system that excluded the majority for a long time.

Due to the fact that government expenditure is predominantly funded by means of revenue generated from tax levies, it is of utmost importance to protect the country's tax base. The present research is thus important as it concerns income tax compliance (that is, people's willingness to pay tax) as well as the obverse, tax resistance.

Tax resistance takes two major forms, namely, tax avoidance and tax evasion, both of which diminish the government's tax receipts. Smith and Kinsey (1987:642) stated that taxpayers' opportunities for both compliance and non-compliance vary substantially and opportunity factors must, therefore, be included in any analysis of tax behaviour. Therefore, the significance of the current study is emphasised as it attempted to build upon previous research. This study also utilised insights from several disciplines and various theoretical perspectives.

The country of focus for this study was South Africa. South Africa is a country that comprises a diverse collection of cultures, languages, beliefs and backgrounds. It is conceivable that these different population groups may have differing perceptions of taxation resulting from their cultural backgrounds or even their political and social histories. These perceptions may, in turn, influence their attitudes towards tax compliance. This study, therefore, attempted without any pre-conceived ideas or expectations, to assess the perceptions about taxation amongst the different population groups in South Africa.

Taking the above into consideration, the problem statement and research objectives formulated for this study are presented below.



## 1.2 PROBLEM STATEMENT

There appears to be a substantial tax gap between the tax that is theoretically collectable from economically active persons in South Africa and the tax that is actually collected. One of the main reasons for the tax gap is non-compliance by taxpayers and potential taxpayers with tax legislation. One of the causes of non-compliance has been demonstrated to be the attitudes and perceptions of people and it is possible that, in South Africa, the perceptions about taxation of different population groups may also differ. In order to change taxpaying behaviour, perceptions must first be identified, and then influenced in a positive way towards tax compliance.

## 1.3 OBJECTIVES OF THE STUDY

The primary objective for this study was to determine the perceptions of South African taxpayers about various aspects with regard to taxation. South African taxpayers, for the purpose of this study, included natural persons from the four major South African population groups who were twenty-one years and older. This study made use of the term *taxpayers* despite the fact that some natural persons might not have been liable for income tax, as their income was below the tax threshold. All natural persons, however, pay tax when purchasing goods and services and, therefore, contribute towards government income.

The following secondary objectives were set for this study to assist in achieving the primary objective:

- To determine perceptions about general tax-related issues amongst South African taxpayers.
- To determine the various demographic, economic or other factors that might influence a taxpayer's attitude with regard to general tax-related issues.
- To determine perceptions about tax evasion and tax compliance statements amongst South African taxpayers.

- To investigate the relationship between taxpayers' views with regard to a specific tax-related statement and their attitudes towards tax evasion and tax compliance.
- To investigate the relationship between taxpayers' views concerning a specific tax evasion statement and their attitudes towards tax compliance.
- To determine whether taxpayers' perceptions about tax penalties are related to their attitudes regarding tax evasion.
- To determine whether the perceptions about taxation of the various population groups differ.
- To assess whether the findings from the current research substantiates earlier research.

This study aimed to establish the likelihood that taxpayers' perceptions with regard to taxation would influence their attitudes towards tax compliance. This study then assumed that if taxpayers have negative perceptions about taxation, they will also have negative attitudes towards tax compliance and *vice versa*.

If it was found that taxpayers' perceptions influenced their attitudes towards tax compliance, it could be inferred that it is important to concentrate on changing taxpayers' perceptions with regard to taxation in order to achieve a more positive attitude towards tax compliance.

#### **1.4 IMPORTANCE AND BENEFITS OF THE STUDY**

Despite all the efforts of SARS, there still appears to be a significant tax gap in South Africa (Naidoo, 2005:13). It is of utmost importance to protect the country's tax base. This research is thus important as it revolves around tax compliance (that is, people's willingness to pay tax) as well as the obverse, tax resistance.

It is imperative to determine taxpayers' perceptions with regard to taxation in order to not only influence government policy regarding taxation, but also to enable government to market itself

and its services more effectively to the general public. This study is also important as it focuses on the perceptions of taxpayers.

The significance of this research is further emphasised by the fact that only limited research on taxpayers' perceptions has been conducted within a South African context. To the writer's knowledge only one accredited study (Oberholzer, 2005:249-275) has investigated taxpayers' perceptions in South Africa. A limitation of the study undertaken by Oberholzer (2005:249-275) is that it focused on previously disadvantaged South Africans and disregarded other population groups of the country. Hence, this study is important as it attempted to build upon this previous research by including a broader segment of individuals in South Africa. In doing so, it is hoped that this study will also open further fields of research regarding taxation in South Africa.

## 1.5 DEFINING THE KEY TERMS

This research revolved around a number of key concepts, namely, *taxation*, *tax evasion*, *tax compliance*, *South African taxpayers*, *perceptions*, as well as *population groups*. The manner in which these key terms have been defined for the purpose of this study is considered below.

**Taxation:** *Taxation*, for this study, is defined as: "...a compulsory unrequited payment to the government" (Organisation for Economic Cooperation (OECD), 2004).

**Tax evasion:** *Tax evasion*, for the purpose of this study, refers to illegal activities deliberately undertaken by a taxpayer to free him or herself from a tax burden, for example, where a taxpayer omits income from the annual tax return (Lewis, 1982:123; OECD, 2004; Stiglingh, Venter & Hamel, 2005:389; Webley, Robben, Elffers & Hessing, 1991:2).

**Tax compliance:** For this study, *tax compliance*, typically means: "...true reporting of the tax base; correct computation of the liability; timely filing of the return; and timely payment of the amounts due" (Franzoni, 1998:5).

**South African taxpayers:** South African taxpayers, for the purpose of this study, included natural persons from the four major South African population groups who were twenty-one years and older. As mentioned previously, this study made use of the term *taxpayers* despite the fact that some natural persons might not have been liable for income tax, as their income might have been below the tax threshold. All natural persons do, however, pay tax when purchasing goods and services and thereby contribute towards government income.

**Perception:** For this study *perception* is defined as: “The process by which people sense, select, and interpret stimuli” (Lumsden & Lumsden, 2000:382).

**Population groups:** The *population groups* for this study consisted of the four major South African population groups (that is, White, Coloured, Indian and Black/African) as defined by Statistics South Africa (Statistics South Africa, 2004:1).

## 1.6 RESEARCH DESIGN AND METHODOLOGY

In order to establish the theoretical basis for the research, an extensive literature review was conducted and prior research conducted on various aspects relating to tax evasion was analysed.

This was an exploratory study and an interrogation/communication approach was followed as the data was collected from respondents by means of interviews using a questionnaire as the measuring instrument. Previous research and models (as discussed in the literature review) were taken into account when formulating the questions in the questionnaire.

As trained fieldworkers merely recorded the responses as indicated by the respondents without any manipulation of variables taking place, an *ex post facto* design was followed. The study was descriptive as it revolved around determining the likelihood (how much) that taxpayers’ (who) perceptions with regard to taxation would influence their attitudes towards

tax compliance (what) in Tshwane (where) during February 2006 (when) (Cooper & Schindler, 2003:146-149).

As data was only collected on one occasion, this was a cross-sectional study. The study was also a statistical study and was designed for breadth rather than depth. It attempted to highlight a sample of South African taxpayers' perceptions with regard to taxation and made numeric inferences based on the data obtained. The research was also performed under field conditions as it was conducted under actual environmental conditions (Cooper & Schindler, 2003:149-150).

The universe for the sample included residents from the four major South African population groups (that is, White, Coloured, Indian and Black/African) in the Tshwane metropolitan area (which includes Pretoria, the capital city of South Africa), who were twenty-one years and older. A sample size of 260 South African taxpayers from this area was considered to be appropriate for the study.

## **1.7 DEMARCATION OF STUDY**

This study focused on taxpayers who were natural persons. Hence, corporate taxpayers were excluded.

It is important to note that the research was performed within the Tshwane metropolitan area only. This study is classified as baseline research. It was not the purpose of the study to generalise the conclusions reached to the whole of the South African population. This study only highlights the various perceptions amongst the major population groups within South Africa.

## 1.8 STRUCTURE OF THE THESIS

### **Chapter 1: Introduction to the study**

The first chapter provides an introduction and background to the study and presents the problem statement and objectives. The importance and benefits of the study are highlighted, the key terms are defined and the research design and methodology are briefly summarised. Next, the study is demarcated. The chapter concludes by providing an outline of the structure of the thesis.

### **Chapter 2: Literature review**

The second chapter highlights the important findings from the literature review. This discussion primarily revolves around why people evade taxes from both an economist's and a social psychological viewpoint. Previous empirical research performed relating to tax evasion and previous research performed relating to taxpayers in South Africa is explored. A brief discussion is provided concerning tax ethics and the history of taxes. The manner, in which the term *perception* is applied, for the purpose of this study, is also considered.

### **Chapter 3: Research design and methodology**

The third chapter discusses the research design and methodology applied for this study. This chapter provides details of the research design, the sampling method, as well as the manner in which the data was collected and analysed for this study. In addition, the link between the theoretical framework (discussed in chapter 2) and the design of the questionnaire is discussed. The techniques used to enhance the validity and reliability of the research outcome are also described and the ethical considerations are addressed.

### **Chapter 4: Demographic and other factors**

This chapter discusses the representativity of the sample and considers the demographic profile of the respondents, their economic circumstances, risk profile, relationship with SARS and fiscal attitudes.

## **Chapter 5: Analysis of relationships**

The fifth chapter presents the findings related to the main themes of the study. This chapter considers respondents' perceptions with regard to general tax-related issues, tax evasion issues, tax compliance issues, and perceptions concerning penalties related to tax evasion. Where similar past research has been performed, this is highlighted together with the findings.

## **Chapter 6: Conclusions and implications**

The final chapter brings the study to a close. It considers strategies for government to address tax evasion, highlights respondents' comments regarding taxation in South Africa, provides a review of recently published literature and summarises the findings and conclusions of the research. Limitations to the study as well as recommendations for future research are also considered.

## **1.9 SUMMARY**

This chapter introduced the focus of this study. It provided an introduction and background to the study and presented the problem statement and objectives. The importance and benefits of the study were highlighted. The key terms were defined, the research design and methodology were summarised and the field of research was demarcated. This chapter also presented an outline of the structure of the rest of the dissertation.

The following chapter highlights the findings from the literature, the focus being on the reasons why people evade taxes examined from both an economist's and social psychological viewpoint.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 INTRODUCTION

The literature review provides a contextual understanding of the incidence of and factors influencing tax evasion and tax avoidance. This discussion revolves primarily around why people evade taxes from both an economist's and a social psychological viewpoint. Previous empirical research performed in relation to tax evasion and previous research performed in relation to taxpayers in South Africa is examined. A brief discussion is provided concerning tax ethics and the history of taxes. The manner in which the term *perception* is applied, for the purpose of this study, is also considered.

### 2.2 TAX EVASION AND TAX AVOIDANCE

Hessing, EIFFERS, Robben and Webley (1992:304) propose that there are probably three groups of taxpayers - taxpayers who never evade taxes, taxpayers who will try to evade every now and then and taxpayers who will try to evade on a regular basis.

It is essential to note that, in legal terms, there is an important distinction between tax evasion and tax avoidance. *Tax evasion* refers to illegal activities deliberately undertaken by a taxpayer to free him or herself from a tax burden (for example, where a taxpayer omits income from the annual tax return). *Tax avoidance*, on the other hand, usually denotes a situation in which the taxpayer has arranged his or her affairs in a perfectly legal manner with the result that he or she has either reduced the taxable income or has no income on which tax is payable. No obligation rests upon the taxpayer to pay a greater amount of tax than is legally due under the taxing Act. A taxpayer is also not debarred from entering into a *bona fide* transaction, which when carried out has the effect of avoiding or reducing liability to pay tax, provided that there is no provision in the law designed to prevent the avoidance or



reduction of tax (Lewis, 1982:123; OECD, 2004; Stiglingh *et al.*, 2005:389; Webley *et al.*, 1991:2).

This principle was clearly explained by the United Kingdom judgement in *Inland Revenue Commissioners v The Duke of Westminster* (1936), 19, where Lord Tomlin established that:

“Every man is entitled if he can to order his affairs so that the tax attaching under the appropriate Acts is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax”.

Perhaps it is with this ingenuity in mind that Lewis (1982:123) emphasises that the dividing line between tax evasion and tax avoidance is blurred (as with many differentiations).

Taxation and evasion is a pervasive phenomenon in all societies (Bird & Oldman, 1990:453; Slemrod, 1992:v). Tax evasion is a complex and generally hidden behaviour that can have significant social and economic consequences (Webley *et al.*, 1991:128; Lewis, 1982:159). Taxation and evasion have always gone hand in hand. In fact, during William Pitt’s speech introducing income tax in Britain in 1799, the problem of evasion occupied the centre stage: “It was to prevent all evasion and fraud that a general tax shall be imposed on all the leading branches of income” (as cited by Webley *et al.*, 1991:1).

Ironically, even though tax rates in Victorian England were set at levels that now seem unbelievably low (income tax was set at 2.90%), there were complaints about evasion from the outset. In 1868, it was estimated that the average taxable income declared was less than half of what it should have been. In Exeter, where there was a special report in 1871, only 20% of those liable for income tax made returns that were satisfactory to the Revenue Service (Sabine, 1966:105-106). One can, therefore, without fear of contradiction, assert that income tax evasion *per se* is most certainly not a modern problem. Tax evasion is ubiquitous and as citizens from around the world have taken part, it is a behaviour that can be found in a wide variety of cultural and legal settings (Webley *et al.*, 1991:23).

The reasons for evading taxes have been explored by both economists and psychologists. This is considered in the subsequent two sections.

### **2.3 WHY DO PEOPLE EVADE TAXES? – AN ECONOMIST’S VIEWPOINT**

According to Webley *et al.* (1991:8), if one was to stop a person in the street and ask him or her why people evade tax, the answer would almost certainly be “greed”. The assumption is that people will commit an offence, any offence, if by doing so they maximise their utility. Becker (1968:207) argues that people become criminals not because their motivations are different from others, but rather because their evaluations of cost and benefits differ. Applied to the tax situation, people are treated as rational, amoral decision makers whose aim, in this as in all other areas, is simply to maximise utility (Becker, 1968:207).

Allingham and Sandmo’s (1972:338) classical model of tax evasion assumes that behaviour is influenced by factors such as the tax rate (which determines the benefits of evasion), the penalties for fraud, as well as the probability of detection (which determine the cost). For example, in Great Britain only 400 serious tax fraud investigations take place a year compared with 30 million taxpayers, resulting in only 60 successful prosecutions a year (Accountancy, 2004:103).

Taxpayers contemplating tax fraud may well calculate that the chance of being caught is very remote. Allingham and Sandmo (1972:324) mention that given the low probability of being audited in many countries and the comparatively low penalties for those being caught evading, rational and selfish taxpayers would decide to evade or underreport taxable income. The classical model, therefore, predicts that both the probability of detection as well as the severity of penalties will affect evasion. It would be logical to infer that if detection is likely and penalties severe, then people will be more compliant.

Over the years a number of extensions have been made to the classical model. One of these extensions defined the interactive (game-playing) models (Benjamini & Maital, 1985:245-264;

Corchon (1984, in Webley *et al.* 1991:10)). Further models incorporate the idea of limited rationality (Jackson & Milliron, 1986:125-165; Kahneman & Tversky, 1979:263-291; Kahneman & Tversky, 1984:341-350; Schadewald, 1989:68-84).

The interactive models stem from the recognition that a taxpayer is not taking decisions in isolation and that there are other “players” in the “game”. The revenue authorities can clearly alter the probability of detection and the penalty rate. The behaviour of other taxpayers may also be relevant. A taxpayer’s reputation may suffer if he is caught evading in a population largely comprised of non-evaders. On the other hand, a taxpayers’ reputation may be unaffected or even rise if the majority of people evade taxes (Webley *et al.*, 1991:10).

In the Corchon model (described by Cowell 1990:122), the tax situation is treated as a two-person game involving the taxpayer and the authorities. The taxpayer has two choices - either to comply or not to comply. The authorities also have two choices - they can investigate the taxpayer or not. Clearly there is no simple equilibrium in this model. If the taxpayer is complying, it is best for the authorities not to waste money investigating. On the other hand, if taxpayers are aware that the authorities are not investigating, it is best for the taxpayer not to comply. Equilibrium exists if both parties use mixed strategies. In this situation, the probability of evasion increases with the marginal cost of investigation and decreases with the size of the penalty for evasion.

An extension to the Corchon model takes into account the behaviour of other taxpayers, including certain social psychological variables such as stigma, reputation and social norms. The details of this model developed by Benjamini and Maital (1985:245-264) are somewhat technical but it is sufficient to say that it has multiple stable equilibria. In a homogeneous population everybody either evades or is completely honest. More realistically, in a heterogeneous population, members of certain groups will generally evade whilst members of other groups will generally be honest. Vogel (1974:512) also confirms that group support appears to be important in the formation of attitudes towards tax evasion. Taking this into account, Cowell (1990:113) suggests that this implies that the decision about evasion is a

process where a person first decides whether to be honest or not, and then proceeds to the finer calculations of how much to evade.

Treating decisions as a two-stage process is also found in approaches that hypothesise limitations to rationality. The best known of these approaches is Kahneman and Tversky's (1979:263-291; 1984:341-350) prospect theory. People who observe that the tax rate is lower than their reference tax rate derive utility from this. Kahneman and Tversky (1979:263; 1984:343) argue that people make choices in two stages.

In the first stage, the *problem-editing phase*, the individual reformulates options so that the subsequent choice is simplified. This editing consists of operations that transform the probabilities and outcomes, such as simplification (for example, rounding a probability of 0,49 to 0,50) and segregation (decomposing a choice into a more or less risky option). An important part of this process is the framing of outcomes (prospects) as gains or losses relative to some reference point, rather than as final states of wealth or utility.

In the second phase, the *evaluation phase*, the individual evaluates each of the edited prospects and chooses the prospect with the highest value. In this stage the individual will use a utility function that is convex for losses, concave for gains, and steeper for losses than for gains. This implies that when sure gains are involved individuals will tend to avoid risks, whereas they will be willing to take risks to avoid sure losses. It also implies that individuals will take different decisions depending on how problems are framed.

Tversky and Kahneman (1981:453) provide a common example of prospect theory. In this example subjects are asked to imagine that the United States is threatened with an unusual disease that is expected to kill 600 people. A choice has to be made between two interventions. The first of these gives a certain outcome - 200 people will live and 400 will die. The second is risky - there is a one in three chance that 600 people will live (no people will die) and a two in three chance that no people will live (that is, 600 will die). The option that most people choose depends on how the problem is framed. If the situation is presented as a gain (for example, 200 people will be saved versus a one in three chance of 600 being saved)

the majority of respondents chose the certain option. Conversely, if it is presented as a loss (that is, 400 people will die) the risky choice is more popular.

The relevance of this to tax evasion has been noted by a number of researchers (Jackson & Milliron, 1986:152; Schadewald, 1989:69) and is discussed in greater depth by Smith and Kinsey (1987:648). There are several factors that implicate framing in tax decisions. For instance, tax that has to be paid has greater utility than tax that is already withheld. It is also noted that the majority of taxpayers in the United States seem to prefer having more withheld than is strictly necessary. This implies that in a system where tax is withheld by the authorities, individuals who expect a refund and perceive this as a gain would avoid the risks associated with evasion. On the other hand, those expecting to pay yet more tax (a certain loss) would be more likely to take the risky alternative and evade tax.

## **2.4 WHY DO PEOPLE EVADE TAXES? – A SOCIAL PSYCHOLOGICAL VIEWPOINT**

Two kinds of theories exist to explain why people evade paying tax. The first of the two groups are integrative models of the taxpaying process, based on a wide knowledge of the literature and designed to introduce some new ideas. These are sometimes referred to as theories but are rather regarded as frameworks (and are sometimes so named by their authors) within which data about taxpaying and evasion can be organised. Some of the best examples would include the models of Lewis (1982:160,226), Groenland and Van Veldhoven (1983, in Webley *et al.*, 1991:13) and Smith and Kinsey (1987:651-657).

At best these models give one a feel for the crucial variables involved in evasion and how they might be interrelated. At the very least, these models are reminiscent of the information-processing models of consumer behaviour found in marketing texts, with a multitude of little boxes connected by arrows that are solid and dotted. The second kind is a rather straightforward application of a social psychological theory to tax evasion (Kaplan, Reckers & Reynolds, 1986:461-467).

In his book, “The psychology of taxation”, Lewis (1982:vii) reviewed the entire scope of research into taxation and drew insights from a variety of disciplines. He was particularly concerned to fuse psychology and economics. Lewis (1982:160,226) suggests two models - one which brings together the concerns of the individual and the concerns of the authorities, and the other which focuses on the relationship between tax attitudes and tax behaviour. Webley *et al.* (1991:14) summarise Lewis’s two models, the first as a conceptual map. As far as the authorities are concerned, three factors are regarded as important in this model:

- government’s fiscal policy;
- tax enforcement policy; and
- policy makers’ assumptions about taxpayers.

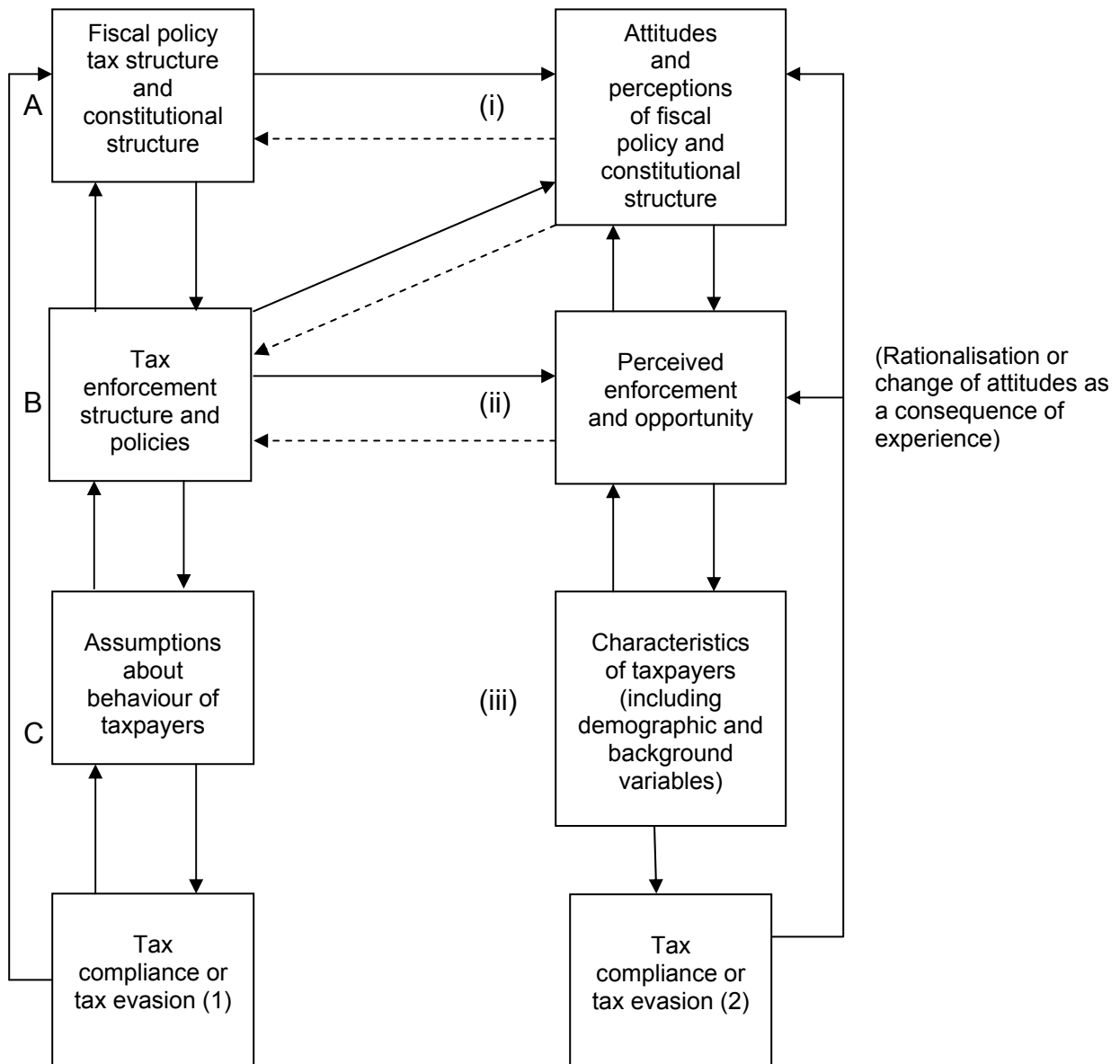
The tax enforcement structure partly determines the level of evasion, which itself affects fiscal policy makers’ assumptions. On the individual side, another three factors are described. These are *fiscal attitudes and perceptions* (which include the individual’s support for government policies, perceptions of the tax system and burden, feelings of alienation and inequity), *perceptions of enforcement and opportunity*, and *characteristics of the taxpayers* (demographics and personality traits). These all interact to affect the decision as to whether to evade tax or not.

The two sides (governmental and individual) also affect each other. Fiscal attitudes and perceptions are partly a result of actual government policy, and actual enforcement structure also affects perceived opportunities for evasion. Conversely, the attitudes and perceptions of taxpayers feed into fiscal and enforcement policy. Tax enforcement structures will, therefore, be linked in some way with people’s views as to whether they can evade taxes and get away with it. Vogel (1974:501) mentions that taxpayers’ attitudes are no doubt closely connected with perceptions about the degree of distributive justice codified in a particular tax system.

Lewis’s second model, concerning the relationship between tax attitudes and tax behaviour, provides more detail on how decisions (whether governmental or individual) are reached. Lewis (1982:172) suggests that demographic variables, attitudes towards the government and tax inspectors, as well as personality traits, influence a person’s attitude to tax behaviour.

Lewis does, however, point out the difficulty of actually testing this model as it relates to a behaviour that is private and illegal. Figure 1 below is a diagrammatic representation of Lewis's view on tax evasion.

**Figure 1: A revised model of tax evasion**



Source: Lewis, A. 1982. *The psychology of taxation*. Oxford: Martin Robertson, p. 172.

This diagrammatic representation can be divided down the centre to give two descriptions of tax compliance. The first (1) describes a structure that incorporates elements of the

theoretical approaches of economists and political economists, and the second (2), psychological and sociological perspectives.

According to Lewis (1982:172) these two approaches are not completely separate and may indeed be considered to exist in parallel to one another with points of overlap - points that must be strengthened if our understanding of tax compliance is to be improved. Lewis (1982:156) describes the two representations of tax compliance independently and then follows with a discussion of the interaction between them. A brief exposition of this diagrammatic representation follows.

Box A refers to the constitutional structure of government (for example, in terms of corporate-technocratic linkages), a country's tax structure (for example, the proportion of direct to indirect taxes and marginal income tax rates) and government fiscal policy. All of these factors can affect tax enforcement policies contained in box B. The government constitution and government policy determine which tax enforcement procedures are legal and desirable and, in turn, different tax structures may make one type or style of tax enforcement more appropriate than another.

Continuing down to box C, assumptions about the behaviour of taxpayers as optimising and risk averse come next. This is followed by box D and the dependent measure of tax evasion or tax compliance. Arrows linking boxes flow in both directions. Not only does fiscal policy determine tax enforcement policies - fiscal policies themselves may also be amended by the success or failures of tax enforcement procedures. Fiscal policy and tax enforcement may, in turn, be affected by changing assumptions about taxpayers and the degree of tax evasion. However, as the diagram reveals, a more direct feedback loop is far more common in that increases in tax evasion may have effects on fiscal policy and tax enforcement procedures, while the tax policymaker's view of taxpayers and their motivations remains unedited and of little or no interest.

The second half of the model (labelled 2) comprises boxes (i), (ii), (iii). This approach to tax evasion and tax compliance places emphasis on the attitudes and perceptions of taxpayers



and thus constitutes an analysis of tax evasion behaviour “with a human face”. Box (i) contains a host of considerations raised in social surveys under the heading of attitudes towards and perceptions about constitutional structure, as well as government and fiscal policy. More specifically, it includes taxpayers’ support for government and fiscal policy, feelings of coercion, impotence, alienation and the perceived accountability of the relevant fiscal authorities.

Taxpayers’ perceptions of the uses, purposes and fairness of taxation (perhaps in terms of equity); perceptions of tax burdens and exchange; moral and normative (in the social psychological sense) as well as other rationalisations incorporated in tax ethics, are also included.

Interacting with this bundle of factors (hence the arrows indicating a two-way flow) are taxpayers’ perceptions of the probability of detection and the size of the fine. Questions concerning the perceived equity of opportunity for tax evasion are also considered here. In particular, there is the perception that the tax system may appear unfair, in the sense that people with higher incomes are perceived as having greater opportunities in the legal sense to avoid paying tax.

Boxes (i) and (ii) interact, as some taxpayers may have a better understanding of the working of fiscal policy than others, and, in the reverse direction, tax authorities perceived as rigorous invaders of personal liberty may, in turn, engender more antipathetic tax attitudes. Interacting with boxes (i) and (ii) are the characteristics of taxpayers in terms of their individual, group and demographic differences. Surveys have identified a host of these variables. Principal amongst these are education factors and fiscal knowledge, social class, socioeconomic groupings, occupational role relationships and union membership, age, income (including perceived economic well-being and anticipated future economic well-being), sex and marital status, political preferences, risk aversion and familiarity with evasion and evaders. Also included in this are considerations of compliance costs.

It has been shown that different groups in society have varying tax attitudes and different perceptions of tax enforcement. There is also a less obvious flow in the opposite direction – individual differences in risk aversion, compliance costs and perceived economic well-being are also influenced by perceptions of tax authorities and attitudes towards tax. While this second approach to tax compliance implies that tax attitudes, perceptions and individual differences between taxpayers constitute antecedents of tax evasion, this need not always be so; hence the feedback from tax compliance (2). Perceived enforcement and opportunity may be partly the consequence of tax evasion practice. Similarly, tax attitudes may be taxpayers' own rationalisations of their behaviour after the event.

The crucial and most productive aspect of this revised model is present in the interaction between its two seemingly disparate halves. The solid arrow between box (A) and box (i) is in recognition of the fact that tax attitudes must in part be the result of actual, as well as perceived, fiscal policies, government intentions and the constitutional structures underpinning them. Similarly, actual as well as perceived tax enforcement procedures affect both tax attitudes and perceptions of tax enforcement.

The main thrust of the argument is that effective tax policies must take account of these links and be responsive to these tax attitudes and perceptions, as indicated by the dotted arrows. The dotted arrows indicate the comparative weakness of these links in present-day tax policy-making and implementation (with the notable exceptions of the fiscal referenda in California and elsewhere, as well as the influence of informed elites such as pressure groups). These arrows are also dotted as they may represent only what even the more enlightened of tax policy-makers, administrators and theoretical political economists *think taxpayers think* without having adequately investigated their implicit assumptions. The case is thus presented that an adequate model of tax compliance must take into account both halves of this revised analysis.

Groenland and Van Veldhoven (1983, in Webley *et al.*, 1991:17) put forward a tentative framework that fused *ad hoc* approaches with attitude-behaviour models. Individual differences and situational characteristics interact to affect attitude towards (and knowledge

of) the tax system, which, in turn, affects the disposition to evade. These dispositions and situational characteristics then have direct effects on actual behaviour. Three different kinds of situational characteristics are discussed, namely, *opportunity*, *socio-economic factors* and the *tax system*. These are all seen as having the potential, directly and indirectly, to affect evasion. Thus, the particular configuration of the tax system will provide opportunities for evasion for certain tax groups and influences attitudes towards it.

In outlining their approach Smith and Kinsey (1987:642) make a number of valid points. They argue that it is equally important to understand what factors motivate compliance as well as which factors motivate evasion. Secondly, many analyses of evasion focus on the preferences and intentions of taxpayers and largely ignore the social context. Thirdly and finally, they highlight that all past research has assumed that non-compliance is the result of a conscious and deliberate decision by taxpayers. Their model, therefore, highlights that in many situations non-compliance may simply be the result of inertia and that people probably do not take a single decision to evade. It is more likely that through a series of actions, such as keeping good records or “guesstimating” expenses, they end up complying (or not complying).

Smith and Kinsey (1987:645) present a flow chart, which shows what factors shift people from their habitual behaviour to consciously taking a decision and forming intentions. In general, aspects of the social context such as tax reform, changes in the economy, and changes in salary will make taxes more salient. People will then move through three stages, namely, *diagnostic* (in which the situation is defined), *action* (in which intentions are formed) and *implementation* (in which they decide how to carry out intentions).

Smith and Kinsey (1987:652) continue by emphasising that people are seen as weighing four clusters of factors in forming intentions: *material consequences*, *normative expectations*, *socio-legal attitudes* and *expressive factors*. This is done in prospect theory terms (that is, decisions are framed in terms of gains and losses from some initial reference point). These authors consider two kinds of opinions - these include opinions about the goals that are dependent on taxes (that is, government spending), and those that concern the tax system

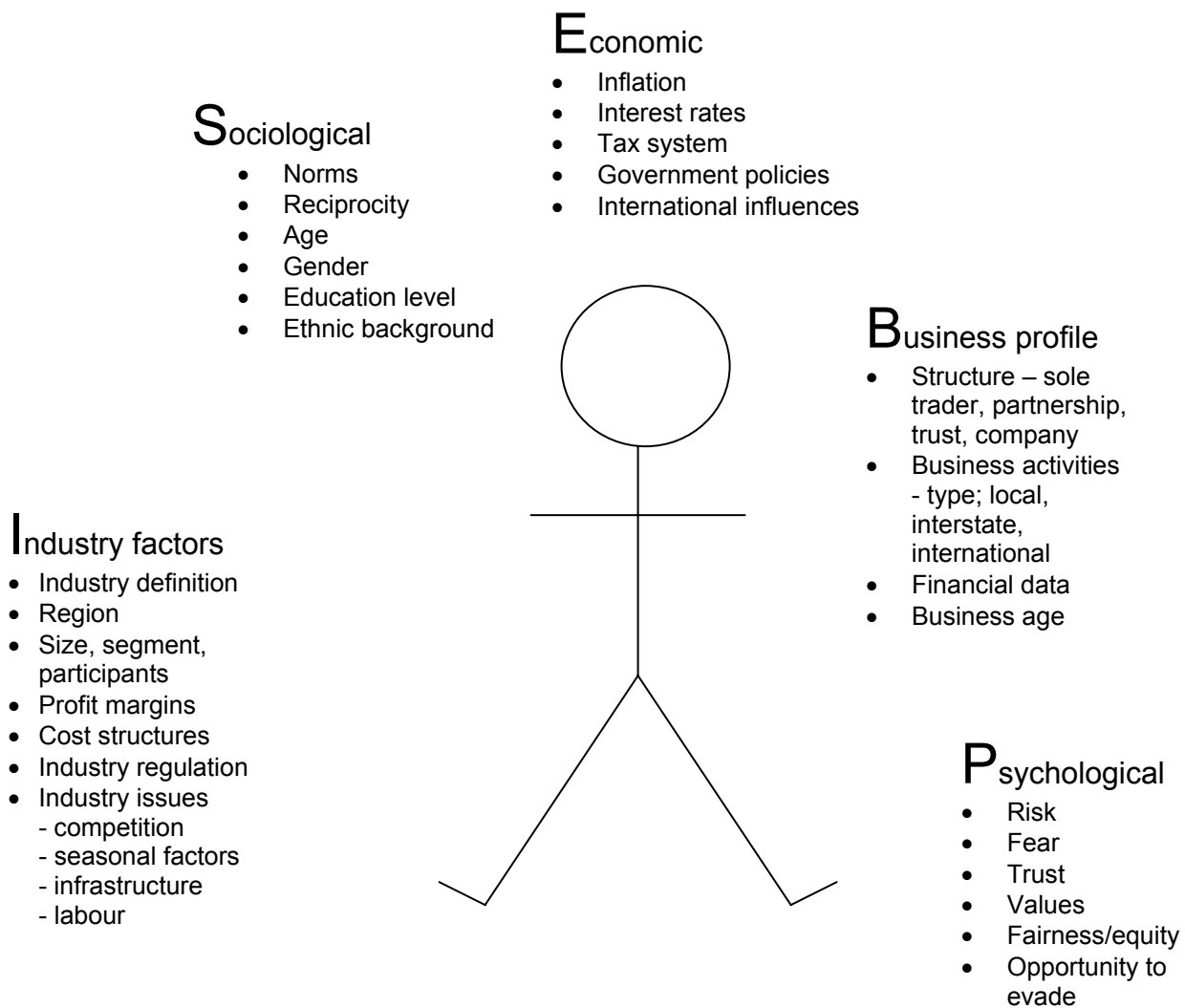
itself. They believe that attitudes towards goals have indirect effects that work through attitudes towards the system itself. Expressive factors or “psychic costs” have a direct effect on intentions. These are simply the subjective costs and benefits involved with taxpaying, such as the frustration involved in completing tax forms.

Finally Kaplan *et al.* (1986:461-476) base their respective theories on attribution theory. *Attribution theory* is concerned with how people make sense of their social world by attributing causes to one thing or another. These authors substantiate their viewpoint by mentioning that people do things either because they *have to* (environmental cause) or because they *want to* (internal cause). They additionally claim that several principles in attribution theory may be useful in formulating hypotheses concerning tax evasion.

Their research indicated that certain socio-psychological processes influence the perception of tax evasion behaviour of others and the stated propensity to engage in evasion behaviour. For example, if many people evade tax, the fact that a particular individual is noncompliant tells you little about that person. The individual would be seen as less responsible and, therefore, a lesser punishment is appropriate. Similarly, if individuals cheated only on their taxes and in no other context, this would lead to an attribution to the tax situation (based on its “distinctiveness”). In addition, it is pointed out that increased trust in government results in higher tax morale and thus lessens the likelihood of non-compliance.

The Australian Cash Economy Task Force (1998:18) conducted an extensive review of compliance literature whilst compiling its second report to the Australian Tax Office. The research to date has revealed that taxpayer compliance decisions can be affected by factors that can broadly be categorised as psychological, sociological, economic and industrial. Figure 2 is a schematic presentation of these variant factors.

**Figure 2: Factors influencing a taxpayer's compliance decision**



Source: Australian Cash Economy Task Force. 1998. *Improving tax compliance in the cash economy*. [Online] Available from: <http://ctsi.anu.edu.au/publications/ATOPubs/improving%20tax%20compliance.pdf> [Accessed: 2005-03-31]. p.18.

The Australian Cash Economy Task Force (1998:19) considers that none of these factors stand alone as the sole reason for a taxpayer's behaviour, and equally, it is not possible to identify which factors in combination may influence the behaviour of any one particular person. This makes it difficult to study a taxpayer's attitude towards taxation (Fallan, 1999:173-184).

## 2.5 PREVIOUS EMPIRICAL RESEARCH PERFORMED ON TAX-RELATED MATTERS

Although not specifically related to South Africa, this section highlights a number of previous studies and some specific findings that deal with tax-related matters.

In a survey by Friedland, Maital and Rutenberg (1978:113), it was found that females evaded tax more than men. By contrast, three of four studies conducted by Webley *et al.* (1991:110), found that men evaded more often than women.

Groenland and Van Veldhoven (1983, in Webley *et al.*, 1991:59) substantiate their theory that people with an internal locus of control (those who see their environment as largely under their personal control) will succeed in evading taxes more often than those with an external locus of control. These authors found that people with higher levels of education evaded tax more than those with lower education levels. Vogel (1974:511) confirms this as he states that the tax system in Sweden creates unequal tax minimisation opportunities since education is a necessary precondition to the successful practice of either tax minimisation or tax evasion. Another study performed by Fallan (1999:173-184) indicated that increased tax knowledge has meant that people consider their own tax evasion more seriously.

Webley *et al.* (1991:68-77) found that people use the unfairness of the tax system as a justification for evasion. They also note that people who are not society oriented, young, and employed are most likely to be associated with tax evasion behaviour.

Another survey undertaken by Webley *et al.* (1991:85) indicated that the percentage of the total tax liability voluntarily reported was considerably higher for wage earners (95%) than for individuals whose primary source of income was business related (77%). The same author also found strong support for the proposition that greater opportunity leads to greater tax evasion (Webley *et al.*, 1991:102).

After all their experimental studies into tax evasion, Webley *et al.* (1991:122) contend that for some participants the task of calculating their tax liability was too difficult. Some comments

received from respondents included: “I was not quite sure what I was doing”, “I do not know a lot about tax forms, to be honest I was just guessing a lot of it”, and “I am afraid”.

Previous research found that normative commitment to compliance could be positively reinforced by the effective detection and punishment of non-compliance, particularly for tax laws not rooted in values based on the relationships among individuals (Slemrod, 1992:6; Smith, 1992:223-250).

In a Scottish study conducted by Dean, Keenan and Kenney (1980:39-40), it was shown that tax evasion may increase if people believe that they will not be detected. In present circumstances, about 26% of respondents agreed that almost all taxpayers could easily evade small amounts without being detected. In addition, 66% agreed that almost all taxpayers would evade small amounts if they thought that they would not get caught evading. Thus, the difference between 26% and 66% could be viewed as the difference between opportunity and the potential exploitation of relaxed tax enforcement. It is important to note that the number of perceived likely evaders lessened (even with no fear of prosecution) as the amount evaded increased. This implies that even if tax authorities were comparatively impotent, the evasion of larger amounts would be considered to be ethically unacceptable, while the evasion of small amounts would not be.

Other possible reasons for the cause of tax evasion as established by Dean *et al.* (1980:42) include greed and financial hardship, government wastage, low chance of detection and the desire to break the system.

In a study conducted in North Carolina by Song and Yarbrough (1978:450), respondents were asked to compare and rank each of the five commonly discussed shortcomings of income tax. The results were:

- the tax rate is too high;
- there are too many loopholes;
- the regulations are too complicated;
- the middle-class bears the biggest burden; and

- it penalises the honest and law-abiding.

Mueller (1963:233) found that younger people are more favourably inclined towards increased services (therefore, higher tax rates). Conversely, those over 55 years of age are more fiscally conservative, favouring both tax and expenditure cuts. It appears as if attitudes and life experience might have an impact on taxpayers' actions.

A study investigating political attitudes and democracy in five nations by Almond and Verba (1963:379-387), revealed that education is an important factor in determining a citizen's orientation towards government, authority and his or her beliefs, feelings and evaluations of the political and governmental system as a whole. A summary of Almond and Verba's results concerning education variables, across surveys of approximately 1 000 interviews, conducted in the USA, West Germany, Britain, Italy and Mexico follows in the next paragraph.

Levels of education attained appear to have the most important demographic effect on political attitudes. Better-educated citizens, that are more aware of the impact that a government can have on the individual, pay more attention to political campaigns, possess a broader and greater depth of political information, are more likely to engage in political discussions, and are also more likely to think that they are capable of influencing governments and government policy. Furthermore, citizens with higher levels of education show a greater tendency to become active members of some type of organisation. They also display higher levels of confidence in the trustworthiness and helpfulness of other citizens.

Vogel (1974:507) also considered a person's occupation versus his or her fiscal preferences. He found that self-employed taxpayers are more likely to agree that tax revenue is too high and that the fiscal exchange rate is unfavourable.

As mentioned in chapter 1, only one accredited study has investigated taxpayers' perceptions in South Africa. This study by Oberholzer (2005:249-275) investigated previously disadvantaged taxpayers' perceptions in South Africa. It was found that although the majority of previously disadvantaged South Africans included in the study are paying taxes, they are



unable to list the different types of taxes without assistance. Generally, the respondents in Oberholzer's study are positive about paying tax if the government applies it appropriately for the benefit of the taxpayer. A substantial proportion of the respondents indicated that they would not object if lower tax rates were introduced. A significant percentage of the respondents are also of the opinion that government should be transparent in the utilisation of taxpayers' money. Finally, it became evident from Oberholzer's study that there is a need amongst previously disadvantaged South Africans for increased education about tax systems and the application thereof.

## **2.6 PREVIOUS RESEARCH PERFORMED IN RELATION TO TAXPAYERS IN SOUTH AFRICA**

This section considers non-accredited research performed in South Africa regarding taxpayers in South Africa.

A study conducted by Coetzee (1993:5-7) requested a number of taxpayers to indicate their thoughts concerning the tax system in South Africa. Findings from this study show that the two main reasons why people dislike paying tax stem firstly, from the fact that it is compulsory, and secondly, from the inability to immediately perceive the benefits of such tax. The main reasons why people are reluctant to pay tax according to Coetzee's study include:

- taxpayers often believe that the government does not spend the collected revenue effectively and responsibly;
- taxpayers do not get value for their money as reflected, for example, in poor infrastructure, inferior health care and education;
- the tax collection system is substandard and too many taxpayers escape the net;
- taxpayers do not fully understand how to calculate their own tax liability;
- the tax return is seen as a document that is designed to "catch out" the taxpayer;
- government promises to lighten the burden on individuals are not fulfilled;
- taxation in South Africa has long been understood by the Black population to be part and parcel of the apartheid system;

- the burden of tax is carried primarily by individuals in the middle-income group with little or no opportunity for reducing tax;
- fiscal drag on personal income has resulted in a gradual impoverishment, as despite remuneration increases, after tax, salaries show an effective decline;
- in many cases taxation is applied retrospectively; and
- the tax burden is spread unevenly, with many sectors of the population paying little or no tax.

Even though the number of respondents in the above study was not provided, this is one of a few research articles concerning perceptions on tax performed in South Africa (Coetzee, 1993:5-7).

Chait (1993:40-45) performed a study aimed at eliciting responses on general expectations and perceptions of taxation in South Africa. His study found that two-thirds of the respondents did not regard taxes as an effective means of redistributing wealth and that most people are not willing to pay more taxes. This author asserts that there is no doubt that a large portion of the South African population harbour negative attitudes towards taxation due in part to the political injustice of the past.

De Villiers (1996:23) states that South Africans have very negative attitudes towards taxation. He performed a study among four groups of taxpayers (that is, formal enterprises, informal enterprises, White, Asian and Coloured population groups, and the Black population group). Interesting results from his study indicated that all the groups concluded that tax rates are too high and should be reduced. Only 19% of the Black respondents indicated that they understand the process of taxation and registering as taxpayers. This study also showed that millions of people in South Africa do not pay their taxes as due. De Villiers (1996:23) postulates that this may be because individuals are generally not well-informed about tax issues.

According to De Villiers (1997:54-55), if taxpayers are of the opinion that they do not receive their fair share from the tax system they will be reluctant to pay taxes. He also believes that South Africa's tax system is very complex.

According to *Finansies en Tegniek* [Finance Week] (1997:66), SARS cannot meet the expectations of taxpayers in South Africa.

Coetzee (1998:28) criticises the government by stating that if the government does not increase the number of taxpayers in the tax net, then the government itself encourages tax evasion.

According to Pravin Gordhan, the present SARS Commissioner, as quoted by Sawyer (1998:6), possible reasons for tax fraud in South Africa are the government's perceived mismanagement of funds, Value-Added Tax (VAT) fraud, limited awareness within the emerging economy (such as the taxi industry) as well as fraud within SARS.

The editor of *Finansies en Tegniek* [Finance Week] asserts that taxpayers in South Africa dislike paying taxes due to a perception that the tax system is unfair. He remarks that cheating the tax authorities has become a national sport in South Africa (Delpont, 2003:4).

Tax legislation in South Africa is so complex that the ordinary man in the street experiences difficulty in understanding it. This, in turn, provides a compliance challenge. The Margo Commission, as far back as 1986 already indicated that the tax system was too complicated. Since then there have been so many changes and additional taxes that only dedicated tax professionals are now capable of understanding the system. The danger here is that individuals and small businesses may inadvertently fail to comply fully with the tax laws because they do not have (and cannot always afford) the knowledge necessary to fulfil their obligations. Naidoo (2005:13) mentions that the majority of taxpayers want to do the right thing and pay their fair share of tax. They do not, however, want to pay more than is necessary. What they seek from SARS is certainty, equity and efficiency. These were the tenets of taxation that were identified by the Katz Commission (Naidoo, 2005:13).

Naidoo (2005:13) further argues that those who diligently pay their taxes and comply to their best ability with the tax laws want to be treated with respect by the revenue authorities. Unfortunately, this is not always the case. Taxpayers often believe that they are being treated as criminals and do not appreciate a heavy-handed approach from SARS with threats for non-compliance, which is often based on technicalities. To have taxpayers who are willing to contribute and comply with the laws and seek every possible way of avoiding tax requires some “give and take” from both parties. Naidoo (2005:13) is of the opinion that while there is a general perception that it is just “take” on the part of SARS, tax morality will not improve.

Another pivotal concept when considering tax-related matters, such as tax evasion and compliance, is tax ethics. The next section investigates the meaning of and prior research performed in relation to tax ethics.

## **2.7 TAX ETHICS**

*Tax ethics* is defined by Vogel (1974:500) as: “The attitudinal and behavioural orientation of the taxpayer to accurate tax compliance in the sense of completing the tax return promptly, accurately, and legally”. In the study concerning Swedish taxpayers conducted by Vogel (1974:499-513), respondents were asked to choose suitable penalties for tax evasion from a set of fixed alternative penalties for other types of offence. The penalties ranged from no penalty or a fine, to prison sentences of various lengths. It was found that the choice of a prison term was a good indicator of the perceived seriousness of tax offences. From the abridged selection of offences shown, there was clearly a tendency of lenience towards tax evaders. Even when the effect of the offences in terms of money was identical (\$200), only 11.7% proposed a prison sentence for tax evaders as opposed to 53.9% for housebreaking. It is clear from this data that, on the attitudinal level, the Swedish public is relatively favourably disposed towards tax evasion.

Reckers, Sanders and Roark (1994:825-837) examined the influence of ethical beliefs on tax compliance decisions. They emphasise that factors such as social norms, ethics and personal

characteristics may affect how a decision is edited and thus influence the taxpayers' ultimate decision on willingness to evade taxes. These authors focused on tax ethics as an explanatory variable of tax compliance. The results of their studies indicated that individual moral beliefs are highly significant in tax compliance decisions. When tax evasion is seen as a moral issue individuals are less likely to evade taxes, regardless of the tax situation.

A study conducted in North Carolina by Song and Yarbrough (1978:443) showed that most respondents believe that the tax laws should be respected. However, they do not believe that violations constitute so serious a crime as to warrant physical imprisonment as the typical taxpayer apparently views tax evasion as being only slightly more serious than stealing a bicycle. Interestingly, they also found that three in four Americans agreed with the statement that: "A person's tax amount should be determined by his ability to pay rather than the benefits he receives from the government."

According to Webley *et al.* (1991:23), in order to understand evasion, one needs to know something about the history and current functioning of tax systems in different countries as well as the tax mentality of their citizens. The following section, therefore, elaborates on these aspects.

## 2.8 HISTORY OF TAXES

Benjamin Franklin (a famous American scientist, inventor, statesman, printer, philosopher, musician and economist) wrote of the inevitability of death and taxes as cited by The New Dictionary of Cultural Literacy (2002). For as long as history has been recorded taxes have been paid, and throughout that period the reactions of taxpayers have been as predictable as they have been understandable.

At the most basic level there are interesting semantic differences in the language used to describe taxes. The Dutch word for tax is *belasting*, which also means "load", and thus has the connotation of a burden. This is found in the Latin languages as well where *impôt*,

*imposto*, *impuest*, cognate with the English “imposition”. However, in German *steuer* means “support” and the Scandinavian *skat* denotes a “treasure” or “hoard” (Schmölders, 1970:301-302). According to Webley *et al.* (1991:23) these linguistic differences, though interesting, are probably not very significant.

When considering the question, “What is tax?”, Messere and Owens (1987:94) point out that it is not self-evident when they say: “...taxes are difficult both to define and identify”. The OECD (2004) defines tax as: “...a compulsory unrequited payment to the government”. For Lewis (1982:9), taxation is the principal means by which governments can attempt to redistribute wealth and bring about social change through various social policies. It is, therefore, central in the economic and political framework of Western industrialised countries.

Historical factors provide us with a certain degree of insight into the tax mentality of different countries. The history of taxes began many years ago when the King was the state. He was its ruler - spiritual, temporal and financial. The ruler cannot survive without getting (taxes) – and spending. Because taxation and budgeting are ubiquitous state functions whose character can be traced through different ages, cultures and politics, the problems of getting and spending are among the best known to mankind (Webber & Wildavsky, 1986:38).

Originally there was no money and taxes were paid in kind (for example, grains, cattle, cloth, labour and valuable objects) to support the priests, kings, their families, attendants, armies and officials. Goods were transported to the King’s treasury by primitive means (that is, by means of riverboats and on the backs of animals and men). The royal storehouses were monitored by hordes of officials who weighed, measured and stole whenever they could. With the advent of money, a new dual economy of coin and kind involved the state in systematic assay. This also demanded a standardised basis of exchange and some method of converting from one system to another (Webber & Wildavsky, 1986:38).

There were several traditional kinds of taxation designed to meet the needs of government. The most regular and familiar of these methods were through customs duties. Customs were of medieval origin, levied on both imports and exports, and enabled the King to maintain a

navy which would protect traders from the depredations of pirates and foreign enemies (Douglas, 1999:4; Webber & Wildavsky, 1986:270).

Webber and Wildavsky (1986:40-41) note that the structures of financial administration that appeared repeatedly in the ancient civilisations surveyed resulted from parallel efforts to solve such problems common to them all. Governments of Mesopotamian city-states, beginning in the third millennium B.C., ancient Egypt and Crete (3100-100 B.C.), Mauryan India (300 B.C. – A.D. 200), China during the Shange (1523-1027 B.C.) and Han (200 B.C. – A.D. 200) dynasties, Japan up to the nineteenth century, the Bronze Age civilisations of sub-Sahara Africa (A.D. 1200-1532) all had well-developed, similar systems of financial administration. Although widely dispersed in space and time, these governments produced similar solutions to the problems of supporting monarchs. Similar kinds of taxes were levied, administered in similar ways and the funds were used for like purposes. Similar attempts were also made to guard against fraud and theft.

Webber and Wildavsky (1986:22-24) also point out that for many generations governments collected only a few types of taxes. They levied direct taxes on part of the produce of land (that is, those who grew crops paid by the bur of millet, the catty of rice, or the bushel of oats; or in livestock, lambs and kids, salmon or herring). Governments also assessed head taxes. For millennia, the otherwise untaxable poor paid their dues in compulsory labour service. In ancient Egypt, China, Central America and Europe during the Middle Ages, as well as in the early modern era and colonial Africa during this century, people without money gave the government a number of days each week or each year in compulsory labour service. This time was mostly spent building and maintaining public works. Over the centuries and civilisations the only certainty in government's taxing and spending behaviour appears to be the absence of an ultimate solution.

Tax was introduced in the United Kingdom for the first time in 1799 to help pay for the Napoleonic wars. The United Kingdom introduced various schedules that dealt with income from particular sources in 1803. The "pay as you earn" system, which has been an effective counter to evasion, was introduced under the impetus of the Second World War. Before the

war, less than a fifth of the working population paid income tax. However, by 1948 this figure had increased to two-thirds and now stands at more than 90% (Rose & Karran, 1987:18,87).

By way of contrast, the tax system implemented in Spain during the 1960's was described as "primitive" by Schmolders (1970:303). It had a predominance of indirect taxes, was generally regressive and was widely regarded as being unfair. The reform of 1977 brought in a progressive system with far more revenue being collected in the form of income tax. Despite the modernisation of this system, the belief that it is unfair has persisted, probably because of increased public awareness of taxation (direct taxation is more visible than indirect taxation) and also because government is perceived as wasting money (Alvira Martin & Garcia Lopez, 1984, in Webley *et al.*, 1991:24).

A different kind of historical factor is implicated in the Italian case. Haycraft (1985:7) claimed that, because for centuries a large part of Italy was ruled by foreigners, citizens never developed a trusting relationship with their government and always preferred to spend money on their friends and relatives rather than on a remote authority. Rather than a duty, the payment of taxes was regarded as something to be avoided if at all possible.

Venter *et al.* (2004:3) explain that taxes are usually categorised as *direct* (income) or *indirect* (consumption). Direct taxes are more visible to the taxpayer (income tax, capital gains tax) whereas indirect taxes (VAT and excise duty) are often less visible and are collected by an intermediary. The rate structure of a tax is usually described as being progressive, proportional or regressive. Taxes that take an increasing proportion of income as it rises, are progressive (income tax levied on natural persons), those that take a constant portion (income tax on companies at a fixed rate) are proportional, and those that take a decreasing proportion are regressive (VAT).

The most important differences between worldwide tax systems concern the overall level of taxation, the tax structure and the marginal tax rates. The overall level of taxation can be expressed as tax revenue as a percentage of Gross Domestic Product (GDP). Tax structures differ from country to country. For example, the "pay as you earn" procedure withholds tax



accurately and requires little cooperation from taxpayers as employers and the Inland Revenue do most of the paperwork. This structure does not, however, apply to all tax systems worldwide. Finally, there is a significant difference in tax bands or tax brackets between various tax systems (Webley *et al.*, 1991:25-27).

Fiscal policy, like any other governmental policy, derives its meaning and direction from the aspirations and goals of the society within which it operates. The aspirations of the individuals of underdeveloped countries are clear - economic betterment and stability to provide the material soil within which human dignity and political freedom can grow (Bird & Oldman, 1990:5; United Nations Technical Assistance Administration, 1954:1). These aspirations are reflected in the preamble of the Charter of the United Nations (1945): "...to promote social progress and better standards of life in larger freedom".

Bird and Oldman (1990:10) emphasise the fact that the pressing need for large government outlays for economic development strongly influences the approach to the problem of determining the appropriate level of taxation in an underdeveloped country. In a highly developed country, tax policy tends to accept the level of expenditure as its revenue goal. This is modified by considerations relating to the levels of employment, prices and economic activity. The sequence of decision tends to run from expenditures to taxes. But in underdeveloped countries, the level of expenditure relies far more heavily upon the ability of the tax system to place the required revenues at the disposal of the government. By the same token, the size of the government's development programme depends in large part on the economic and administrative capacity of its tax system to marshal the necessary resources. In this sense, the sequence of decision tends to run from taxation to expenditures.

Taxation and public expenditure form the process by which resources are transferred to public use. The tax structure should accomplish its part in this process in an equitable and efficient fashion. However, taxation also has important bearing on other aspects of economic policy such as stability, growth and the distribution of income and wealth (Bird & Oldman, 1990:65).

Tax reform cannot be adapted to a single objective, such as adequate revenue, simplicity or equity. All of these must be considered, as must the broader objectives of economic development, stability and a fair sharing of tax burdens and the fruits of growth (Bird & Oldman, 1990:73-74). McCaffery (2002:3), an American tax lawyer, economist and professor who has been extensively involved with tax reform for more than a decade, states that the problem with most tax systems is that they are usually complicated, inefficient and, most importantly, unfair. According to Peters (1991:20-21), taxes generally have distributional effects on the citizens of a society. Tanzi (1995:1) claims that tax structures will have to adapt to the pressures of an integrating world economy in slow and subtle ways.

As this study was performed in South Africa, a brief discussion follows regarding the history of taxes in South Africa.

Taxes were levied as early as 1894 in terms of the Glen Grey Act (imposed by the British imperialist Cecil John Rhodes) on all Africans who did not enter the mines on a three-month contract. The mining industry transformed South Africa from a closed economy to an international economy. The mining industry, however, required a large, mass-based workforce. To augment this labour tax, poll and hut taxes were imposed on the African rural population, thus increasing the incentive to earn cash on the mines (Van den Berg & Bhorat, 1999:4).

The Income Tax Act 28 of 1914 was the first South African Income Tax Act to be implemented. The current Income Tax Act 58 of 1962 came into operation on 1 July 1962. Further important amendments were introduced in the annual amendment acts: “pay-as-you-earn” in 1963; the “final deduction” system in 1983; the taxation of close corporations and fringe benefits in 1984 and the Standard Income Tax on Employees (SITE) in 1988 (Vorster & Coetsee, 1991:1-4). These acts apply to all population groups in South Africa.

The Estate Duty Act came into operation on 1 April 1955. The rate at which estate duty was payable, was 25%. It has decreased to 20% with effect from 1 October 2001 (Arendse, Jordaan, Kolitz & Steyn, 2001:573). The Master had the power to administer all estates

except for African intestate estates, which had to be administered by a magistrate. In *Moseneke v The Master*, 2001(2) SA 18 (CC), the Constitutional Court declared this section to be invalid with immediate effect. Legislation has been amended subsequently and the same measures for beneficiaries of an intestate estate apply to all population groups in South Africa.

On 3 July 1978, General Sales Tax (GST) was introduced at an initial rate of 4%, and subsequently increased to a rate of 13%. VAT was introduced from 30 September 1991 replacing General Sales Tax and was initially levied at a rate of 10%. This rate was subsequently increased to 14% on 7 April 1993 (Stack, Cronje & Hamel, 2000:4).

VAT, being a regressive type of tax, has a far greater effect on the poor. With the implementation of VAT, South Africans found themselves to be confronted with the prospect of paying tax on a far wider range of items than had previously been the case. VAT would now have to be paid, *inter alia* on water, electricity, union subscriptions, medical services, private and public hospitals, as well as rentals. The system was also more complicated to administer, especially for small enterprises. The implementation of VAT did, therefore, not happen without protest from various groups.

The Congress of South African Trade Unions (COSATU) was launched in December 1985 after four years of unity talks between unions opposed to apartheid and committed to a non-racial, non-sexist and democratic South Africa (COSATU, 2007). Initially COSATU's call was for the postponement of the implementation of VAT to allow for further consultations. Many other lobby groups and organisations welcomed the call and soon COSATU was spearheading a coalition of about 100 organisations opposed to the way in which VAT was being introduced. Barend du Plessis, the Minister of Finance at that time, was adamant that the VAT implementation date would not be postponed. However, he made a number of significant concessions in the early days of the campaign, including no VAT on rentals, union subscriptions and public health care. This was not enough for the coalition and their central demands became:

- no VAT on basic foods, water and electricity;

- no VAT on medicines and medical services; and
- an easier way to administering VAT for small businesses.

COSATU, together with a number of other independent trade unions, called for a general strike on 4 and 5 November 1991. This strike was one of the most successful ever in South Africa. By March 1992 some of the demands of the strike were met. Ranges of basic foodstuffs were exempted from VAT and business had joined the movement to discuss a national negotiating forum. This campaign was a good example of the power and success of alliances on single issues (Seftel, 1992). This is also confirmed by Moody who states that: “The early waves of mass strikes brought collective bargaining and rapid union growth” (Moody, 1997:209). The most important long-term effect of this anti-Vat campaign was that it compelled government and employers to enter into negotiations around economic issues affecting workers. The roots of the tripartism in South Africa today in forums such as Nedlac, where dialogue between organized business, labour and community takes place on issues of social and economic policy, lie in this campaign (Seftel, 1992).

Capital Gains Tax (CGT) was introduced on 1 October 2001. In terms of the Eighth Schedule of the Income Tax Act, a capital gain arises when an asset is disposed of for more than it originally cost. A portion of the gain is added to the taxpayer’s taxable income and is subject to income tax (section 26A of the Income Tax Act).

All registered owners of Municipal property are liable for payment of assessment rates. Assessment rates are used for non-profitable services, for example, library services, sport and recreational facilities and defraying costs associated with traffic, trade, industry, health, parks, open spaces, streets and roads (Marketing and Communication Directorate City Council of Pretoria, 2000:7).

As the focus of this study concerns the perceptions of South African taxpayers, a short discussion follows that considers perception theory.

## 2.9 DEFINING PERCEPTIONS FOR THIS STUDY

This section provides background regarding the term *perception* as relevant for this study.

### 2.9.1 Defining perceptions

Lumsden and Lumsden (2000:382) define *perception* as: “The process by which people sense, select, and interpret stimuli”. Perceptions concern our awareness of the objects or conditions around us. They are to a large extent dependant upon the impressions these objects make upon our senses. Perceptions are the way things look to us or the way they sound, feel, taste or smell (Allport, 1955:14).

### 2.9.2 Factors influencing perception

Lumsden and Lumsden (2000:93) note that people perceive *selectively* (that is, people’s motives, needs, drives, wants and experiences may keep them from seeing things that are unacceptable or unknown to them), people perceive what their *backgrounds permit them to perceive* (that is, culture, language, gender and experience all affect how people see and think) and people *multiply their misperceptions regarding other people* (that is, one person cannot really be sure how another person perceives objects, ideas or another person).

It is true that individuals may look at the same thing, yet perceive it differently. Robbins (2001:122-124) highlights a number of factors that operate to shape and sometimes distort perception. He mentions how these factors can reside in the *perceiver*, in the object or *target* being perceived, or in the context of the *situation* in which the perception is made. A brief exploration of these factors revealed the following:

**The perceiver:** When an individual looks at a target and attempts to interpret what he or she sees, that interpretation is heavily influenced by personal characteristics of the individual perceiver. Among the more relevant personal characteristics affecting perceptions are *attitudes, motives, interests, past experiences* and *expectations*.

**The target:** Characteristics of the target that is being observed can affect what is being perceived. For example, loud people are more likely to be noticed in a group than quiet ones. *Motion, sounds, size and other attributes* of a target also shape the way we see it.

What we see also depends on how we separate a figure from its general *background*, illustrated in [Figure 3](#). The prominent object in this figure may first appear as a white vase. If, however, white is taken as the background, one sees two black profiles.

**Figure 3: Figure-Ground Illustration**



Source: Robinson, A.C. 2005. *Gestalt*. [Online] Available from: [http://www.acrstudio.com/projects/teaching/design3\\_01gestalt.htm](http://www.acrstudio.com/projects/teaching/design3_01gestalt.htm) [Accessed: 2006-07-17].

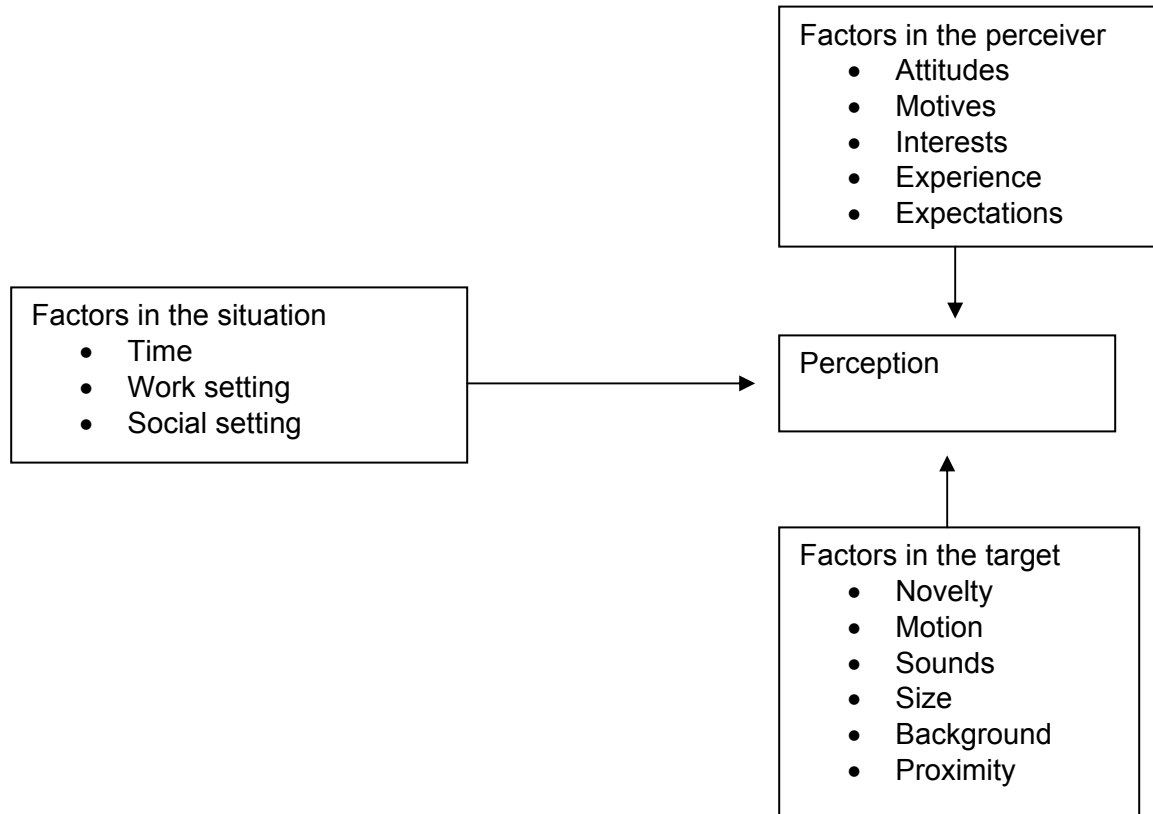
Additional important factors that influence target perceptions include:

- *Physical or time proximity:* as a result of this one tends to group unrelated objects or events. Objects or events that are similar to each other tend to be perceived together rather than separately.
- *Similarity:* persons, objects or events that are similar tend to be grouped together. Greater similarity increases the probability that they would be perceived as a common group.

**The situation:** The context in which one sees objects or events is important because elements in the surrounding environment influence a person's perceptions. The time at which an object or event is seen also influences attention, as does location, light, heat or any number of situational factors.

Figure 4 highlights a number of factors that might influence the perceptions of an individual as summarised by Robbins (2001:122-124).

**Figure 4: Factors that influence perception**



Source: Robbins, S.P. 2001. *Organizational behaviour*. 9<sup>th</sup> ed. Upper Saddle River, New Jersey: Prentice-Hall. p. 124.

From the above it is submitted that various demographic, economic or other circumstances of a particular individual might influence that individual's perceptions, including perceptions about tax.

## 2.10 SUMMARY

This chapter presented the literature review synthesised for the purposes of this study. Previous research which identified certain sociological and psychological reasons that may

influence people to evade taxes was the main focus of the chapter. These reasons were examined from both an economist's and a psychological viewpoint. Previous empirical research performed in relation to tax evasion and previous research performed in relation to taxpayers in South Africa was explored. Tax ethics and the history of taxes were briefly elaborated upon. The way in which the term *perception* has been applied, for the purpose of this study, was also considered.

The next chapter discusses the research methodology followed in this study, with particular, emphasis on the link between the theoretical framework discussed in this chapter and the design of the questionnaire used in the study.



## **CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY**

### **3.1 INTRODUCTION**

The aim of this research was to investigate the perceptions of South African taxpayers with regard to taxation, with particular emphasis on possible differences in the perceptions of the four major population groups. As the efficient and effective collection of taxes depends to a great extent on narrowing the tax gap, knowledge about how taxpayers perceive a tax regime could assist the fiscal authorities, through communication and taxpayer education, to achieve this.

The research takes, as its point of departure, a broad framework of sociological and psychological reasons why citizens avoid paying taxes (as established in previous research) in order to include a reasonably comprehensive range of questions in the design of the questionnaire used for the research. The link between the theoretical framework and the design of the questionnaire is discussed in this chapter.

As the research was essentially of an exploratory nature, statistical hypothesis testing was not used. While a phenomenological approach could have been employed, the reasons why a broad-based survey design was used are elaborated on in the chapter. This decision has influenced the ontological positioning of the research and is explained in more detail. Further, the techniques used to enhance the validity and reliability of the research outcome, are described and the ethical considerations are addressed.

### **3.2 RESEARCH DESIGN**

A discussion of the research design aims to highlight, in technical terms, what is to be done (Cooper & Schindler, 2003:146-151).

The research design applied in this study is based on the classification scheme provided by Cooper and Schindler (2003:146-151) and is described in this section. This scheme takes cognisance of the degree of research question crystallisation, method of data collection, researcher control of variables, the purpose of the study, the time dimension, topical scope and the research environment. These aspects are addressed below.

This was an *exploratory study* as it tended towards loose structures and attempted to highlight areas for future research (see section 6.6). As the data was collected from respondents by means of interviews using a questionnaire as the measuring instrument, an *interrogation/communication approach* was followed (Cooper & Schindler, 2003:146-147).

The trained fieldworkers merely recorded the responses of the respondents and did not attempt to control or manipulate the variables in any way. Therefore, an *ex post facto design* was followed. This was a *descriptive study* as it was concerned with establishing the likelihood (*how much*) that taxpayers' (*who*) perceptions with regard to taxation would influence their attitudes towards tax compliance (*what*) in Tshwane (*where*) during February 2006 (*when*) (Cooper & Schindler, 2003:149).

This was a *cross-sectional study* as the data was only collected on one occasion and represents a snapshot of the respondents' responses at that specific point in time (that is, during February 2006). The study was also a *statistical study* and was designed for breadth rather than depth. It attempted to highlight the perceptions of a sample of South African taxpayers with regard to taxation and made numeric inferences based on the data obtained (Cooper & Schindler, 2003:149-150).

Finally, the research was carried out under *field conditions* as it was conducted under actual environmental conditions (that is, the respondents were interviewed in their homes and the fieldworkers merely recorded the respondents' responses with no manipulation of variables taking place) (Cooper & Schindler, 2003:150).

### **3.3 SAMPLING**

The intention of the study was not to generalise the findings to all taxpayers and potential taxpayers in South Africa, but to obtain a large and sufficiently diverse sample in order to obtain a meaningful spread of perceptions concerning tax issues. The sample was, therefore, not intended to be statistically representative of the perceptions of the four South African population groups selected for this research.

#### **3.3.1 Target population defined for the study**

The universe for the sample included residents who were twenty-one years and older of the White, Coloured, Indian and Black/African population groups (that is, the four major South African population groups as defined by Statistics South Africa (2004:1)) residing in the Tshwane metropolitan area (which includes Pretoria, the capital city of South Africa).

#### **3.3.2 Sample size and sampling method employed**

Due to constraints such as time, budget and geographic distances, it was not possible to collect data from the entire population of South African taxpayers. Therefore, a census was not conducted, and a sample was drawn from the four selected South African population groups (Cooper & Schindler, 2003:179; Du Plooy, 2002:100).

A sample of South African taxpayers was selected from the greater Tshwane metropolitan area. This target area was selected, not only for reasons of convenience and cost, but also because it is an area that includes all the selected population groups, from many different age groups, who speak a variety of languages and represent a wide range of earnings (that is, from those who have no income to those who are extremely wealthy). The Tshwane metropolitan area also includes people who differ vastly in their educational background, employment status, as well as the type of dwelling and the number of people residing within a

specific household. This area was thus not only selected for practical purposes, but also because it represents a heterogeneous population.

A sample size of 260 South African taxpayers was selected from this area. For this particular study, in order to comply with statistical requirements, a minimum sample size of 200 would have been acceptable. To improve the results of the study and because the budget allowed for this, a sample size of 260 was feasible. This was considered to be an appropriate sample size by leaders of and committees who approved the research project (that is, the Research, Post-graduate and Ethics Committees).

A *probability sampling* approach was employed in the study as the population elements were randomly selected based on a controlled procedure and each population element had a known and equal chance of selection (Cooper & Schindler, 2003:183). Although an unrestricted *simple random sample* approach is the simplest form of probability sampling, this was not practical considering the large number of taxpayers in South Africa, as well as budgetary constraints. An alternative probability approach in the form of *cluster sampling* was thus applied (Cooper & Schindler, 2003:192).

The study followed the most important form of cluster sampling known as *area sampling* because the sample of South African taxpayers was identified from a specific geographical area (Tshwane). The particular households within the Tshwane metropolitan area were then selected based on further groups (that is, specific areas within the Tshwane region) (Cooper & Schindler, 2003:196; Diamantopoulos & Schlegelmilch, 2000:16).

The specific manner in which the sample was selected for the study is now discussed. In order to comply with statistical requirements, the distribution for the target population groups was disproportionate to achieve a minimum of 40 Coloured and Indian, 80 White and 100 Black/African respondents (see [Table 2](#)).

**Table 2: Number of respondents intended to be surveyed in each population group**

<b>Population Group</b>	<b>Number of respondents intended to be surveyed</b>
Black/African	100
White	80
Indian	40
Coloured	40
<b>Total</b>	<b>260</b>

The sample was based on the 1996 census population figures. The specific areas that were included in the sample (see [Appendix A](#)) were selected in the following manner:

- Indian areas - The two main Indian areas in Tshwane (that is, Laudium and Lotus Gardens) were included.
- Black areas - The areas with the highest Black/African population in Tshwane, namely, Soshanguve, Mamelodi, Saulsville and Atteridgeville were included, as well as Sunnyside and the Arcadia area, which are mixed areas.
- Coloured areas - The main area in Tshwane with Coloured residents, namely, Eersterus was selected.
- White areas - The traditional White suburbs in Tshwane (see [Appendix A](#)) were selected by means of selecting random numbers by using a random sampling programme in SPSS (Version 13).

The abovementioned areas were divided into quadrants and an even number of interviews were allocated to each quadrant. A minimum of two interviews was allocated to a suburb. The households were selected systematically from a random starting point. Selection of specific households was determined as follows:

- The number of respondents required in each area for each population group was determined (for example, 40 respondents from Eersterus and 35 respondents from Mamelodi were required – see [Appendix A](#)).
- The households in each specific area were then divided by the number of respondents that were required (for example, the households in Eersterus were divided by 40 and the households in Mamelodi were divided by 35).
- The specific households were then selected by means of simple random sampling.

Following this, the individual respondents were selected from qualifying household members by means of a Kish Grid. A *Kish Grid*, named after the statistician who invented it, is a table of numbers. The number of people in a household is discovered and a random number is chosen to select a particular person (Audience Dialogue, 2002).

A Kish Grid is used in the following manner:

- The number of people living in the household that are eligible to be interviewed (in this case, household members over twenty-one years of age) is determined. This includes people who sleep there but who are not present when the interview is conducted.
- The youngest household member is number one, the second youngest is number two, and, so on up, until the eldest household member.
- The first household where an interview is conducted is household one, the second is household two, and so on, up to household eight – the last in the cluster.
- The interviewer then finds the column for the household member and the row for the number of eligible people. The number in the cell, where the column and row intersect one another, is the person selected for the interview. For example, if household two has three adults, the second youngest (shown in bold in [Figure 5](#)) is interviewed after arranging to meet with that specific person (Audience Dialogue, 2002).

The reason for numbering the household members from the youngest to oldest (rather than the seemingly more obvious oldest to youngest) is that younger people are usually more difficult to find at home (Audience Dialogue, 2002).

**Figure 5: Example of a Kish Grid used to select household members**

Eligible people	Household							
	1	2	3	4	5	6	7	8
1	1	1	1	1	1	1	1	1
2	1	2	1	2	1	2	1	2
3	1	<b>2</b>	3	1	2	3	1	2
4	1	2	3	4	1	2	3	4
5	1	2	3	4	5	3	4	5
6	1	2	3	4	5	6	3	6
7	1	2	3	4	5	6	7	4
8	1	2	3	4	5	6	7	8
9	1	2	3	4	5	6	7	8
10 or more	1	2	3	4	5	6	7	8

Substitution of the visiting point was only allowed for the following reasons:

- refusal by the selected respondent to participate;
- the premises were vacant (for example, no building or occupied structure);
- nobody on the stand qualified to respond to the survey;
- the respondent could not be found at home after three unsuccessful visits (two revisits) at different dates and times;
- the respondent could not communicate with the interviewer because the respondent spoke an unknown foreign language (for example, Arabic); or
- the respondent was unable to be interviewed due to a physical or mental incapacity.

### 3.4 DATA COLLECTION

This section considers the method of data collection, the design of the questionnaire and the manner in which the final questionnaire was pre-tested. The period in which the fieldwork was conducted, the realised sample size and number of usable questionnaires is also clarified.

### 3.4.1 Method of data collection

Data may be grouped into two categories, namely, *quantitative* (that is, collecting data in the form of numbers) and *qualitative* (that is, data in the form of words or pictures) (Neuman, 2000:33).

Kumar (1999:10) explains that a study is classified as *qualitative* if its purpose is primarily to describe a situation, phenomenon, problem or event; the information is gathered through the use of variables measured on nominal or ordinal scales (that is, qualitative measurement scales); and an analysis is done to establish the variation in the situation, phenomenon or problem without quantifying it. This approach is sometimes called the interpretative, constructivist or postpositivist approach (Leedy & Ormrod, 2005:94).

Alternatively, if the researcher wants to quantify the variation in a phenomenon, situation, problem or issue, if information is gathered using predominantly quantitative variables (interval and ratio scales), and if the analysis is geared to ascertain the magnitude of the variation, the study is classified as a *quantitative* study (Kumar, 1999:10). Examples of quantitative aspects of a research study include: “How many people have a particular problem?” or “How many people have a particular attitude?” (Kumar, 1999:10). This approach is sometimes called the traditional, experimental or positivist approach (Leedy & Ormrod, 2005:94).

The aim of this study was to determine and quantify how many South African taxpayers have positive/negative perceptions of taxation and how this influences their attitudes towards tax compliance. The study was thus classified as a quantitative study. In addition, a positivist framework was followed as it was an empirical study with the core of the scientific endeavour being observation and measurement (Henning, Van Rensburg & Smit, 2004:17).

Further support for classifying this study as following a positivist approach is provided by Bryman (in Ritchie & Lewis, 2003:6). These authors note that beliefs and practices associated with positivism usually include the following:



- the methods of the natural sciences are appropriate for the study of social phenomenon;
- only those phenomena which are observable can be regarded as knowledge;
- knowledge is developed inductively through the accumulation of verified facts;
- hypotheses are derived deductively from scientific theories to be tested empirically (the scientific method);
- observations are the final arbiter in theoretical disputes; and
- facts and values are distinct, thus making it possible to conduct an objective enquiry.

As this study adhered to the above beliefs and practices, it would be appropriate to assert that a predominantly positivist framework was followed. In the design of the questionnaire, provision was made for limited open-ended responses, and in this respect a very limited qualitative component was included in the design of the research.

In order to ensure improved controls of the fieldwork, a private, independent company, MarkData Pty (Ltd) (referred to as MarkData from this point forward), was contracted to carry out the data collection phase for this research project. MarkData operates in the Tshwane metropolitan area and specialises in providing strategic research solutions on a variety of issues for numerous national and international clients.

MarkData's experience in the field of research dates back to the early eighties. The company has a track record of vast experience in the field of planning, health, demographic and population surveys, as well as studies in support of community development and monitoring surveys in the field of development and of the Reconstruction and Development Programme (RDP). In addition, MarkData regularly conducts countrywide surveys (of up to 20 000 interviews) in all areas of communities. The company staff compliment is made up of very experienced supervisors and interviewers who, between them, are conversant in all of the official South African languages.

Personal, face-to-face interviews were conducted to collect the data for the study using a structured and semi-structured questionnaire. These interviews took place at the respondents' homes.

Throughout the survey, constant communication was maintained with MarkData to ensure that the quality of data collection was upheld. During fieldwork, once interviews were conducted, the completed questionnaires were collected and checked for correct completion. These were then returned to the office for further checking.

Interviews were often conducted after hours to ensure that the selected respondents were available. If the selected person was not at home during the first visit, but was available during the survey period, an appointment was made and the interview was conducted with the person concerned. If, however, no person in the household qualified to be interviewed, or was not available during the fieldwork period, this household was substituted according to a specific procedure (as explained in section 3.3.2). Two revisits were made before a household was substituted.

The assistance of experienced coordinators and interviewers was obtained for the survey. The interviewers conducted the interviews in close proximity to their own residential areas and had to comply with the following minimum requirements:

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

The fieldworkers were trained on 10 February 2006 in Pretoria. The questionnaire was compiled in English. During training, all questions were translated by the responsible coordinator from MarkData into the relevant languages for the fieldworkers. Interviews were

conducted in the respondents' language of choice. Fieldworkers were instructed to adhere to the sequence of the questions in order to ensure that respondents were not lead in answering the questions.

### **3.4.2 Design of the questionnaire**

In research, *measurement* consists of assigning numbers to empirical events in compliance with a set of rules. This means that observable empirical events are selected, a scheme is developed for assigning numbers or symbols to represent aspects of the event being measured and that the mapping rule(s) is applied to each observation of that event (Cooper & Schindler, 2003:221). A questionnaire was compiled and served as the measuring instrument for the study. The specific *measurement scales* that comprised the questionnaire are considered below.

The aim of this study was to measure the likelihood that South African taxpayers' perceptions with regard to taxation would influence their attitudes towards tax compliance. This study assumed that if taxpayers have negative perceptions about tax, they will also have negative attitudes towards tax compliance, and *vice versa*.

Standardised scales did not exist to measure the constructs in the study. A customised scale was thus developed for the study (see questionnaire in [Appendix B](#)) (Cooper & Schindler, 2003:250). Simple category, multiple choice single-response, as well as multiple choice multiple-response scales were used in the final questionnaire to determine taxpayers' perceptions with regard to taxation.

The *simple category scale* (also known as a *dichotomous scale*) offers two mutually exclusive response choices (for example, "yes" and "no", "important" and "unimportant", "agree" and "disagree"). This response strategy is particularly useful for demographic questions or where a dichotomous response is adequate (Cooper & Schindler, 2003:253). In the final

questionnaire (see Appendix B), questions 2, 9, 13, 17, 19, 22 and 23 represented simple category scales.

The *multiple choice single-response scale* is appropriate where the respondent has multiple options but only one answer is sought (Cooper & Schindler, 2003:253). Questions 1, 3, 4, 5, 6, 7, 8, 10, 11, 14, 15, 16, 18, 20 and 21 represented multiple choice single-response scales.

A variation on the previous scale is the *multiple choice multiple-response scale* (also called a *checklist*) which provides multiple options but the respondent can select anything from one to several alternatives. Although question 12 in the final questionnaire reflected a multiple choice single-response scale, the results of the study showed that respondents often selected more than one option. Hence, question 12 was treated as a multiple choice multiple-response scale when reporting the results of the study.

The questionnaire for the study was developed taking cognisance of research that had been conducted previously. For a review of the findings of these studies, see chapter 2. The section below describes the individual questions included in the questionnaire, together with the literature that provides support for the inclusion of each question in the questionnaire.

**Questions 1-4 and 6:** Respondents were requested to indicate their age, gender, population group, home language and educational background respectively in questions 1, 2, 3, 4 and 6.

Lewis's (1982:172) model of tax evasion highlights that the characteristics of taxpayers, in terms of their individual, group and demographic differences, influence their attitudes and perceptions of fiscal policy and constitutional structure. This, in turn, influences tax compliance or evasion. Some of these variables identified in previous surveys, include age, sex, and educational factors. In addition, according to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by sociological factors (for example, age, gender, ethnic background and education level).

Previous studies have also identified that age (Mueller, 1963:233; Webley *et al.*, 1991:68-77), gender (Friedland *et al.*, 1978:113; Webley *et al.*, 1991:110) and educational background (Almond & Verba, 1963:379-387; Fallan, 1999:173-184; Groenland & Van Veldhoven 1983, in Webley *et al.*, 1991:59; Vogel, 1974:501) are factors which influence tax evasion.

The above provides support for investigating these issues in the current study. Hence, these abovementioned variables were included in the final questionnaire.

**Questions 7 and 9:** Question 7 requested respondents to indicate their employment status. Question 9 asked respondents whether they earn a second or other additional income (for example, income from a second trade or from renting out premises) in addition to their monthly salary.

The literature indicates that there are several facts that implicate framing outcomes as gains or losses in taxpayer decision-making (Jackson & Milliron, 1986:152; Schadewald, 1989:69; Smith & Kinsey, 1987:648). For instance, tax that has to be paid has greater utility than tax that is already withheld. In addition, the majority of taxpayers in the United States prefer having more tax withheld than is strictly necessary. This implies that, in a system where tax is withheld by the authorities, individuals who expect a refund and perceive this as a gain, would avoid the risks associated with evasion. On the other hand, those expecting to pay additional tax (a certain loss) would be more likely to take the risky alternative and evade tax.

Previous studies have also revealed that a person's employment status can be associated with tax evasion behaviour (Webley *et al.*, 1991:68-77; Vogel, 1974:507). Therefore, the investigation of these variables, as well as their inclusion in the questionnaire is justified.

**Question 8:** Question 8 requested respondents to indicate their income per month before deductions. According to Lewis's (1982:172) model of tax evasion, characteristics of taxpayers in terms of their individual, group and demographic differences, influence their attitudes and perceptions of fiscal policy and constitutional structure. This, in turn, influences tax compliance or evasion. The taxpayer's income (including perceived economic well-being

and anticipated future economic well-being) is included in these characteristics. The brackets used in the questionnaire were designed taking the tax threshold into account. Hence, support is provided for including this question in the questionnaire.

**Questions 5, 10 and 11:** Lewis's (1982:172) model of tax evasion emphasises that characteristics of taxpayers, in terms of their individual, group and demographic differences, influence their attitudes and perceptions of fiscal policy and constitutional structure. This, in turn, influences tax compliance or evasion on the part of the taxpayer.

Question 5 requested respondents to indicate their type of dwelling and question 11 requested respondents to specify the number of persons living within their household. These questions, based on the 2001 census, were included, as they focus on demographics and also indicate individual and group differences.

Question 10 required respondents to indicate the frequency of visits to state-funded medical facilities per month. This question was included as it provides further demographic information and implies the extent to which they are dependent on the government.

**Question 12:** In this question respondents were requested to indicate how they would invest R10 000 if they were to inherit or win this sum of money. The options which respondents could select included: 1) invest the amount in a bank/post office savings account; 2) invest the sum of money in a bank/post office fixed deposit; 3) keep the money in a safe place at home; or 4) invest this amount of money on the Johannesburg Stock Exchange (JSE) (the name of the JSE has recently been amended and is now referred to as JSE Securities Ltd). Lewis's (1982:172) model of tax evasion includes risk aversion as a behavioural aspect of taxpayers. In addition, according to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by psychological factors such as risk.

**Questions 13 and 14:** Question 13 requested respondents to indicate whether they are registered as a taxpayer with SARS. Question 14 asked whether respondents had consulted with SARS officials in the past. If so, respondents were asked to agree or disagree with a

number of statements that related to the manner in which they were treated by SARS officials. Regarding these issues, Lewis (1982:172) in his second model on the relationship between tax attitudes and tax behaviour, suggests that tax inspectors influence a person's attitude and behaviour. This provides support for including questions 13 and 14 in the questionnaire. Naidoo (2005:13) also mentions that taxpayers often believe that they are being treated as criminals by SARS officials.

**Question 15:** In Lewis's (1982:172) model of tax evasion, in relation to individuals, fiscal attitudes and perceptions (which include the individual's support for government policies) affect a taxpayer's decision whether or not to evade paying tax. Therefore, support is provided for the inclusion of question 15, which requested respondents, in the final questionnaire, to indicate how strongly they support the present government.

**Question 16:** Question 16 requested respondents to indicate their views concerning the future of South Africa. According to Lewis's (1982:172) model of tax evasion, some taxpayers may have a better understanding of the working of fiscal policy than others. By contrast, tax authorities who are perceived as rigorous invaders of personal liberty may, in turn, engender more antipathetic tax attitudes. This is also influenced by the characteristics of taxpayers in terms of their individual, group and demographic differences. Surveys have identified a host of these variables, including anticipated future economic well-being. This provides support for the inclusion of question 16 in the questionnaire.

**Question 17:** Question 17 requested respondents to indicate their view on income distribution in South Africa (that is, whether they believe that all income earned should accrue to the government, which should then distribute this evenly among all South Africans, or whether everyone should be entitled to retain the income they earn). Considering Lewis's (1982:172) model of tax evasion, as far as the authorities are concerned one of the factors that is regarded as important, is the government's fiscal policy. In addition, according to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system. This provides support for including this question in the questionnaire.

**Question 18:** Question 18 requested respondents to indicate whether they agreed, disagreed or had no opinion concerning a number of statements dealing with general issues related to tax. The statement, and the section in the literature review that provides support for the inclusion of each statement, is provided in Table 3.

**Table 3: Support from the literature for the inclusion of specific statements that relate to general tax issues**

Statement	Section in the literature that provides support for inclusion of statement
A large proportion of taxes is used by the government for meaningless purposes	<p>When considering taxpayers' attitudes towards and perceptions of constitutional structure, government and fiscal policy, Lewis's (1982:172) model on tax evasion includes taxpayers' perceptions of the uses of tax revenue.</p> <p>A previous study that examined taxpayers' perceptions on the tax system in South Africa revealed that one of the main contributors as to why people are reluctant to pay tax is that they believe that the government does not spend the collected revenue effectively and responsibly (Coetzee, 1993:5-7).</p> <p>According to Pravin Gordhan, the present SARS Commissioner, as quoted by Sawyer (1998:6), a possible reason for tax fraud in South Africa is the government's perceived mismanagement of funds.</p>
It is unfair to pay tax	<p>In Lewis's (1982:172) model of tax evasion, in relation to taxpayers' attitudes towards and perceptions of constitutional structure, government and fiscal policy, taxpayers' perceptions of the purposes and fairness of taxation (perhaps in terms of equity) is included.</p> <p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by psychological factors such as fairness/equity.</p> <p>A study by Webley <i>et al.</i> (1991:68-77) shows that people use the unfairness of the tax system as a justification of evasion.</p> <p>Delport (2003:4) notes that South African taxpayers dislike paying taxes, due to a perception that the tax system is unfair.</p>
Income tax rates must be reduced	<p>Allingham and Sandmo's (1972:338) classical model assumes that a person's behaviour is influenced by the tax rate (which determines the benefits of evasion).</p> <p>Song and Yarbrough (1978:450) found that a shortcoming of income tax is that the tax rate is too high.</p>



	<p>In a South African study undertaken by Oberholzer (2005:249-275), a substantial proportion of the respondents indicated that they would not object if lower tax rates were introduced.</p> <p>De Villiers (1996:23) examined four groups of taxpayers (that is, formal enterprises, informal enterprises, White, Asian and Coloured population groups, and the Black population group). All four of these groups agreed that tax rates are too high and should be reduced.</p> <p>According to Slemrod and Bakija (1996:1), the most common complaint regarding taxes from taxpayers is that they are too high.</p>
<p>The VAT rate must be reduced</p>	<p>Allingham and Sandmo's (1972:338) classical model assumes that a person's behaviour is influenced by the tax rate (which determines the benefits of evasion).</p> <p>In a South African study undertaken by Oberholzer (2005:249-275), a substantial proportion of the respondents indicated that they would not object if lower tax rates were introduced.</p> <p>De Villiers (1996:23) examined four groups of taxpayers (that is, formal enterprises, informal enterprises, White, Asian and Coloured population groups, and the Black population group). All four of these groups agreed that tax rates are too high and should be reduced.</p> <p>According to Slemrod and Bakija (1996:1), the most common complaint regarding taxes from taxpayers is that they are too high.</p>
<p>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)</p>	<p>According to Lewis's (1982:172) model of tax evasion, one of the factors that is regarded as important as far as the authorities are concerned is the government's fiscal policy.</p> <p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system and government policies.</p>
<p>I do not know why I have to pay tax</p>	<p>In Lewis's (1982:172) model of tax evasion, when considering taxpayers' attitudes towards and perceptions of constitutional structure, government and fiscal policy, taxpayers' perceptions of the purposes and fairness of taxation (perhaps in terms of equity) is included.</p>
<p>Waste and corruption in government is high</p>	<p>Concerning taxpayers' attitudes towards and perceptions of constitutional structure, government and fiscal policy, Lewis's (1982:172) model on tax evasion includes taxpayers' perceptions of the uses of tax.</p> <p>A study by Dean <i>et al.</i> (1980:42) reveals that a possible reason for the cause of tax evasion is government wastage.</p>

	<p>According to Pravin Gordhan, the present SARS Commissioner, as quoted by Sawyer (1998:6), possible reasons for tax fraud in South Africa is the government's perceived mismanagement of funds and fraud within SARS.</p>
<p>Rich people should pay tax at a higher rate</p>	<p>According to Lewis's (1982:172) model of tax evasion, one of the factors that is regarded as important as far as the authorities are concerned is the government's fiscal policy.</p> <p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system and government policies.</p>
<p>Tax is very complicated - I do not know how to calculate my own tax liability</p>	<p>Smith and Kinsey (1987:645) present a flow chart, which shows the factors that shift people from their habitual behaviour to consciously taking a decision and forming intentions. These authors note that expressive factors or "psychic costs" have a direct effect on intentions. These are simply the subjective costs and benefits involved with taxpaying, such as the frustration involved in completing tax forms.</p> <p>After all their experimental studies into tax evasion, Webley <i>et al.</i> (1991:122) contend that for some participants the task is too difficult and they are unsure of how to calculate their tax liability.</p> <p>Song and Yarbrough (1978:450) found that a shortcoming of income tax is that the regulations are too complicated.</p> <p>A past study that examined taxpayers' perceptions on the tax system in South Africa shows that one of the main contributors as to why people are reluctant to pay tax is that the taxpayer does not fully understand how to calculate his tax liability (Coetzee, 1993:5-7).</p> <p>De Villiers (1997:54-55) is of the opinion that South Africa's tax system is very complex.</p>
<p>The amount of tax I have to pay is reasonable considering the benefits received</p>	<p>In Lewis's (1982:172) model of tax evasion, when considering taxpayers' attitudes towards and perceptions of constitutional structure, government and fiscal policy, taxpayers' perceptions of the purposes and fairness of taxation (perhaps in terms of equity) is included.</p> <p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by sociological factors such as reciprocity, as well as psychological factors such as fairness/equity.</p> <p>A previous study that examined taxpayers' perceptions on the tax system in South Africa indicated that one of the main contributors as to why people are reluctant to pay tax is that taxpayers believe that they do not get value for their money, for example, in poor</p>

	<p>infrastructure, inferior health care and education (Coetzee, 1993:5-7).</p> <p>Findings in a South African study by Oberholzer (2005:249-275) show that generally, the respondents are positive towards paying tax if the government applies it appropriately for the benefit of the taxpayer.</p>
<p>The government does not provide enough information about how they use taxpayers' money</p>	<p>Concerning taxpayer's attitudes towards and perceptions of constitutional structure, government and fiscal policy, Lewis's (1982:172) model on tax evasion includes taxpayers' perceptions of the uses of tax revenue.</p> <p>A previous study by De Villiers (1996:23) examined four groups of taxpayers (that is, formal enterprises, informal enterprises, White, Asian and Coloured population groups, and the Black population group). Their findings reveal that millions of people in South Africa are not paying taxes. De Villiers (1996:23) postulates that one reason for this may be that they are not well-informed regarding tax issues.</p> <p>A South African study conducted by Oberholzer (2005:249-275) shows that a significant percentage of the respondents believe that the government should be transparent in the utilisation of taxpayers' money.</p>

**Question 19:** Question 19 exposed the respondents to the statement: "People who open their own business are usually willing to take risks to do this". Respondents were then requested to indicate whether they regard themselves to be the type of person who likes to take a risk. According to Lewis's (1982:172) model of tax evasion, the characteristics of taxpayers influence their attitudes and perceptions of fiscal policy and constitutional structure which, in turn, influences their perceived enforcement and opportunity. Surveys have identified risk aversion as a characteristic of taxpayers which may influence their perceptions. This provides support for the inclusion of question 19 in the questionnaire.

**Question 20:** Question 20 requested respondents to indicate whether they agreed, disagreed or had no opinion regarding a number of statements that relate to tax evasion. Each specific statement, as it appeared in the questionnaire, as well as the section in the literature that provides support for the inclusion of each statement, is indicated in Table 4.

**Table 4: Support from the literature for including specific statements that relate to tax evasion**

Statement	Section in the literature that provides support for inclusion of statement
<p>The fiscal authorities (SARS) would notice if I decided to evade tax</p>	<p>Allingham and Sandmo's (1972:338) classical model assumes that a person's behaviour is influenced by the probability of detection (which determines the cost). Taxpayers contemplating tax fraud may well assess the chance of being caught as being very remote.</p> <p>In Lewis's (1982:172) model of tax evasion, in the case of individuals, perceptions of enforcement and opportunity influence a taxpayer's decision as whether or not to evade.</p> <p>Dean <i>et al.</i> (1980:39-40) found that tax evasion may increase if people believe that they will not be detected. In an experiment by Webley <i>et al.</i> (1991:102), strong support was provided for the proposition that greater opportunity leads to greater tax evasion.</p> <p>It is noted in Slemrod's (1992:6) summary of Kent Smith's (1992:223-250) study that normative commitment to compliance could be positively reinforced by the effective detection of tax evasion, particularly for tax laws not rooted in values based on the relationships among individuals.</p>
<p>Government receives enough tax so it does not matter if some people evade tax</p>	<p>The Corchon model (Cowell, 1990:122), a game-playing model, is an extension to Allingham and Sandmo's (1972:338) classical model. In the Corchon model, the tax situation is treated as a two-person game involving the taxpayer and the authorities. The taxpayer has two choices - he can either comply or not comply. The authorities also have two choices - they can investigate the taxpayer or not. An extension to the Corchon model takes into account the behaviour of other taxpayers (for example, certain social psychological variables such as stigma, reputation and social norms).</p>
<p>The burden of tax is so heavy that many people are forced to evade it in order to survive</p>	<p>In Lewis's (1982:172) model of tax evasion, when considering taxpayers' attitudes towards and perceptions of constitutional structure, government and fiscal policy, taxpayers' perceptions of the purposes and fairness of taxation (perhaps in terms of equity) is included. Questions concerning the perceived equity of opportunity for tax evasion are considered in this model, in particular, the perception that the tax system may appear unfair, in the sense that people with higher incomes are perceived as having greater opportunities legally to avoid paying tax and income tax.</p> <p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by sociological factors such as reciprocity as well as psychological factors such as fairness/equity.</p>

	<p>A past study by Coetzee (1993:5-7) examined taxpayers' perceptions on the tax system in South Africa and shows that one of the main contributing factors as to why people are reluctant to pay tax is that fiscal drag on personal incomes has resulted in a gradual impoverishment, as, after tax, salaries decline, despite remuneration increases.</p> <p>A study by Dean <i>et al.</i> (1980:42) indicates that a possible cause of tax evasion is financial hardship.</p>
<p>Since so many other people are evading tax, I cannot be blamed for evading tax</p>	<p>The interactive models (or game-playing models) (Benjamini &amp; Maital, 1985:245-264; Corchon (1984, in Webley <i>et al.</i> 1991:10)), which are extensions to Allingham and Sandmo's (1972:338) classical model, stem from the recognition that a taxpayer is not taking decisions in isolation and that there are other "players" in the "game". In this case, the behaviour of other taxpayers is relevant – a taxpayer's reputation may suffer if they are caught evading in a population largely comprised of non-evaders but will be unaffected or may even rise if the majority evade taxes (Webley <i>et al.</i>, 1991:10). An extension to the Corchon model (that is, a game-playing model) includes the behaviour of other taxpayers (for example, stigma, reputation and social norms).</p>
<p>I work hard for the income I receive so I should be allowed to keep it all for myself</p>	<p>If one were to stop a person in the street and ask him or her why they think people evade tax, their response would almost certainly be very straightforward and easy, "greed" (Webley <i>et al.</i>, 1991:8).</p> <p>Dean <i>et al.</i> (1980:42) also found that greed is a possible cause of tax evasion.</p>
<p>People evade tax because the risk that the authorities will find out is low</p>	<p>Allingham and Sandmo's (1972:338) classical model assumes that a person's behaviour is influenced by the probability of detection (which determines the cost). Taxpayers contemplating tax fraud may well calculate that the chance of being caught is very remote.</p> <p>In Lewis's (1982:172) model of tax evasion, on the individual side, perceptions of enforcement and opportunity influence a taxpayer's decision as whether to evade or not.</p> <p>Dean <i>et al.</i> (1980:39-40) indicate that tax evasion may increase if people believe that they will not be detected. An experiment by Webley <i>et al.</i> (1991:102) showed strong support for the proposition that greater opportunity leads to greater tax evasion. Slemrod's (1992:6) summary of Kent Smith's (1992:223-250) study also reveals that normative commitment to compliance could be positively reinforced by effective detection, particularly for tax laws not rooted in values based on the relationships among individuals.</p>
<p>Wealthy people evade tax more often than poor people</p>	<p>The perceived equity of opportunity for tax evasion in Lewis's (1982:172) model of tax evasion considers the perception that the tax system may appear unfair, in the sense that people with higher incomes are perceived as having greater opportunities legally to avoid paying tax.</p>

**Questions 21 and 22:** A Swedish study by Vogel (1974:499-513) requested taxpayers to choose suitable penalties for tax evasion from a set of fixed alternative penalties. The penalties ran from no penalty or a fine, to prison sentences of various lengths. It was found that the choice of a prison term appears to be a good indicator of the perceived seriousness of tax offences. Questions 21 and 22 followed a similar approach.

Question 21 listed a range of crimes which are appropriate in a South African context. These include shoplifting, housebreaking, tax evasion, drunken driving, failing to report additional income and hijacking. *Hijacking* forms one of the sub-categories of armed robbery (National Hijack Prevention Academy, 2007).

Respondents were requested to indicate which penalty (that is, no penalty, fine or imprisonment) they considered to be appropriate for each crime. A person who commits tax evasion is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding five years (section 104 of the Income Tax Act).

Question 22 requested respondents to indicate whether they thought that these penalties were too severe (that is, too high).

Allingham and Sandmo's (1972:338) classical model assumes that behaviour is influenced by the penalties for fraud. The classical model predicts that the severity of penalties will affect evasion and it is logical to infer that if penalties are severe, people will be more compliant. The above discussion provides support for the inclusion of these questions in the questionnaire.

**Question 23:** Question 23 requested respondents to answer "yes" or "no" (as honestly as possible) to a number of statements. The first six statements relate to tax compliance and the last three statements concern the risk profile of respondents. The statements are listed in Table 5, followed by substantiation from the consulted literature for the inclusion of these statements in the questionnaire.

**Table 5: Support from the literature for including specific statements that relate to tax compliance and respondents' risk profile**

Statement	Section in the literature that provides support for inclusion of statement
Every year I report all of my income to the fiscal authorities (SARS) when I submit my income tax return	According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by sociological factors (that is, norms, reciprocity, age, gender, education level and ethnic background).
I would consider not reporting all of my income to the fiscal authorities (SARS) when I submit my income tax return in future	The Australian Cash Economy Task Force (1998:18) notes that taxpayer compliance decisions can be affected by sociological factors (that is, norms, reciprocity, age, gender, education level and ethnic background).
I have sometimes made higher deductions than was legally permitted when I submitted my income tax return	According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by sociological factors (that is, norms, reciprocity, age, gender, education level and ethnic background).
I would consider making higher deductions than legally permitted when I submit my income tax return in future	It is noted by the Australian Cash Economy Task Force (1998:18) that taxpayer compliance decisions can be affected by sociological factors (that is, norms, reciprocity, age, gender, education level and ethnic background).
I would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should	<p>The Australian Cash Economy Task Force (1998:18) highlights that taxpayer compliance decisions can be affected by sociological factors (that is, norms, reciprocity, age, gender, education level and ethnic background).</p> <p>An experiment conducted by Webley <i>et al.</i> (1991:102), showed strong support for the proposition that greater opportunity leads to greater tax evasion.</p>
If a tax advisor advises me not to declare all of my income, I would take his advice	<p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by sociological factors (that is, norms, reciprocity, age, gender, education level and ethnic background).</p> <p>An experiment conducted by Webley <i>et al.</i> (1991:102), showed strong support for the proposition that greater opportunity leads to greater tax evasion.</p>
I partake in gambling such as betting on horses, visiting casinos more than four times per month	According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by psychological factors (that is, risk, fear, trust, values, fairness/equity and opportunity to evade).
I partake in the Lotto at least four times per month	The Australian Cash Economy Task Force (1998:18) notes that taxpayer compliance decisions can be affected by psychological

	factors (that is, risk, fear, trust, values, fairness/equity and opportunity to evade).
I think that the Lotto is good because a portion of the money is allocated for charitable purposes	According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by psychological factors (that is, risk, fear, trust, values, fairness/equity and opportunity to evade).

**Question 24:** The final question in the questionnaire was an open-ended question. *Open-ended* questions are appropriate when the objective is to discover opinions and degrees of knowledge (Cooper & Schindler, 2003:375). The aim of question 24 was to gather additional information and learn more about the respondents' perceptions and knowledge of taxation. The only open-ended question included in the questionnaire for this study, therefore, was: "Do you have any further comments with regard to tax in South Africa (for example, would you like to be more informed about tax by receiving brochures, pamphlets, etc)".

A study by Oberholzer (2005:249-275) that investigated taxpayers' perceptions in South Africa, identified a need for more knowledge regarding tax systems and the application thereof. This provides support for the inclusion of this open-ended question in the questionnaire.

### **3.4.3 Pre-testing the questionnaire and period in which fieldwork was conducted**

The data-gathering phase of the research process generally begins with a pilot study. A *pilot test* is carried out in order to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample. Thus, it should draw subjects from the target population and imitate the procedures and protocols that have been designated for data collection. The size of a pilot group may range from twenty-five to one hundred subjects, depending on the method to be tested, but the respondents do not have to be statistically selected (Cooper & Schindler, 2003:86).

There are a number of variations on pilot testing. Some are intentionally restricted to data collection activities. One form, *pre-testing*, may rely on colleagues, respondent surrogates, or



actual respondents in order to refine a measuring instrument. Pre-testing may be repeated several times to refine questions, instruments or procedures (Cooper & Schindler, 2003:86).

This study followed two phases with regard to pilot testing. First, the questionnaire was pre-tested by fifteen academic colleagues. No major problems were detected and only minor comments in relation to the style and grammar of the questionnaire were received. These comments were taken into account and the questionnaire was amended accordingly.

For the second pre-testing phase, twenty-five respondents were drawn from the target population. The pilot test was carried out in a manner similar to the way in which the actual data for this study was to be collected. Fieldworkers from MarkData conducted interviews with the pilot group using the questionnaire.

MarkData revealed that, overall, the questionnaire worked well. The following problem areas were, however, revealed:

- a “not applicable” option had to be added to one of the questions (see question 10);
- a “no opinion” option had to be added to three of the questions (see question 14, 18 and 20); and
- in one of the questions where the respondents had to indicate whether they agreed, disagreed or had no opinion regarding a specific statement, the statement needed to be explained more clearly (see fifth statement in question 18).

These aspects were addressed and the final questionnaire amended accordingly (refer to [Appendix B](#) for an example of the final questionnaire). The actual data for this study was collected, using this questionnaire, during the month of February 2006.

#### **3.4.4 Realised sample size and number of usable questionnaires**

As highlighted above (see section 3.3.1), the target population for the study consisted of 260 respondents. As the services of MarkData were used to carry out the research and this

organisation had access to all the respondents, they were able to follow up on any problem areas concerning the completed questionnaires (for example, missing responses, obvious errors or illegible writing for the open-ended questions). A sample size of 260 was thus realised. This aspect is further addressed in the following section.

### **3.5 PREPARATION, ANALYSIS AND INTERPRETATION OF DATA**

This section considers the manner in which the data was edited and coded for this study. The method of analysis and statistical techniques applied are also discussed.

#### **3.5.1 Editing and coding the data**

*Editing* refers to the process of detecting errors and omissions, correcting them where possible and certifying that minimum data quality standards have been achieved. Two forms of editing include field and central editing (Cooper & Schindler, 2003:455).

*Field editing* is where the researcher checks for errors that may have occurred during the stress of data collection soon after the data has been gathered. The researcher may have used ad hoc abbreviations and special symbols and it is often difficult to complete what was abbreviated or written in shorthand or noted illegibly if the entry is not clarified that day. Respondents are often re-contacted if there are entry gaps or if an answer is unclear, rather than merely guessing what the respondent “probably would have said” (Cooper & Schindler, 2003:455; Diamantopoulos & Schlegelmilch, 2000:40). *Central editing*, on the other hand, is when ambiguous, inconsistent, or missing data is dealt with by the researcher and they are unable to clarify the problem with the appropriate respondent (Cooper & Schindler, 2003:455; Diamantopoulos & Schlegelmilch, 2000:40). Field editing was applied in this study.

Field editing was performed by MarkData. When the fieldworkers left the respondents’ homes they immediately examined the completed questionnaires in order to ensure that there were no missing responses and that the answers to the open-ended question were legible. The

coordinators also examined the questionnaires to ensure comprehensive and correct completion. In addition, MarkData performed a further field control function in the form of back checks. They re-contacted 15% of the respondents to ensure that the interview did in fact take place and that it was conducted in the appropriate manner. These checks ensured that the interviews were completed according to the correct procedures. As it was possible for respondents to be contacted by MarkData to clarify any problems, no ambiguous, inconsistent, or missing data had to be dealt with. Central editing was, therefore, not required.

*Coding* involves assigning numbers or other symbols to responses so that the responses can be grouped into a limited number of classes or categories (Cooper & Schindler, 2003:456). Numeric codes were assigned to each option for each of the questions in the questionnaire (for example, age 21-29 years was coded as “1”, 30-39 was coded as “2”). When the completed questionnaires were received from MarkData, these numeric codes were entered into the coding boxes on the questionnaires by a research assistant. The accuracy of the coding was verified by the researcher based on a random sample. This process was followed in order for the data capturer in the Department of Statistics at the University of Pretoria to capture the coded responses. These numbers were used to analyse the data and carry out the appropriate statistical procedures.

Questions 1 to 23 in the questionnaire were closed-ended questions and numeric codes could thus be assigned. Question 24, on the other hand, was an open-ended question. A content analysis approach was thus applied to capture the open-ended responses. According to Cooper and Schindler (2003:460), a *content analysis* is: “...a research technique for the objective, systematic and quantitative description of the manifest content of a communication”. Content analysis can be used to analyse written material, audio or video data from experiments, observations, surveys, and secondary data studies (Cooper & Schindler, 2003:460).

Similar responses for the open-ended question were grouped into specific categories of responses. The findings for the open-ended questions were then reported, based on these categories, following a content analysis approach.

### 3.5.2 Method of analysis and statistical techniques

Diamantopoulos and Schlegelmilch (2000:64) note that the focus of any analysis takes one of three basic forms, namely, description, estimation and hypothesis-testing. This study followed a descriptive focus.

With a *descriptive focus*, the aim is to paint a summary picture of the sample (or population) in terms of the variable(s) of interest. There are a number of statistical techniques that can be used to undertake descriptive analysis and these are referred to as *descriptive statistics* (Diamantopoulos & Schlegelmilch, 2000:64-65).

The starting point in a descriptive analysis is the construction of a *frequency distribution* for each variable of interest. This indicates in absolute or relative (that is, percentage) terms how often the different values of the variable are actually encountered in the sample (Diamantopoulos & Schlegelmilch, 2000:65).

The data was analysed electronically using the Statistical Analysis Software (SAS) package (Version 8.2). The analysis was performed by the Department of Statistics at the University of Pretoria. The findings were provided in the form of frequencies and percentages in a report format.

In order to perform a more detailed statistical analysis, a number of amendments were made to the raw data. The initial variables from the questionnaire are listed in Table 6. This table also provides the new variables that were formed by re-grouping the original variables (in order to provide higher frequencies per variable).

**Table 6: Variables initially used in the questionnaire and new variables formed**

Initial variables used in the questionnaire	
Variable number on questionnaire	Representation of variable
V1	Number of questionnaire representing each respondent
V2	Age group

V3	Gender
V4	Population group
V5	Home language
V6	Type of dwelling
V7	Educational background
V8	Employment status
V9	Income per month before deductions
V10	Earning of a second/other additional income (for example, income from a second trade, income from renting out premises)
V11	Frequency of visits to state-funded medical facilities (for example, hospitals, clinics) per month
V12	Number of persons living within a household
V13	Manner in which respondent would invest R10 000 that was won or inherited
V14	Registration with SARS as a taxpayer
V15	Consulted with SARS officials in the past
V16	Perception that SARS officials were efficient (that is, did not have to wait long for assistance) during consultation
V17	Perception that SARS officials treated respondent with respect during consultation
V18	Perception during consultation that SARS officials have a high standard of knowledge relating to tax issues
V19	Level of support for the current government
V20	View about the future of South Africa
V21	View on income distribution in South Africa
V22	Perception that a large proportion of taxes is used by the government for meaningless purposes
V23	Perception that it is unfair to pay tax
V24	Perception that income tax rates must be reduced
V25	Perception that the VAT rate must be reduced
V26	Perception that the income tax rate (%) should be the same regardless of the amount of income earned (that is, everybody pays income tax using the same percentage irrespective of the amount a person earns)
V27	Knowing why a person has to pay tax
V28	Perception that waste and corruption in government is high
V29	Perception that wealthy people should pay tax at a higher rate
V30	Perception that tax is very complicated and not knowing how to calculate one's own tax liability
V31	Perception that the amount of tax a person has to pay is reasonable considering the benefits received

V32	Perception that the government does not provide enough information about how they use taxpayers' money
V33	Whether a person considers him/herself to be a risk-taker (that is, would be willing to open their own business and take a risk by doing so)
V34	Perception that the fiscal authorities (SARS) would notice if a person decided to evade tax
V35	Perception that the government receives enough tax so it does not matter if some people evade tax
V36	Perception that the burden of tax is so heavy that many people are forced to evade tax in order to survive
V37	Perception that since so many other people are evading tax, a person cannot be blamed for evading tax
V38	Perception that people work hard for the income they receive so they should be allowed to keep it all for themselves
V39	Perception that people evade tax because the risk that the authorities would find out is low
V40	Perception that wealthy people evade tax more often than poor people
V41	Penalty considered to be appropriate for shoplifting
V42	Penalty considered to be appropriate for housebreaking
V43	Penalty considered to be appropriate for tax evasion
V44	Penalty considered to be appropriate for drunken driving
V45	Penalty considered to be appropriate for failing to report additional income
V46	Penalty considered to be appropriate for hijacking
V47	Perception that the penalties for tax evasion (that is, the person is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding five years) is too severe
V48	Every year reporting all income to the fiscal authorities (SARS) when submitting income tax return
V49	Consideration of not reporting all income to the fiscal authorities (SARS) when submitting future tax returns
V50	Have sometimes made higher deductions than was legally permitted when submitting income tax returns
V51	Consideration of making higher deductions than legally permitted when submitting future income tax returns
V52	Would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should do so
V53	Would not declare all income if tax advisor advises not to do so
V54	Partake in gambling such as betting on horses and visiting casinos more than four times per month
V55	Partake in the Lotto at least four times per month
V56	Belief that the Lotto is good because a portion of the money is allocated for

	charitable purposes
<b>New variables formulated by regrouping initial variables</b>	
<b>New variable number</b>	<b>Variables combined</b>
VV2	Age groups: 21 – 29; 30 – 39; 40 – 49; 50 – 59; 60+ <i>60+</i> : Combined last two age groups (that is, 60 – 69 and 70+)
VV5	Language groups: Afrikaans, English, Nguni, Sotho, Other <i>Nguni languages</i> : Combined IsiNdebele, IsiXhosa, IsiZulu and SiSwati <i>Sotho languages</i> : Combined Sepedi, Sesotho and Setswana <i>Other languages</i> : Combined Tshivenda and Xitsonga
VV6	Type of dwelling: House, Formal housing and Informal housing <i>Formal housing</i> : Combined flat in a block of flats and house/flat/room in backyard <i>Informal housing</i> : Combined informal dwelling/shack in backyard and informal dwelling/shack not in backyard
VV7	Educational background: No matric, matric, higher education <i>No matric</i> : Combined no schooling, some primary, completed primary and some secondary
VV8	Employment status: salaried, self-employed and no income <i>Salaried</i> : Combined salaried employee public and private sector <i>No income</i> : Combined unemployed and economically inactive
VV9	Income groups: R0 – R2 917; R2 918 – R10 000 and R10 000+ <i>R0 – R2 917</i> : Combined R0 – R1 000 and R1 001 – R2 017 <i>R2 918 – R10 000</i> : Combined R2 918 – R5 000 and R5 001 – R10 000 <i>R10 000+</i> : Combined R10 001 – R15 000, R15 001 – R20 000, R20 001 – R30 000 and R30 0001 or more
VV11	New categories: Less than 1 visit per month, on average 2 – 5 visits per month and not applicable <i>2 – 5 visits per month</i> : Combined options on average 2, 3, 4 and 5 visits per month
VV12	Number of persons within household new groups: 1-2, 3, 4, 5 and 6+ <i>1-2</i> : Combined 1 and 2 <i>6+</i> : Combined 6, 7, 8, 9 and 10 or more

### 3.6 VALIDITY AND RELIABILITY OF DATA

The need to ensure validity and reliability in research affects all aspects of the research design. Various strategies were used in this study to ensure that the conclusions are warranted by the data. The questionnaires were appropriately pre-tested. Removing bias from a study ensures validity. The services of an autonomous company, MarkData, were used in order to ensure independence. However, the researcher was involved with the training of the fieldworkers to ensure a proper understanding of the questions in the questionnaire. All the questions were translated into the relevant languages for the fieldworkers by the responsible coordinator from MarkData.

The questions initially did not have a “no opinion” option but MarkData recommended the inclusion of this option to enable a comprehensive and correct completion of the questionnaire. The interviewers were, however, discouraged to provide this as an option and central tendency was limited to a minimum.

In order to ensure that there were no missing responses and that the answers to the open-ended question were legible, the fieldworkers examined the completed questionnaires as soon as they left a respondent’s home. Comprehensive and correct completion of the questionnaires was also checked at this time. In addition, MarkData performed a further field control function in the form of back checks whereby they re-contacted 15% of the respondents to ensure that the interview did in fact take place and that it was conducted in the appropriate manner. These checks ensured that the interviews were completed according to the correct procedures.

The use of experienced interviewers from MarkData ensured the elimination of any sampling bias in the sample selection.



### 3.7 ETHICAL CONSIDERATIONS

As in other aspects of business, all parties in research need to exhibit ethical behaviour. *Ethics* can be described as: “...norms or standards of behaviour that guide moral choices about our behaviour and our relationship with others” (Cooper & Schindler, 2003:120). The main aim of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities (Cooper & Schindler, 2003:120).

Stack (2005:18), in a summary based on Leedy and Ormrod (2005:101), points out that the essential ethical attributes of any researcher are academic honesty, integrity and modesty. Stack (2005:18) additionally asserts that where living beings are the focus of investigation, there are other important ethical implications that deserve consideration. These include:

- protection from harm;
- informed consent – the use of deception is only permissible under very limited circumstances and only when the study cannot be conducted meaningfully without it;
- the right of privacy and confidentiality, including giving information about how the raw data will be dealt with;
- the right of a participant to withdraw at any stage;
- the use of internal review boards for research proposals; and
- professional codes of ethics.

The above aspects were addressed in the study as follows:

**Protection from harm:** The coordinators and interviewers who gathered the data for the study reside in the areas in which the interviews were conducted and were thus familiar with the surroundings (that is, this differs from the situation where interviewers are sent into unknown areas). Furthermore, MarkData took the following precautions with regard to ensuring the safety of the fieldworkers:

- Where interviews were conducted in situations or areas that were considered to be dangerous, the interviewers worked in teams with the coordinator. The coordinator identified the houses where the interviews were to be conducted and went inside with

the interviewer to ensure that everything was in order. The coordinator then fetched the interviewer at a prearranged time.

- The coordinators were trained to identify potentially dangerous situations and to withdraw before it became a problem (or in exceptional cases - where the situation demanded it - to defuse the situation).
- If there was any sign of danger, or merely a feeling of being threatened, MarkData instructed the interviewer to leave the area as quickly as possible.
- Before conducting interviews, the coordinators informed police stations in the surrounding areas so that the police were aware of their presence and would be able to assist swiftly if such a need arose.

**Informed consent:** According to Maxwell and Satake (1997:216) and Stein and Cutler (1997:211), an informed consent document must contain the following information:

- A heading, which must include the name and address of the department and institution, name of the researcher(s) and contact details - This letter was drafted on a letterhead which included the name and address of the department (Taxation) and the institution (University of Pretoria). The first paragraph stated the name of the researcher.
- Title of the study - The title of the study was included on the cover letter to the questionnaire.
- Purpose of the study - The purpose of the study was stated in the final paragraph on the informed consent letter. It was noted that the study was conducted to determine South Africans' perceptions about taxation in order to enable the government to market itself and its services more effectively to the general public. It was emphasised that the researcher was only interested in understanding the perceptions regarding taxation amongst all South Africans.
- Procedures (for example, explanation of the procedures to be followed and their purposes, the nature of activities such as filling in questionnaires, time required, schedule of participation and duration of survey) - The letter of consent stated that the survey should take a maximum of 20 minutes to complete. The respondents were requested to indicate their answers, by circling their choice.

- Risks and discomforts (if applicable) - This aspect was not applicable to this study as the respondents were interviewed in their own homes.
- Benefits (this includes any personal or societal gains, as well as financial gain or lack thereof) - As noted above in the third bullet, the letter of consent stated that the study would assist the government in its efforts to market itself and its services more effectively to the general public.
- Participants' rights (that is, participation is voluntary and individuals may withdraw from participation in the study at any time and without adverse consequences) - It was stressed that the respondents' participation in the research project was voluntary.
- Confidentiality (that is, the assurance that all information is treated as confidential, that anonymity is assured, that the data would be destroyed should the subject withdraw and that all persons having access to the research data must be identified) - It was stated that the survey is anonymous and confidential and that the identity of the respondents would not be revealed. In addition, MarkData provided only a questionnaire which was numbered in advance, without a respondent's name or other details. The research data would be stored in a locked facility to which only the researcher has access. This addressed the need to ensure the right of privacy and confidentiality, and the right of participants to withdraw at any stage.
- The subject's (or in the case of a minor, the parent or guardian's) right of access to the researcher must be established, and the means clearly delineated to ensure clarity on all issues - As all the participants of the study were required to be over the age of twenty-one, no minors were involved in this study. The contact details of the researcher were clearly stated on the covering letter of the questionnaire, making it possible to clarify any issues, should the need arise.

**The use of internal review boards for research proposals:** The research proposal was reviewed by the Research Committee of the Department, as well as the Ethical and Postgraduate Committee of the Faculty of Economic and Management Sciences at the University of Pretoria.

**Professional codes of ethics:** The researcher adhered to the code of ethics as specified by the Ethical Committee of the Faculty of Economic and Management Sciences at the University of Pretoria.

Finally, honesty with one's professional colleagues is of paramount importance (Stack, 2005:18). Where the work of another is used or consulted, this must be fully acknowledged to prevent deliberate or inadvertent plagiarism. Full and accurate referencing of all source material was adhered to throughout the study.

### **3.8 SUMMARY**

This chapter discussed the research design for and methodology applied to this study and provided details of the research design, the sampling method employed, as well as the manner in which the data was collected and analysed for this study. The link between the theoretical framework (discussed in chapter 2) and the design of the questionnaire was clarified. The techniques used to enhance the validity and reliability of the research outcome, were also described and the ethical considerations were addressed.

The following chapter considers the profile of the respondents in the study, in the form of descriptive statistics.

## **CHAPTER 4: DEMOGRAPHIC AND OTHER FACTORS**

### **4.1 INTRODUCTION**

The primary objective of this study was to determine the perceptions of taxation amongst South African taxpayers. The measurement tool for this study was designed, taking into account a number of earlier studies that dealt with taxpayers' perceptions of tax-related issues (see chapter 3). Factors identified from this earlier research were then tested against a sample of South Africans.

This chapter describes the demographic background of the respondents, as well as the responses relating to the economic circumstances, risk profile and the respondents' relationship with SARS. The purpose is to provide a background of the profile of the respondents. Findings related to the respondents' fiscal attitudes are also highlighted.

### **4.2 REPRESENTATIVITY OF THE SAMPLE**

It is important to emphasise that this was an exploratory study that attempted to highlight areas for future research. It was not the purpose of the study to generalise the conclusions reached to the whole of the South African population. Therefore, this study only highlights the various perceptions amongst the four major population groups within South Africa. An attempt was made to select the sample in such a way as to be broadly representative of the demographics of the South African population as a whole.

As was mentioned previously (see section 3.3.2), a sample of 260 South African taxpayers was selected from the greater Tshwane metropolitan area. This was considered to be an acceptable sample size for the study and this area represents a heterogeneous population. Tshwane and Johannesburg are situated in the Gauteng province in South Africa. Gauteng is the smallest (18 810 square metres), wealthiest and most populous (per square metre)

province in South Africa. Gauteng generates 10% of GDP for the African continent, and a third of South Africa's GDP (Gauteng Economic Development Agency, 2007). The selected area of Tshwane was, therefore, considered to have been appropriate in order to achieve the objectives of this study.

#### **4.2.1 Demographic profile of respondents**

This section analyses the various demographic characteristics of the respondents. Supporting tables and figures are provided, together with comparative information from the 1996 and 2001 National Census, where appropriate.

##### **Age distribution**

The age distribution of the respondents who participated in the study is provided in Table 7. The sample included only residents in the target area who were twenty-one years and older. The age grouping of the sample is slightly older than the age distribution of the South African population if compared to the 1996 and 2001 census information (Statistics South Africa, 2004:19-23). Nevertheless, the age profile of the respondents was still regarded as acceptable.

**Table 7: Age groups of respondents**

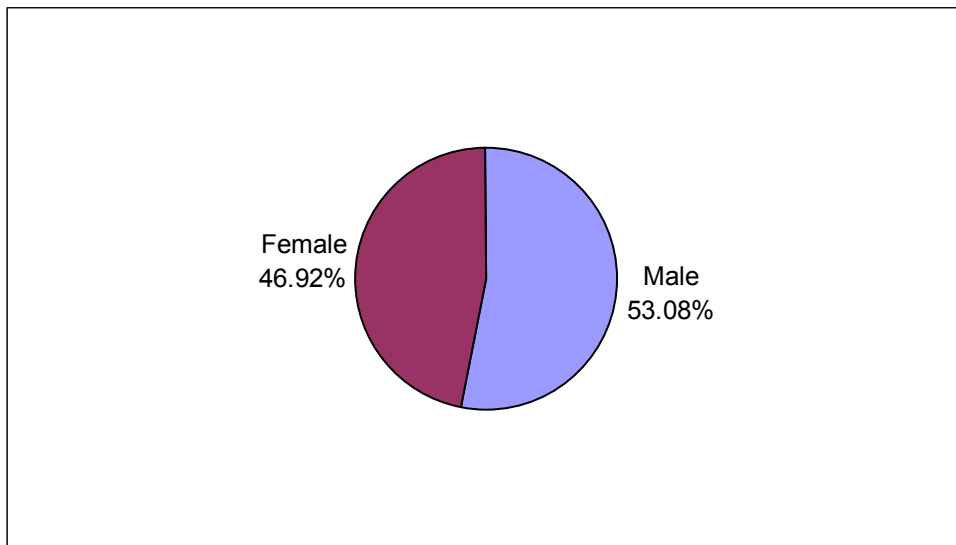
<b>Age group</b>	<b>Percentage represented in population</b>	<b>Age distribution of the South African population as a percentage according to the 1996 census*</b>	<b>Age distribution of the South African population as a percentage according to the 2001 census*</b>
21-29	21.54%	33.59%	32.31%
30-39	25.38%	25.86%	25.17%
40-49	23.08%	17.23%	18.48%
50-59	15.77%	10.56%	11.16%
60-69	11.15%	7.45%	7.28%
70+	3.08%	5.31%	5.60%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* The census information specifies only the grouping 20-29 and not 21-29 (Statistics South Africa, 2004:19-23).

### **Gender composition**

The gender composition of the respondents was 53.08% male and 46.92% female (see Figure 6). According to Statistics South Africa, the gender representativeness of South Africa during the 1996 census was 48.10% male and 51.90% female. In respect of the 2001 census, the gender composition of South Africa was 47.82% male and 52.18% female (Statistics South Africa, 2004:19-23). It is submitted that males are still, in some instances, more likely to be the breadwinners and thus the distribution of the sample was considered to be reasonably representative.

**Figure 6: Gender composition of the population for the study**

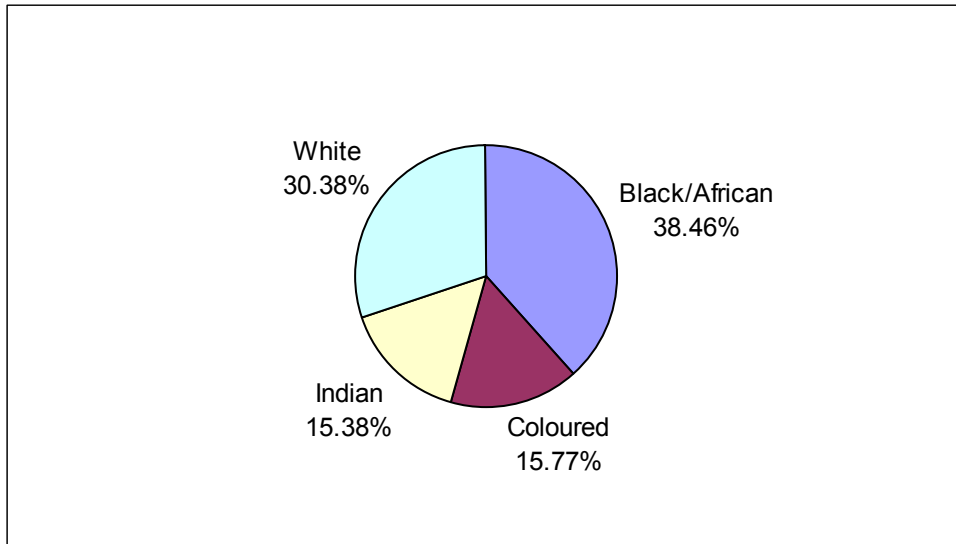


### **Population group**

In order to comply with statistical requirements, the study aimed to gather data from a minimum of 100 Black/African respondents, 80 White respondents and 40 respondents from the Coloured and the Indian population groups (see section 3.3.2). The results of the study showed that data was collected from 100 Black/African, 79 White, 41 Coloured and 40 Indian respondents (a minor deviation, unlikely to affect the results).

Figure 7 indicates that 38.46% of the respondents were Black/African, 15.77% were Coloured, 15.38% were Indian and 30.39% belonged to the White population group. The results showed that there was no representation from any of the other population groups.

**Figure 7: Distribution of population groups included in the study**

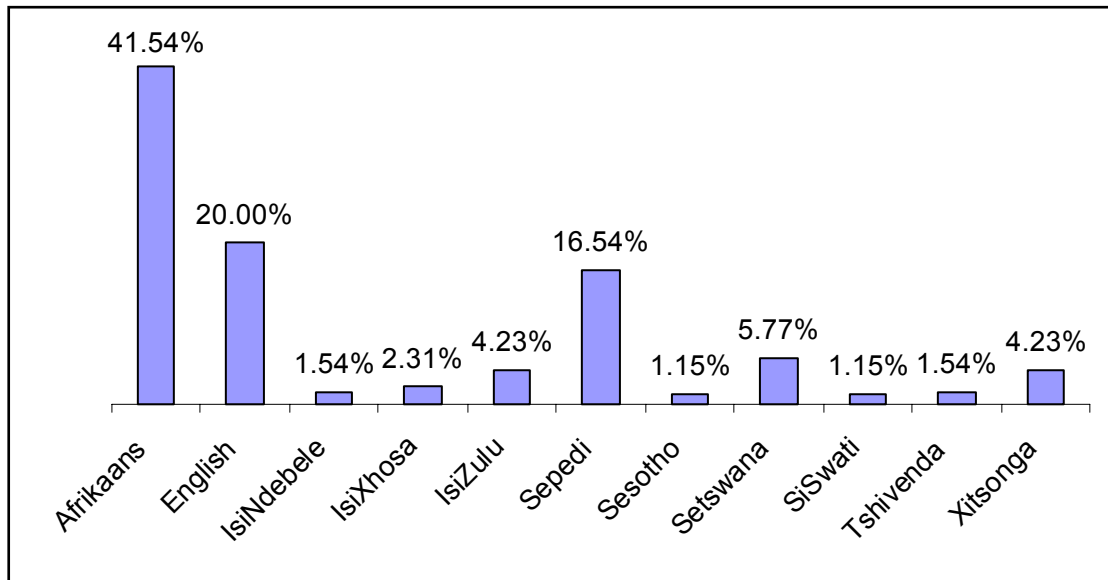


### **Home language**

Regarding the home language of the respondents, all of the respondents indicated one of the eleven official South African languages as their home language. The eleven official languages, as well as the percentage of respondents who regarded each language to be their home language, is represented in Figure 8. In order to comply with statistical requirements, the study aimed to gather data from a minimum of 100 Black/African respondents, 80 White respondents and 40 respondents from the Coloured and the Indian population groups (see section 3.3.2). The home language of a respondent is generally linked to a specific population group and, therefore, this has not been compared to the South African population. However, the greater Tshwane metropolitan area covers an area where a variety of languages are spoken and all of the main language groups were represented in the sample.



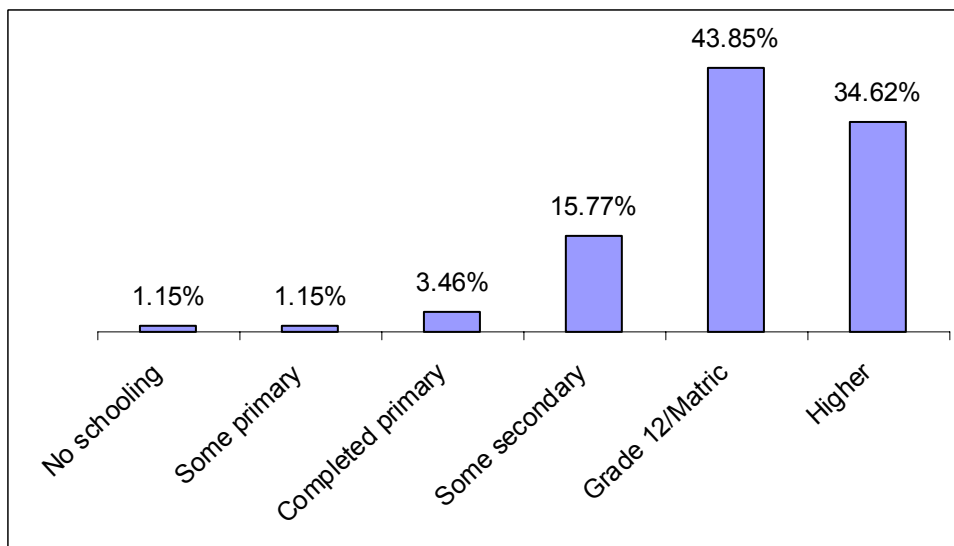
**Figure 8: Home language of respondents**



**Educational background**

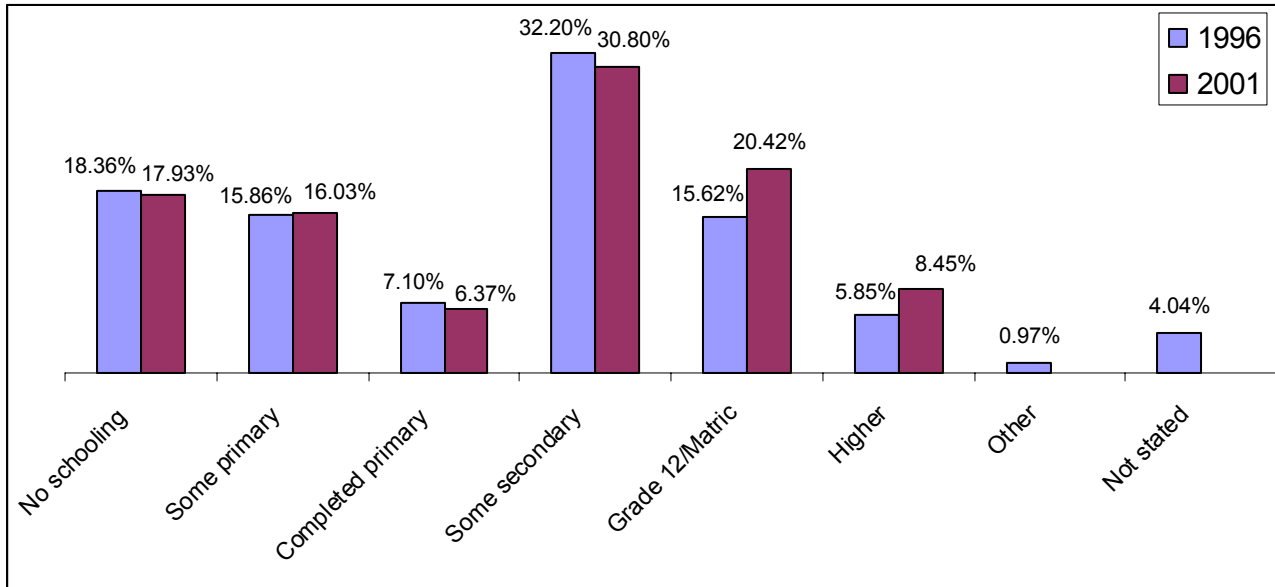
Regarding the educational background of the respondents, Figure 9 indicates that 43.85% had completed grade 12/matric, 34.62% had some form of higher education and 15.77% had some secondary schooling. Only very low percentages of the respondents had only completed primary (3.46%), had some primary (1.15%) or no schooling (1.15%).

**Figure 9: Educational background of respondents**



The census data relating to the level of education amongst those aged 20 years and older in South Africa in 1996 and 2001, respectively (Statistics South Africa, 2004:35-37) is shown in [Figure 10](#).

**Figure 10: Level of education of South Africans amongst those aged 20 years and older in 1996 and 2001**



The sample included respondents with a higher level of education than the South African population in general. Gauteng is wealthier compared to other provinces (Gauteng Economic Development Agency, 2007). It tends to attract a greater number of inhabitants with higher educational qualifications than the country as a whole and provides more and better employment opportunities. Therefore, the composition of the sample was regarded to be acceptable as it included representatives from each major educational level.

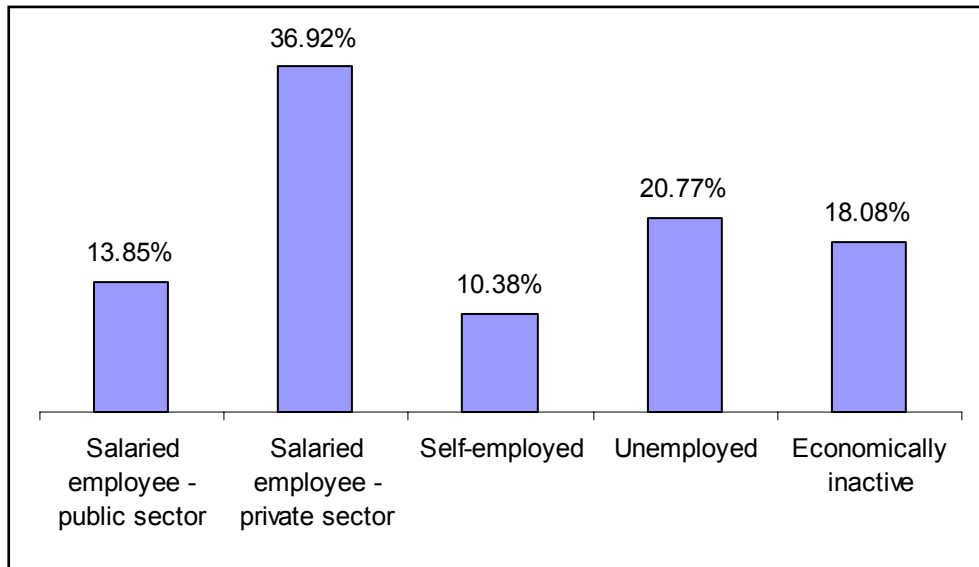
### **Employment status**

Considering the employment status of the respondents, [Figure 11](#) shows that 36.92% are salaried employees in the private sector, 20.77% are unemployed, 18.08% are economically inactive, 13.85% are salaried employees in the public sector and 10.38% are self-employed. A comparison between the 1996 and 2001 census information shows that the official

unemployment rate went up from 19.50% in 1996 to 24.00% in 2001 (Statistics South Africa, 2004:51-56).

Taking the above into account, it became evident that the sample included respondents with a higher level of employment than the South African population in general. As mentioned earlier, Gauteng is the wealthiest province in South Africa (Gauteng Economic Development Agency, 2007) and offers more and better employment opportunities compared to other provinces in South Africa. The sample was, therefore, acceptable in accurately including representation of all the types of employment status in the target population.

**Figure 11: Employment status of respondents**



### **Income per month**

Figure 12 indicates the respondents' income per month before deductions. In addition, it was found that 23.46% of the respondents earn a second or other additional income (for example, income from a second trade or income from renting out premises).

**Figure 12: Income per month before deductions of respondents**

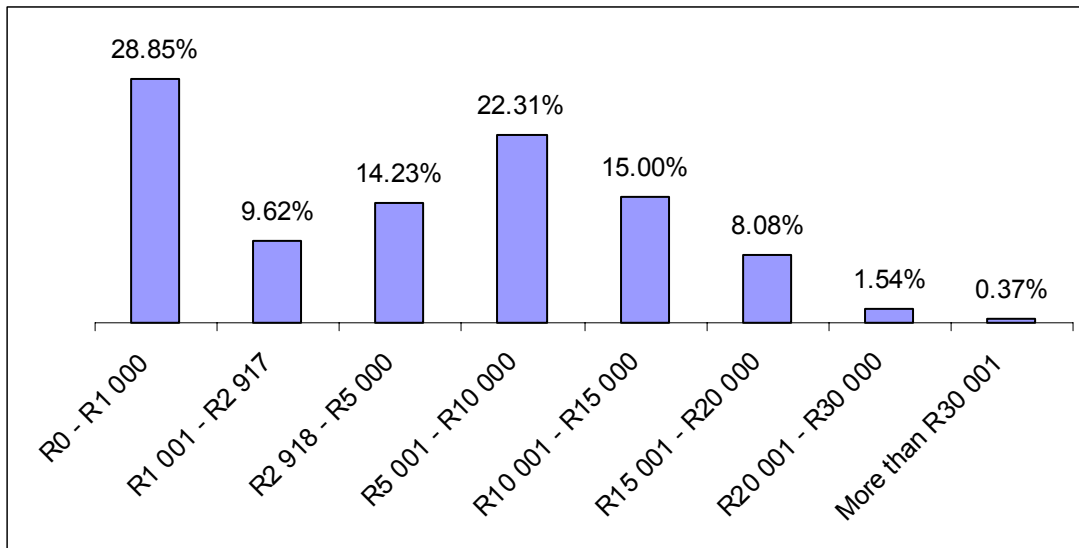


Figure 13 indicates the individual monthly income amongst the employed aged 15-65 years according to the 1996 census (Statistics South Africa, 2004:71-76).

**Figure 13: Income per month amongst the employed aged 15-65 years in South Africa in 1996**

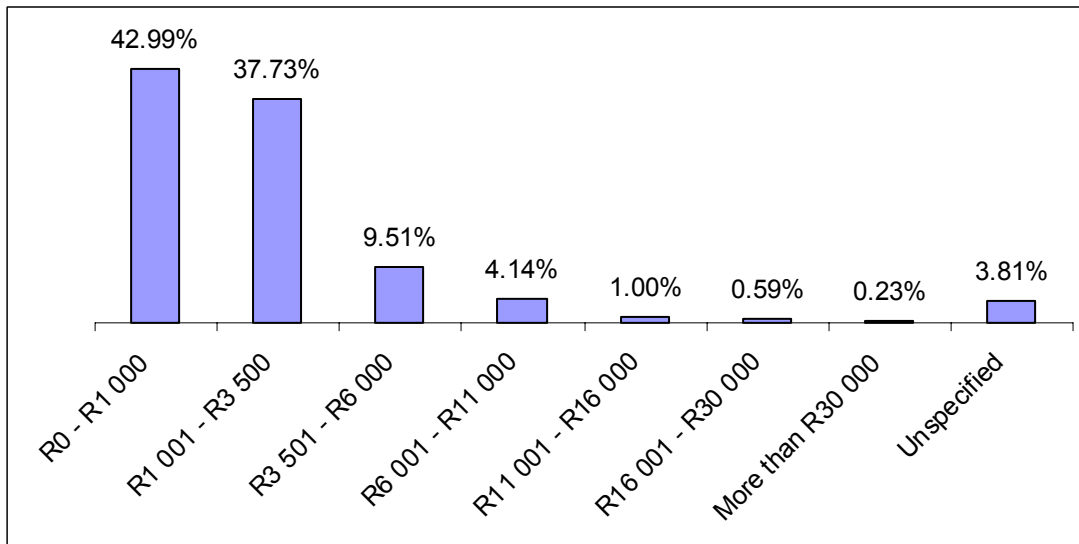
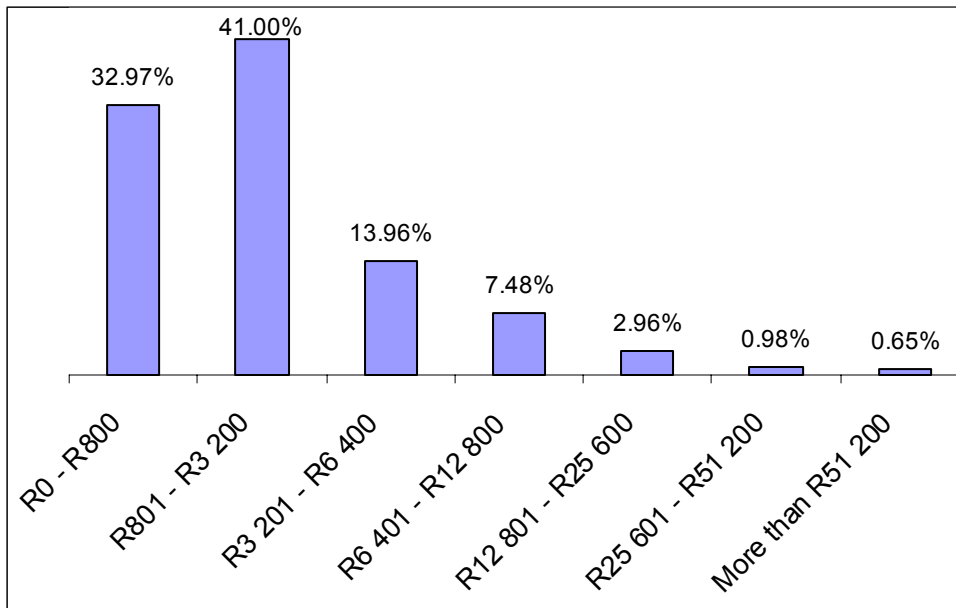


Figure 14 indicates the individual monthly income amongst the employed aged 15-65 years according to the 2001 census (Statistics South Africa, 2004:71-76).

**Figure 14: Income per month amongst the employed aged 15-65 years in South Africa in 2001**



It is difficult to assess the representativity of the sample as the income brackets used to report the monthly income of the employed in South Africa according to the census are different from those used in the study. The brackets used in the study are designed, taking the tax threshold into account (see section 3.4.2). In addition, it is also stated in the census information that the monthly income data for 1996 and 2001 are not easily comparable, as the income categories used in the two census years are different. Another factor that needs to be considered in the comparison is the information provided in the census report on the individual monthly income of the employed aged 15 to 65 (this study considered only individuals 21 years and older and the census includes individuals 15 years and older).

A wide spread between all levels of income was still achieved, with the larger proportion of respondents in the sample being in the lower-income brackets, as was shown by the census data. The sample was, therefore, considered to be acceptable.

### 4.3 ECONOMIC CIRCUMSTANCES OF THE RESPONDENTS

This section analyses the economic circumstances of the respondents by investigating the data collected from the study.

The respondents were requested to indicate their type of dwelling, the frequency of visits to state-funded medical facilities per month and the number of persons living within their household.

#### Type of dwelling

The majority of the respondents (85.77%) live in a house or brick structure on a separate stand or yard. Although these are relatively low percentages, the remainder were found to live in an informal dwelling/shack that is not in a back yard (5.77%), flat in a block of flats (4.62%), house/flat/room in a back yard (3.08%) or in an informal dwelling/shack in a back yard (0.76%). These findings are graphically illustrated in Figure 15.

**Figure 15: Type of dwelling in which respondents reside**

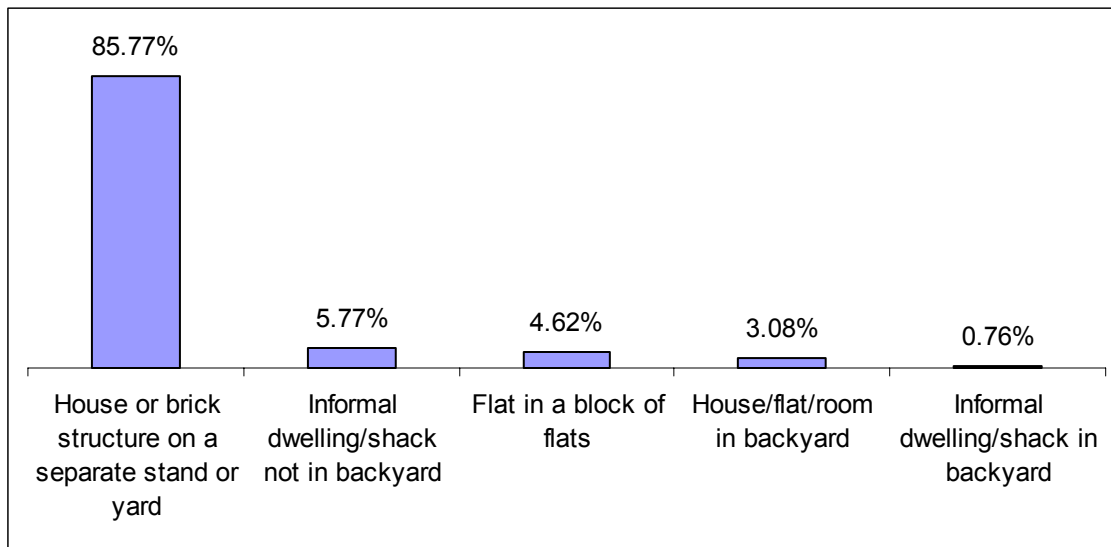


Table 8 indicates the type of dwelling of the household head in 1996 and 2001 as provided by Statistics South Africa (2004:78-81).

**Table 8: Type of dwelling of household head in 1996 and 2001**

Type of dwelling	1996	2001
House or brick structure on a separate stand or yard	70.62%	73.29%
Informal dwelling/shack not in backyard	11.59%	12.29%
Flat in a block of flats	5.06%	5.26%
House/flat/room in backyard	6.88%	4.76%
Informal dwelling/shack in backyard	4.45%	4.10%

Source: Statistics South Africa. 2004. *Census 2001: Primary tables South Africa: Census '96 and 2001 compared*. Pretoria: Statistics South Africa, p. 78-81.

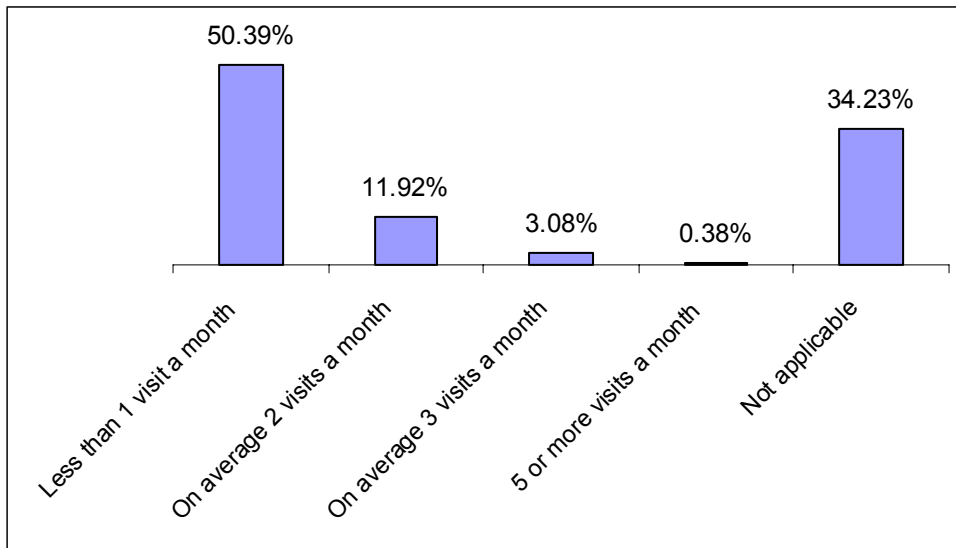
In addition to Table 8, the census information also stated that 1.40% in 1996 and 0.30% in 2001 did not specify the type of dwelling or listed it to be a caravan, private ship or boat.

It is submitted that a reason for the disparity in the type of dwelling between the sample and the general South African population could be attributed to the fact that Gauteng is a wealthier province compared to other provinces in the country (Gauteng Economic Development Agency, 2007). This, in turn, would result in superior dwellings being occupied by the inhabitants of Gauteng. The sample was, therefore, regarded to be acceptable.

### **Visits to state-funded medical facilities**

Just over half of the respondents (50.39%) indicated that they visit state-funded medical facilities (for example, hospitals or clinics) less than once per month, 11.92% on average twice per month, 3.08% on average three times per month and 0.38% five or more times per month. None of the respondents indicated that they visit these facilities on average four times per month and 34.23% indicated that this question was not applicable as they do not visit state-funded medical facilities at all. The aforementioned findings are graphically portrayed in Figure 16.

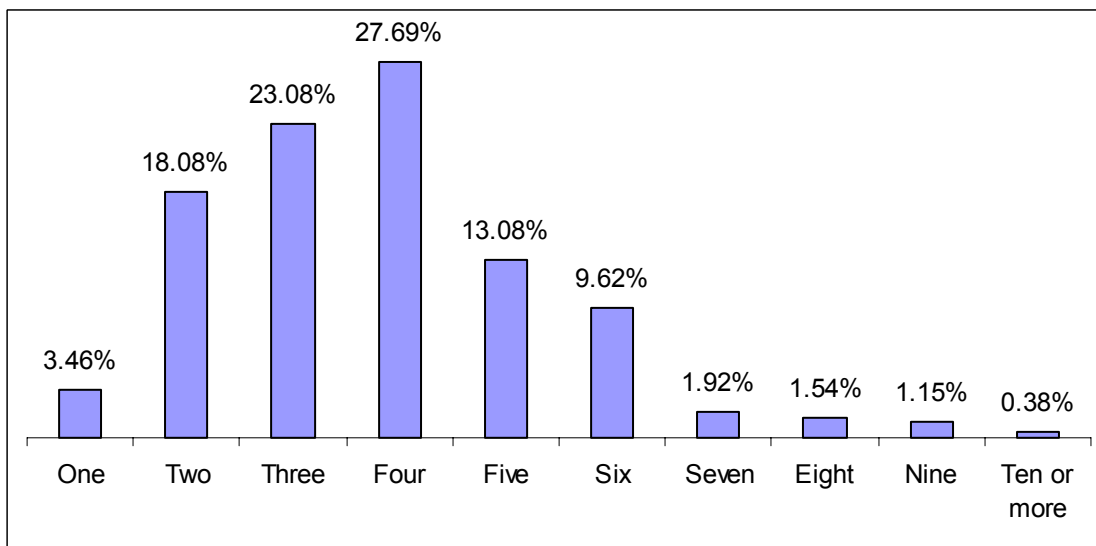
**Figure 16: Frequency of visits to state-funded medical facilities**



**Number of persons living within a household**

Findings showed that a somewhat higher percentage of the respondents have between two, three or four persons living within their household. Only a few respondents indicated that they had more than 7 persons residing within their household. The number of persons living within the respondents' household is illustrated in [Figure 17](#).

**Figure 17: Number of persons living within a household**





The influence of the abovementioned economic circumstances on the respondents' perceptions is investigated further in chapter 5 (see section 5.2 – 5.4).

#### 4.4 RISK PROFILE

This section analyses the risk profile of the respondents by investigating the data collected from the study.

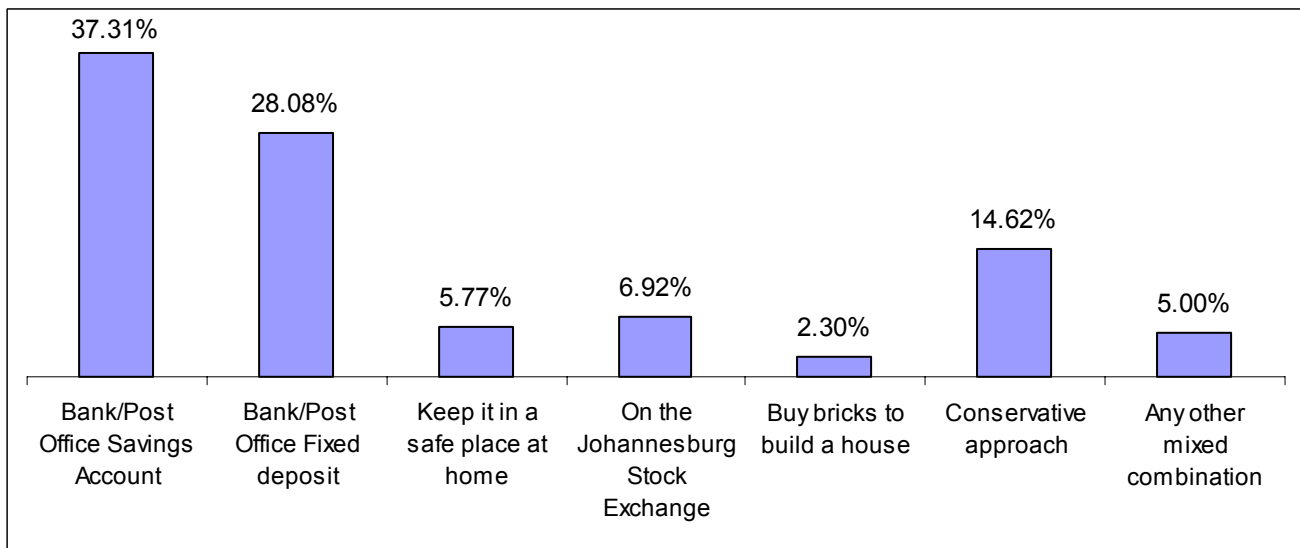
When respondents were asked how they would invest R10 000 if they were to win or inherit this sum of money, 37.31% indicated that they would place this money in a bank/post office fixed deposit, 28.08% would put it in a bank/post office savings account, 5.77% would keep it in a safe place at home and 6.92% would invest the money on the JSE.

Some respondents (14.62%) took a more conservative approach. In this case, they selected a combination of the abovementioned options. The respondents indicated the following: 1) they would either place this money in a bank/post office savings account *or* in a bank/post office fixed deposit; 2) they would place this money either in a bank/post office fixed deposit *or* keep it in a safe place at home; or 3) they would either place the money in a bank/post office savings account *or* keep it in a safe place at home.

It was interesting to note that 5.00% indicated a mixed combination of any of the aforementioned options (including placing the money on the JSE). In addition, although not included as an option in the questionnaire, some respondents (2.30%) answered that they would use this money to buy bricks to build a house. It appeared that some respondents did not fully understand this question and, therefore, it was decided not to use this question in further analytical procedures.

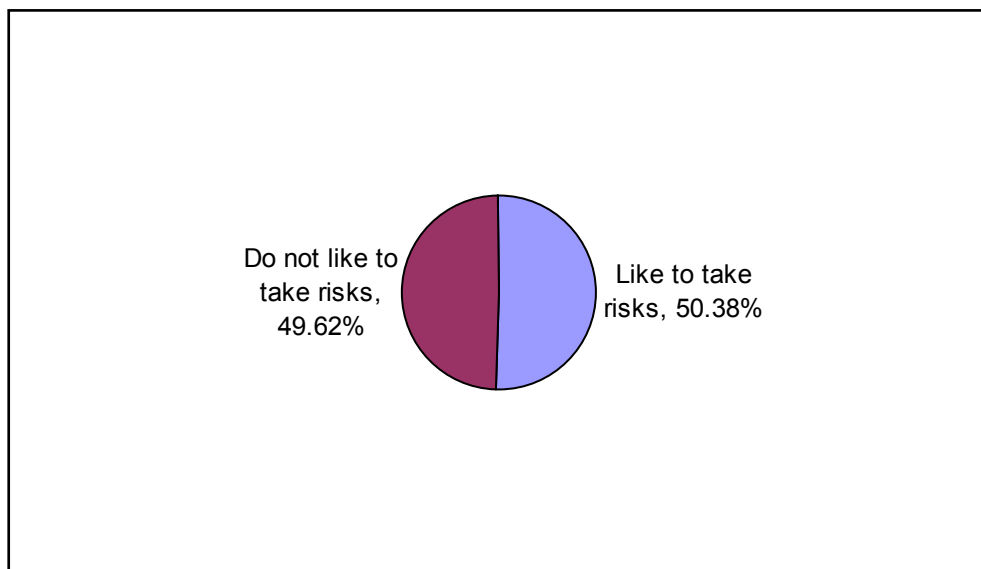
The abovementioned findings of how respondents would invest a sum of R10 000 if they were to inherit or win this amount of money, is graphically portrayed in [Figure 18](#).

**Figure 18: How respondents would invest R10 000 that they had won or inherited**



Question 19 tested the notion that people who open their own business are usually willing to take risks to do so. The respondents were then requested to indicate whether they regard themselves to be the type of person who likes to take a risk (for example, would consider opening their own business). Regarding this question, it was interesting to note that just over half of the respondents (50.38%) consider themselves to be risk-takers. The other half (49.62%) do not consider themselves to be risk-takers (see [Figure 19](#)).

**Figure 19: Percentage of respondents who like to/do not like to take risks**



The last three statements in question 23 investigated the gambling habits of the respondents. The last two statements dealt specifically with the National Lottery (Lotto). These questions are considered to be closely related to the risk profile of the respondent. The respondents were asked to provide either a “yes” or “no” response to the following three statements:

- I partake in gambling such as betting on horses, visiting casinos more than four times per month;
- I partake in the Lotto at least four times per month; and
- I think that the Lotto is good because a portion of the money is allocated for charitable purposes.

A relatively low percentage of respondents (12.31%) indicated that they partake in gambling such as betting on horses, and visiting casinos more than four times per month. More than half of the respondents (57.69%) indicated that they partake in the Lotto at least four times per month. A relatively large percentage of the respondents (77.69%) are of the opinion that the Lotto is good because a portion of the money is allocated for charitable purposes.

The influence of the abovementioned risk factors concerning the respondents’ perceptions is discussed in chapter 5 (see section 5.2 - 5.4).

#### **4.5 RELATIONSHIP WITH SARS**

The respondents were requested to indicate whether they are registered as a taxpayer with SARS. If the respondents were registered with SARS, they had to indicate whether they had consulted with SARS officials in the past. If this was the case, the respondents were requested to agree or disagree with a number of statements that related to the manner in which they were treated by the SARS officials.

Findings showed that 53.08% of the respondents were registered as taxpayers with SARS. Nevertheless, only 39.23% had consulted with SARS officials in the past. The respondents who had consulted with SARS officials in the past were requested to agree, disagree or

indicate if they had no opinion concerning a number of statements relating to their experience with the SARS officials.

Table 9 indicates the percentage of respondents who agreed, disagreed or had no opinion regarding each statement. In general, the respondents believed that SARS officials were efficient (75.49%), treated them with respect (80.39%) and possessed a high standard of tax knowledge (67.65%).

**Table 9: Findings related to statements that concern respondents’ experience with SARS officials**

Statement	Agree	Disagree	No opinion
When I consulted with SARS officials I found them to be efficient (i.e., I did not have to wait a long time for assistance)	75.49%	10.78%	13.73%
When I consulted with SARS officials they did not treat me with respect	5.88%	80.39%	13.73%
When I consulted with SARS officials I found their knowledge relating to tax issues to be of a high standard	67.65%	12.74%	19.61%

The influence of the respondents’ relationship with SARS on their perceptions is investigated in chapter 5 (see section 5.2 – 5.4).

#### **4.6 FISCAL ATTITUDES**

The respondents were asked to indicate how strongly they support the present government. From the responses it became evident that 42.31% support the government very strongly, 38.46% are neutral and 19.23% do not support the current government at all.

The respondents were also requested to indicate their beliefs about the future of South Africa. The responses indicated that 40.77% of the respondents were concerned about the future of South Africa, 24.61% were neutral and 34.62% were hopeful about the country’s future.

The respondents were requested to indicate their view on *income distribution* in South Africa (that is, whether they believe that all income earned should accrue to the government which should then distribute this evenly among all South Africans, or whether everyone should be entitled to keep the income they earn).

In relation to the respondents' views on income distribution in South Africa, it was noted that the majority (76.15%) believed that all income earned should accrue to the government, which should distribute this equally among all South Africans. The remainder (23.85%) were of the opinion that everyone should be entitled to keep the income they earn.

The influence of the abovementioned fiscal attitudes of the respondents on their perceptions is investigated in chapter 5 (see section 5.2 – 5.4).

#### **4.7 SUMMARY**

Using descriptive statistics, this chapter presented the demographic background of the respondents, their economic circumstances, risk profile, relationship with SARS and fiscal attitudes. The information provided in this chapter shows that the selected sample was broadly representative of the universe of the sample, namely, the four major South African population groups in the Tshwane metropolitan area, who were twenty-one years and older.

The following chapter discusses the manner in which individual economic, demographic or other factors influenced respondents' perceptions with regard to general tax-related issues, as well as a selected number of statements that deal with tax evasion and tax compliance issues. Perceptions concerning the penalties for tax evasion are also elaborated upon.

## CHAPTER 5: ANALYSIS OF RELATIONSHIPS

### 5.1 INTRODUCTION

This study addressed three main themes:

- perceptions of general tax-related issues (question 18);
- perceptions of tax evasion statements (question 20); and
- perceptions of tax compliance statements (question 23).

This chapter presents the findings relating to the abovementioned themes. All the characteristics and circumstances that could have influenced respondents' perceptions are analysed, using statistical techniques.

The statements in question 18 (v22-v32) involve individual issues relating to taxation and each statement is compared with all the individual demographic, economic or other characteristics of the respondents. This is done in an attempt to assess whether or not there is a significant relationship between the observations.

As the focus of questions 20 and 23 was concerned with the relationship between a number of constructs, the internal-consistency reliability of the measurement tool (questions 20 and 23) used in this research, was tested, by means of the Cronbach alpha.

Question 20 (v34-v40) requested respondents to indicate whether they agree, disagree or have no opinion concerning a number of statements that relate to tax evasion. The result of the Cronbach alpha was 0.72 (v34 needed to be reversed). This provided an acceptable level of reliability and the variables were, therefore, grouped together for the purpose of further analysis. In order to provide a more meaningful mean score, "1" was allocated when the respondent agreed with a specific statement, "2" if the respondent expressed no opinion and "3" when the respondent disagreed.

Question 23 (v48-v53) requested respondents to answer “yes” or “no” to a number of statements relating to tax compliance. As the Cronbach alpha was 0.74 (v48 needed to be reversed), this provided an acceptable level of reliability and the variables were grouped together for the purpose of further analysis.

The last section of the chapter reports on the respondents’ opinions with regard to the appropriate punishment for tax evasion. Furthermore, in every individual analysis, the results are also compared with similar past studies, where relevant.

The relationship between the individual demographic, economic or other factors and the three main themes of the research are set out in Table 11 and Table 49. In addition, the relationship between the respondents’ views on specific tax-related statements and their attitudes towards tax evasion and tax compliance, are also summarised in Table 50.

A chi-square test was performed to test for independence (that is, whether a relationship exists between the variables). In each case a  $p$  value was established. This  $p$  value was then compared to alpha (which is the level of significance) (Cooper & Schindler, 2003:536). In this study, where the  $p$  value was found to be less than 0.05, a significant relationship was present between the variables. Where the  $p$  value was less than 0.01, it represented a highly significant relationship.

Each of the sets of variables where a significant or highly significant relationship was found is set out in Tables 11, 49 and 50 and then analysed in more detail.

## **5.2 PERCEPTIONS OF GENERAL TAX-RELATED ISSUES**

The respondents were asked whether they agreed, disagreed or had no opinion regarding a number of statements that deal with general issues related to tax. Each of the statements, together with the respondents’ attitudes towards these statements, is presented in Table 10.

**Table 10: Responses regarding respondents' attitudes towards general tax-related statements**

Statements relating to general tax issues	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
A large proportion of taxes is used by the government for meaningless purposes	58.46%	32.69%	8.85%
It is unfair to pay tax	16.54%	73.46%	10.00%
Income tax rates must be reduced	77.31%	15.38%	7.31%
The VAT rate must be reduced	82.31%	11.54%	6.15%
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%
I do not know why I have to pay tax	31.54%	56.54%	11.92%
Waste and corruption in government is high	87.69%	6.93%	5.38%
Rich people should pay tax at a higher rate	63.08%	28.46%	8.46%
Tax is very complicated – I do not know how to calculate my own tax liability	37.69%	37.69%	24.62%
The amount of tax I have to pay is reasonable considering the benefits received	24.23%	38.46%	37.31%
The government does not provide enough information about how they use taxpayers' money	51.92%	23.85%	24.23%

It is evident from Table 10 that just over half of the respondents (58.46%) are of the opinion that a large proportion of taxes is used by the government for meaningless purposes. Although the majority of the respondents believe that it is fair to pay tax (73.46%), the respondents generally believe that both the income tax rates (77.31%) and the VAT rate should be reduced (82.31%).



In terms of the income tax rate, 37.31% of the respondents are of the opinion that the rate should be the same regardless of the amount of income earned, 43.85% do not agree with this, and 18.84% have no opinion regarding this statement.

Just over half of the respondents believe that they know why they have to pay tax (56.54%). Only 31.54% are of the opinion that they do not know why they have to do so and 11.92% have no opinion in this regard.

A significant finding was that the majority of the respondents (87.69%) believe that waste and corruption in government is high. In addition, more than half of the respondents (51.92%) agree that the government does not provide enough information on how they use taxpayers' money.

A relatively high percentage (63.08%) of the respondents, are of the view that wealthy people should pay tax at a higher rate. Further investigations showed that 24.23% of the respondents are of the opinion that the amount of tax that they have to pay is reasonable considering the benefits received, 38.46% do not agree with this and 37.31% have no opinion.

In Table 10 it is revealed that 37.69% of the respondents believe that tax is not complicated and that they know how to calculate their own tax liability. Nevertheless, the same percentage of respondents indicated the opposite, while 24.62% have no opinion.

The relationship between the economic, demographic or other factors of respondents, and the manner in which these factors influence their perceptions towards general tax-related statements, are discussed below. Where relevant earlier research was done, this is compared with the results of the present study. Table 11 summarises the relationship between each general tax-related statement and the demographic, economic or other factors, which may influence respondents' perceptions. Only where there is a significant or highly significant  $p$  value, is it reflected in the relevant cell of the table. Blank cells do not imply that there is no relationship, but merely imply a relationship with a  $p$  value greater than 0.05.

**Table 11: Relationship between respondents' demographic, economic or other factors and their attitudes towards general tax-related statements**

	A large proportion of taxes is used by the government for meaningless purposes	It is unfair to pay tax	Income tax rates must be reduced	The VAT rate must be reduced	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)	I do not know why I have to pay tax	Waste and corruption in government is high	Rich people should pay tax at a higher rate	Tax is very complicated - I do not know how to calculate my own liability	The amount of tax I have to pay is reasonable considering the benefits received	The government does not provide enough information about how they use taxpayers' money
<b>DEMOGRAPHIC FACTORS</b>											
Age	$p = 0.0461$					$p = 0.0351$				$p = 0.0018$	
Gender								$p = 0.0364$	$p = 0.0089$		$p = 0.0499$
Population group	$p < 0.0001$	$p < 0.0001$	$p = 0.0002$		$p < 0.0001$	$p < 0.0001$		$p < 0.0001$	$p < 0.0001$	$p < 0.0001$	$p < 0.0001$
Home language					$p < 0.0001$	$p = 0.0036$			$p < 0.0001$	$p < 0.0001$	$p < 0.0001$
Educational background	$p = 0.0418$					$p = 0.0013$		$p = 0.0190$	$p < 0.0001$	$p < 0.0001$	
Employment status	$p = 0.0023$					$p = 0.0029$			$p < 0.0001$	$p < 0.0001$	$p = 0.0235$
Earning additional income					$p = 0.0023$			$p = 0.0048$	$p = 0.0029$	$p = 0.0012$	
Earnings potential	$p < 0.0001$	$p = 0.0209$	$p = 0.0005$	$p = 0.0125$	$p = 0.0111$				$p < 0.0001$	$p < 0.0001$	
<b>ECONOMIC CIRCUMSTANCES</b>											
Type of dwelling											
Visit state-funded medical facilities		$p = 0.0292$			$p < 0.0001$	$p < 0.0001$		$p = 0.0026$		$p = 0.0003$	$p < 0.0001$
Number of persons in household	$p = 0.0474$								$p = 0.0263$		
<b>RISK PROFILE</b>											
Being a risk-taker or not									$p = 0.0046$	$p = 0.0218$	
Gambling habits											
Partaking in Lotto					$p = 0.0050$				$p = 0.0340$	$p = 0.0062$	$p = 0.0028$
Lotto good-proceeds used for charity	$p = 0.0253$	$p = 0.0085$	$p = 0.0019$		$p = 0.0050$					$p = 0.0036$	$p < 0.0001$
<b>RELATIONSHIP WITH SARS</b>											
Registered as taxpayer with SARS	$p = 0.0119$		$p = 0.0028$		$p = 0.0309$	$p = 0.0098$		$p = 0.0422$	$p < 0.0001$	$p < 0.0001$	
Prior dealings with SARS						$p = 0.0004$		$p = 0.0070$	$p < 0.0001$	$p < 0.0001$	$p = 0.0003$
<b>POLITICAL/FISCAL ATTITUDES</b>											
Support for current government	$p < 0.0001$	$p < 0.0001$	$p < 0.0001$	$p = 0.0005$	$p < 0.0001$	$p < 0.0001$			$p = 0.0068$	$p < 0.0001$	$p < 0.0001$
Views about South Africa's future	$p < 0.0001$	$p < 0.0001$	$p = 0.0043$		$p < 0.0001$	$p < 0.0001$		$p = 0.0023$		$p < 0.0001$	$p < 0.0001$
Views on income distribution	$p = 0.0154$	$p = 0.0134$	$p = 0.0079$	$p = 0.0493$		$p = 0.0117$				$p = 0.0322$	

### 5.2.1 **Statement 1: “A large proportion of taxes is used by the government for meaningless purposes”**

The first statement examined, that involves tax-related issues is: “A large proportion of taxes is used by the government for meaningless purposes”. As reflected in Table 10, 58.46% of all the respondents are in agreement with this statement. The manner in which each individual demographic, economic or other factor influenced the respondents’ perceptions regarding this particular statement, is analysed.

Table 11 reveals a strong relationship between the **age** of the respondents and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” (*p* value = 0.0461).

In Table 12 below, this relationship is analysed in more detail. Although, as indicated in the table, there is a difference in perceptions between the various age groups, a high proportion of all age groups agree with the statement: “A large proportion of taxes is used by the government for meaningless purposes”. If, however, those respondents expressing no opinion are ignored, a larger than average percentage of the older respondents (over fifty years of age), agree with the statement. It is submitted that older respondents might be more aware of the need to provide for their retirement and, therefore, more critical of government’s use of tax revenue.

**Table 12: Responses of age groups regarding the statement: “A large proportion of taxes is used by the government for meaningless purposes”**

AGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>21-29</b>	33 (58.93%)	21 (37.50%)	2 (3.57%)	<b>56</b>
<b>30-39</b>	41 (62.12%)	24 (36.36%)	1 (1.52%)	<b>66</b>
<b>40-49</b>	30 (50.00%)	22 (36.67%)	8 (13.33%)	<b>60</b>
<b>50-59</b>	26 (63.42%)	8 (19.51%)	7 (17.07%)	<b>41</b>
<b>60+</b>	22 (59.46%)	10 (27.03%)	5 (13.51%)	<b>37</b>
<b>Total</b>	<b>152 (58.46%)</b>	<b>85 (32.69%)</b>	<b>23 (8.85%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the **population group** to which the respondents belong and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value < 0.0001).

This relationship is analysed in more detail in Table 13 below. Although a slightly larger proportion of the Black population group disagree, the majority of the respondents in the other population groups agree with the statement: “A large proportion of taxes is used by the government for meaningless purposes”.

Smith (2003:6) suggests that in South Africa it is possible that those citizens who are in the racial minority may feel alienated from democratic government. Considering her suggestion and the findings of this study, it could be argued that, in comparison to other population groups, the Black population group has a bigger vote when electing the government and, therefore, may be more supportive of the government they have elected and its utilisation of tax revenue.

**Table 13: Responses of population groups regarding the statement: “A large proportion of taxes is used by the government for meaningless purposes”**

<b>POPULATION GROUP</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Black</b>	31 (31.00%)	55 (55.00%)	14 (14.00%)	<b>100</b>
<b>Coloured</b>	26 (63.41%)	15 (36.59%)	0 (0.00%)	<b>41</b>
<b>Indian</b>	28 (70.00%)	12 (30.00%)	0 (0.00%)	<b>40</b>
<b>White</b>	67 (84.81%)	3 (3.80%)	9 (11.39%)	<b>79</b>
<b>Total</b>	<b>152 (58.46%)</b>	<b>85 (32.69%)</b>	<b>23 (8.85%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the **educational background** of the respondents and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value = 0.0418).

Of all the respondents in possession of a grade 12/matric certificate, 64.04%, of all the respondents in possession of a higher qualification, 60.00%, and of all the respondents who

have not completed secondary school, 44.64%, agree with the above statement. The more highly educated respondents agree with the above statement to a slightly greater extent than those who are less educated. It is possible that the more educated respondents would read more and be more up-to-date with media releases on waste and corruption in government and, therefore, tend to be more critical than those who are less educated.

Table 11 reveals a strong relationship between the **employment status** of the respondents and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value = 0.0023).

Of all the self-employed respondents, 77.78%, salaried respondents, 64.39%, and unemployed respondents, 45.54%, believe that a large proportion of taxes is used by the government for meaningless purposes.

It would be reasonable to assert that self-employed respondents, who pay tax by means of provisional tax payments, would be more aware of tax matters compared with respondents who have their tax automatically deducted by their employers. Self-employed respondents may be more concerned with the use to which their tax revenue has been put.

Table 11 reveals a strong relationship between the **earnings potential** of the respondents and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value < 0.0001).

Of all the respondents earning more than R10 000 per month before deductions, 72.31% agree that: “A large proportion of taxes is used by the government for meaningless purposes”. Of all the respondents earning between R2 918 and R10 000 per month before deductions, 68.42% agree with the aforementioned statement. However, only 40.00% of all the respondents earning below the tax threshold, agree with the statement.

This could be ascribed to the possibility that those respondents not paying tax are benefiting the most from tax collected by government, which may be used for social programmes, and are, therefore, in turn, more supportive of government and its allocation of funds.

Table 11 reveals a strong relationship between the **number of persons living within respondents' households** and their attitudes towards the statement: "A large proportion of taxes is used by the government for meaningless purposes" ( $p$  value = 0.0474).

In Table 14 below, the relationship is analysed in more detail. It appears that a somewhat lower percentage of the respondents with five or more people living in their household are of the opinion that the government does not use taxpayers' money for meaningless purposes, when compared to respondents who have between one and four people living in their household.

It is possible that the number of persons living within a respondent's household is an indicator of financial need. An increase in the number of people living within a particular household could result in an increased dependence of that specific household on the government. Respondents who are dependent on the government might be less negative towards the government in view of their potential social benefits.

**Table 14: Responses concerning number of people living within a household and respondents' attitudes towards the statement: "A large proportion of taxes is used by the government for meaningless purposes"**

<b>NUMBER OF PEOPLE LIVING WITHIN A HOUSEHOLD</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>1-2</b>	39 (69.64%)	14 (25.00%)	3 (5.36%)	<b>56</b>
<b>3</b>	33 (55.00%)	22 (36.67%)	5 (8.33%)	<b>60</b>
<b>4</b>	46 (63.89%)	16 (22.22%)	10 (13.89%)	<b>72</b>
<b>5</b>	18 (52.94%)	13 (38.24%)	3 (8.82%)	<b>34</b>
<b>6+</b>	16 (42.11%)	20 (52.63%)	2 (5.26%)	<b>38</b>
<b>Total</b>	<b>152 (58.46%)</b>	<b>85 (32.69%)</b>	<b>23 (8.85%)</b>	<b>260</b>

Table 11 reveals a strong relationship between respondents who **think that the Lotto is good because the proceeds are used for charitable purposes** and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value = 0.0253).

The analysis indicates that 67.24% of all the respondents who do not believe that the Lotto is good because a portion of the money is allocated for charitable purposes, agree that a large proportion of taxes is used by the government for meaningless purposes. On the other hand, of all the respondents who believe that the Lotto is good because a portion of the money is allocated for charitable purposes, 55.94% agree that a large proportion of taxes is used by the government for meaningless purposes. Any relationship between partaking in the Lotto and attitudes towards government’s utilisation of funds is, however, likely to be coincidental.

Table 11 reveals a strong relationship between whether or not the respondents are **registered with SARS as taxpayers** and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value = 0.0119).

Of all the respondents who are registered taxpayers, 66.67% agree that a large proportion of taxes is used by the government for meaningless purposes, compared with 49.18% of all those respondents not registered as taxpayers with SARS. Respondents registered with SARS as taxpayers, are most likely to be those respondents earning a higher income.

The stated main focus of the current government is re-distribution of wealth (Kemp, 2004:12). Therefore, those respondents registered with SARS as taxpayers, would possibly be more concerned with how tax revenue received is dealt with in the government budget, compared with those respondents not registered with SARS.

Table 11 reveals a strong relationship between whether or not the respondents **support the current government** and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value < 0.0001).

In Table 15 below, the relationship is analysed in more detail. The table shows that respondents who support the current government believe, to a lesser extent than other respondents, that a large proportion of taxes is used by the government for meaningless purposes. This finding would be anticipated, but it is significant that the majority of all the respondents express a great deal of concern regarding the government's utilisation of funds.

**Table 15: Responses concerning respondents' support for the current government and their attitudes towards the statement: "A large proportion of taxes is used by the government for meaningless purposes"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	49 (44.55%)	54 (49.09%)	7 (6.36%)	<b>110</b>
<b>Neutral</b>	66 (66.00%)	22 (22.00%)	12 (12.00%)	<b>100</b>
<b>Not at all</b>	37 (74.00%)	9 (18.00%)	4 (8.00%)	<b>50</b>
<b>Total</b>	<b>152 (58.46%)</b>	<b>85 (32.69%)</b>	<b>23 (8.85%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views towards the future of South Africa** and their attitudes towards the statement: "A large proportion of taxes is used by the government for meaningless purposes" ( $p$  value < 0.0001).

Table 16 below analyses the relationship in more detail. It is evident from this table that respondents who are concerned or neutral about the future of South Africa, believe, to a greater extent than those who are hopeful, that a large proportion of taxes is used by the government for meaningless purposes. This finding would be anticipated.



**Table 16: Responses concerning respondents’ views about the future of South Africa and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes”**

<b>VIEWES ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and Row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	69 (65.10%)	33 (31.13%)	4 (3.77%)	<b>106</b>
<b>Neutral</b>	40 (62.50%)	10 (15.62%)	14 (21.88%)	<b>64</b>
<b>Hopeful</b>	43 (47.78%)	42 (46.67%)	5 (5.55%)	<b>90</b>
<b>Total</b>	<b>152 (58.46%)</b>	<b>85 (32.69%)</b>	<b>23 (8.85%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **views relating to income distribution** and their attitudes towards the statement: “A large proportion of taxes is used by the government for meaningless purposes” ( $p$  value = 0.0154).

Results show that a higher percentage (74.19%) of all the respondents who are of the opinion that everyone should be entitled to keep the income they earn, agree with the statement, compared to those who believe that all income earned should accrue to government which should distribute it equally among all South Africans (53.54%). Again, this appears to be a predictable result.

### **5.2.2 Statement 2: “It is unfair to pay tax”**

The second statement that relates to general tax issues is: “It is unfair to pay tax”. The manner in which individual demographic, economic or other factors influenced the respondents’ perceptions regarding this statement, is now discussed. As indicated in Table 10, the majority of all the respondents (that is, 73.46%) believe that it is fair to pay tax.

Table 11, reveals a strong relationship between the **population group** to which the respondents belong and their attitudes towards the statement: “It is unfair to pay tax” ( $p$  value < 0.0001).

In Table 17 below, the relationship is analysed in greater detail. Although the Coloured and White population groups believe more strongly than the Indian and Black population groups that it is unfair to pay tax, the respondents generally are of the opinion that it is fair to pay tax.

Lieberman (2001:548) argues that given the important political changes in South Africa, including the promulgation of a non-racial constitution, there is good reason to believe that members of the White population will resist paying tax in future.

In view of this argument it would be justifiable to assert that the current political situation in the country might influence the perceptions of the different population groups. As the focus of the present government is to correct the wrongs of the past, a large proportion of the government's budget is allocated to uplifting previously disadvantaged South Africans (Eleftheriades, 1993:12). Members of the White population group might, therefore, be of the opinion that they receive fewer benefits from tax revenue. This might, in turn, lead to a less positive outlook with regard to the fairness of taxation. This does not, however, provide an explanation of the responses of the Coloured respondents.

**Table 17: Responses of population groups regarding the statement: “It is unfair to pay tax”**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Black</b>	7 (7.00%)	85 (85.00%)	8 (8.00%)	<b>100</b>
<b>Coloured</b>	11 (26.83%)	30 (73.17%)	0 (0.00%)	<b>41</b>
<b>Indian</b>	4 (10.00%)	36 (90.00%)	0 (0.00%)	<b>40</b>
<b>White</b>	21 (26.58%)	40 (50.63%)	18 (22.79%)	<b>79</b>
<b>Total</b>	<b>43 (16.54%)</b>	<b>191 (73.46%)</b>	<b>26 (10.00%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the **earnings potential** of the respondents and their attitudes towards the statement: “It is unfair to pay tax” ( $p$  value = 0.0209).

Of those respondents earning less than R2 917 per month before any deductions (that is, those respondents who fall below the tax threshold), 81.00% disagree that it is unfair to pay

tax. Of all the respondents earning more than R10 000 per month before any deductions, 76.92%, and of all the middle-income earners, 63.13%, disagree with the statement. Middle-income and higher-income earners appear to be most satisfied with the current tax regime. The low-income earners probably do not want to give up any portion of their hard earned income, which is understandable. A suggested reason for the higher-income earners not being positive about the fairness of tax, could be attributed to the progressive tax system in South Africa where high income earners pay tax at a higher rate than low-income earners. This might explain their less positive perceptions about the fairness of taxation.

Table 11 reveals a strong relationship between the **frequency of visits to state-funded medical facilities** by the respondents and their attitudes towards the statement: “It is unfair to pay tax” ( $p$  value = 0.0292).

Of all the respondents who visit state-funded medical facilities between 2 and 5 times per month, 22.50% agree that it is unfair to pay tax. By contrast, 15.73% who do not visit these facilities at all and 15.27% who visit these facilities once a month, agree that it is unfair to pay tax. Respondents who visit state-funded medical facilities are generally those respondents who cannot afford private medical treatment and are thus dependent on the government for medical care. These respondents would usually have lower incomes and would possibly believe that they do not have enough money to pay tax and thus have the perception that it is unfair to pay tax.

Table 11 reveals a strong negative relationship between respondents who **think that the Lotto is good because proceeds are used for charitable purposes** and their attitudes towards the statement: “It is unfair to pay tax” ( $p$  value = 0.0085).

Of all the respondents who agree that the Lotto is good because a portion of the money is allocated for charitable purposes, 76.24% disagree that it is unfair to pay tax. Of all the respondents who do not agree that the Lotto is good because a portion of the money is allocated for charitable purposes, a smaller percentage, 63.79%, disagree that it is unfair to pay tax. If a person contributes towards the Lotto because he or she is of the opinion that it is

for a good purpose, then that person would possibly be more positive about the fairness of paying tax. Any relationship is, however, likely to be coincidental.

Table 11 reveals a strong relationship between whether or not the respondents **support the current government** and their attitudes towards the statement: “It is unfair to pay tax” ( $p$  value < 0.0001).

Table 18 below analyses the relationship in more detail. It can be seen from this table that of the respondents who do not support the government at all, 48.00% agree that it is unfair to pay tax. Only 14.00% of all the respondents who are neutral towards the current government and 4.55% of all the respondents who support the current government, agree that it is unfair to pay tax. It could be argued that the fiscal perception of a respondent (with specific reference to whether the individual supports government policies or not) affects the respondent’s perception towards the fairness of paying tax.

**Table 18: Responses concerning respondents’ support for the current government and their attitudes towards the statement: “It is unfair to pay tax”**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	5 (4.55%)	101 (91.81%)	4 (3.64%)	<b>110</b>
<b>Neutral</b>	14 (14.00%)	64 (64.00%)	22 (22.00%)	<b>100</b>
<b>Not at all</b>	24 (48.00%)	26 (52.00%)	0 (0.00%)	<b>50</b>
<b>Total</b>	<b>43 (16.54%)</b>	<b>191 (73.46%)</b>	<b>26 (10.00%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **views towards the future of South Africa** and their attitudes towards the statement: “It is unfair to pay tax” ( $p$  value < 0.0001).

In Table 19 below, the relationship is analysed in more detail. Although all of the responses represent relatively low percentages, it can be seen from the table that both the respondents who are concerned and those who are neutral about the future of South Africa, agree more strongly that it is unfair to pay tax, compared with those who are hopeful. The perception

concerning the future economic well-being of respondents, appears to be associated with the respondents' attitudes regarding the fairness of tax.

**Table 19: Responses concerning respondents' views about the future of South Africa and their attitudes towards the statement: "It is unfair to pay tax"**

<b>VIEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	28 (26.42%)	73 (68.87%)	5 (4.71%)	<b>106</b>
<b>Neutral</b>	11 (17.18%)	35 (54.69%)	18 (28.13%)	<b>64</b>
<b>Hopeful</b>	4 (4.44%)	83 (92.23%)	3 (3.33%)	<b>90</b>
<b>Total</b>	<b>43 (16.54%)</b>	<b>191 (73.46%)</b>	<b>26 (10.00%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views on income distribution** and their attitudes towards the statement: "It is unfair to pay tax" ( $p$  value = 0.0134).

Of all the respondents who believe that everyone should be entitled to keep the income they earn, 27.42% agree that it is unfair to pay tax. By contrast, only 13.13% of all the respondents who believe that all income earned should accrue to the government, which should distribute it equally amongst all South Africans, agree that it is unfair to pay tax. Those respondents who trust government with the distribution of tax funds are more positive about the fairness of tax than those who believe that everyone should be entitled to keep the income they earn.

### **5.2.3 Statement 3: "Income tax rates must be reduced"**

The third statement examined in this study that deals with general tax-related issues is: "Income tax rates must be reduced". As shown in Table 10, the majority of all the respondents (77.31%) are of the view that the income tax rates should be reduced. The findings of the study in relation to this statement and the manner in which individual demographic, economic or other factors influenced the respondents' perceptions, are analysed in this section. Previous research which dealt with this issue is also highlighted in this discussion.

Mueller (1963:233) found that younger people are more favourably inclined towards increased services (thus higher tax rates). Conversely, those over 55 years of age are more fiscally conservative, favouring both tax and expenditure cuts. From the Mueller study, it appears as if attitudes and life experience may have an impact on taxpayers' actions.

Regarding this issue, the present study showed no significant differences in perceptions relating to the reduction in tax rates between respondents from different **age** groups.

Table 11 reveals a strong relationship between the respondents' **population group** and their attitudes towards the statement: "Income tax rates must be reduced" ( $p$  value = 0.0002).

In Table 20 below, the relationship is analysed in more detail. Although, as indicated in the table, there is a difference in perceptions between the various population groups, a high proportion of all the population groups agree that income tax rates must be reduced. The Black population group did, however, agree to a somewhat lesser extent regarding this statement. An explanation for this finding might be linked to the current political situation in South Africa where the majority of voters fall within the Black population group. Because of their majority representation in government, they may be more in favour of current fiscal policies. A possible reason for the discontent of Coloured and Indian respondents with current tax regimes may be the fact that they perceive themselves no longer to be considered part of the previously disadvantaged group in the country.

**Table 20: Responses of population groups regarding the statement: "Income tax rates must be reduced"**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Black</b>	66 (66.00%)	25 (25.00%)	9 (9.00%)	<b>100</b>
<b>Coloured</b>	38 (92.68%)	3 (7.32%)	0 (0.00%)	<b>41</b>
<b>Indian</b>	32 (80.00%)	8 (20.00%)	0 (0.00%)	<b>40</b>
<b>White</b>	65 (82.28%)	4 (5.06%)	10 (12.66%)	<b>79</b>
<b>Total</b>	<b>201 (77.31%)</b>	<b>40 (15.38%)</b>	<b>19 (7.31%)</b>	<b>260</b>

A study by Vogel (1974:507) investigated the relationship between a person's occupation and his or her fiscal preferences. He found that self-employed taxpayers are more likely to agree that tax revenue is too high and that the fiscal exchange rate is unfavourable.

However, the present study showed no significant differences in perceptions regarding the reduction in tax rates between respondents with differing **employment statuses**.

Table 11 reveals a strong relationship between the respondents' **earnings potential** and their attitudes towards the statement: "Income tax rates must be reduced" ( $p$  value = 0.0005).

Of all the respondents, 77.31% are in agreement that income tax rates must be reduced. Of all the respondents earning below the tax threshold, 67.00% believe that income tax rates should be reduced. By contrast, 84.21% of respondents earning between R2 918 and R10 000, per month before deductions and 83.08% of respondents earning more than R10 000 per month agree with the statement. Thus, it appears that respondents who earn below the tax threshold agree to a somewhat lesser extent that income tax rates should be reduced. As they would not be subject to tax, they are less likely to believe that tax rates should be reduced.

Table 11 reveals a strong relationship between whether or not the respondents **think that the Lotto is good because proceeds are used for charitable purposes** and their attitudes towards the statement: "Income tax rates must be reduced" ( $p$  value = 0.0019).

Of all the respondents who agree that the Lotto is good because a portion of the money is allocated for charitable purposes, 76.73% agree that income tax rates must be reduced. Only a slightly higher percentage, 79.31%, of respondents who do not agree that the Lotto is good because a portion of the money is allocated for charitable purposes, agree that income tax rates must be reduced. The opinion of respondents regarding the Lotto would not be expected to influence their opinion about the tax rates.

Table 11 reveals a strong relationship between whether or not the respondents **are registered with SARS as taxpayers** and their attitudes towards the statement: “Income tax rates must be reduced” ( $p$  value = 0.0028).

Of all the respondents registered as taxpayers with SARS, the majority (that is, 84.78%), agree that income tax rates must be reduced, compared to 68.85% of all the respondents who are not registered. Those respondents who are registered with SARS as taxpayers and who are paying income tax, are aware that the current income tax rates impact directly on their cash earnings each month. These respondents would support lower income tax rates, as this would result in a higher monthly after-tax income.

Table 11 reveals a strong relationship between whether or not the respondents **support the current government** and their attitudes towards the statement: “Income tax rates must be reduced” ( $p$  value < 0.0001).

In Table 21 below, the relationship is analysed in more detail. Although, as is evident from the table, there is a difference in perceptions depending on the respondents’ level of support for the current government, a high proportion of all the respondent groups agree that income tax rates must be reduced. Those respondents, who do not support the current government at all, agree, however, to a greater extent that income tax rates should be reduced.

Therefore, the fiscal perceptions of a respondent (with specific reference to whether the individual supports government policies or not) are likely to affect the respondent’s perception towards fiscal policy (with specific reference to the reduction of income tax rates).

**Table 21: Responses concerning respondents’ support for the current government and their attitudes towards the statement: “Income tax rates must be reduced”**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	82 (74.54%)	26 (23.64%)	2 (1.82%)	<b>110</b>
<b>Neutral</b>	70 (70.00%)	14 (14.00%)	16 (16.00%)	<b>100</b>



<b>Not at all</b>	49 (98.00%)	0 (0.00%)	1 (2.00%)	<b>50</b>
<b>Total</b>	<b>201 (77.31%)</b>	<b>40 (15.38%)</b>	<b>19 (7.31%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views towards the future of South Africa** and their attitudes towards the statement: "Income tax rates must be reduced" ( $p$  value = 0.0043).

In Table 22 below, the relationship is analysed in more detail. As shown in the table, there is a difference in perceptions in relation to the respondents' views regarding the future of South Africa. Although those respondents who are concerned about the future of South Africa agree slightly more strongly that income tax rates should be reduced, a high proportion of all the respondent groups agree that these tax rates should be reduced.

**Table 22: Responses concerning respondents' views about the future of South Africa and their attitudes towards the statement: "Income tax rates must be reduced"**

<b>VIEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	88 (83.02%)	14 (13.21%)	4 (3.77%)	<b>106</b>
<b>Neutral</b>	46 (71.88%)	7 (10.93%)	11 (17.19%)	<b>64</b>
<b>Hopeful</b>	67 (74.45%)	19 (21.11%)	4 (4.44%)	<b>90</b>
<b>Total</b>	<b>201 (77.31%)</b>	<b>40 (15.38%)</b>	<b>19 (7.31%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views on income distribution** and their attitudes towards the statement: "Income tax rates must be reduced" ( $p$  value = 0.0079).

Of all the respondents who believe that everyone should be entitled to keep the income they earn, 90.32% agree that income tax rates should be reduced. By contrast, only 73.23% of all the respondents who believe that all income earned should accrue to the government, which should distribute it equally among all South Africans, agree with the abovementioned statement. Those respondents who trust government with the distribution of tax funds are more likely to be positive towards the current rates of income tax.

#### 5.2.4 **Statement 4: “The VAT rate must be reduced”**

The fourth statement explored in this study that relates to general tax issues is: “The VAT rate must be reduced”. As highlighted in Table 10, the majority of respondents (82.31%) are of the opinion that the VAT rate must be reduced. The fourth statement and its relationship to individual demographic, economic or other factors which may influence the respondents’ perceptions about this statement, is discussed below. Previous research in relation to this statement is also highlighted.

Mueller (1963:233) found that younger people are more favourably inclined towards increased services (thus higher tax rates). Conversely, those over 55 years of age are more fiscally conservative, favouring both tax and expenditure cuts. From the Mueller study, it appears as if attitudes and life experience might have an impact on taxpayers’ actions.

However, this study showed no significant differences between the different **age** groups of the respondents and the reduction in the VAT rate.

A study by Vogel (1974:507) also considered a person’s occupation versus his or her fiscal preferences. It was found that self-employed taxpayers are more likely to agree that tax revenue is too high and that the fiscal exchange rate is unfavourable.

Despite the above findings, the current study showed no significant differences in perceptions concerning the reduction in the VAT rate between the respondents and their **employment status**.

Table 11 reveals a strong relationship between the respondents’ **earnings potential** and their attitudes towards the statement: “The VAT rate must be reduced” ( $p$  value = 0.0125).

Of all the respondents whose income falls below the tax threshold, 74.00% agree that the VAT rate should be reduced. By contrast, 87.37% of all respondents earning between R2 918 and R10 000 per month before deductions and 87.69% earning more than R10 000 per

month before deductions, agree with the above statement. Thus, although respondents falling below the income tax threshold agree to a somewhat lesser extent that the VAT rate should be reduced, a large proportion of all the respondent groups are in agreement with the statement.

Table 11 reveals a strong relationship between the respondents' **level of support for the current government** and their attitudes towards the statement: "The VAT rate must be reduced" ( $p$  value = 0.0005).

In Table 23 below, the relationship is analysed in more detail. Although, as indicated in the table, there is a difference in perceptions between the various levels of support for the government expressed by respondents, a high proportion of all the respondent groups agree that the VAT rate should be reduced. A higher proportion of respondents who do not support the current government at all, however, agree that there should be a reduction in the VAT rate.

The fiscal perception of a respondent (with specific reference to whether the individual supports government policies or not) is likely to affect the respondent's perception towards fiscal policy (with specific reference to the reduction of the VAT rate). All individuals are subject to VAT on their purchases and would, therefore, experience its impact.

**Table 23: Responses concerning respondents' support for the current government and their attitudes towards the statement: "The VAT rate must be reduced"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	85 (77.27%)	21 (19.09%)	4 (3.64%)	<b>110</b>
<b>Neutral</b>	80 (80.00%)	9 (9.00%)	11 (11.00%)	<b>100</b>
<b>Not at all</b>	49 (98.00%)	0 (0.00%)	1 (2.00%)	<b>50</b>
<b>Total</b>	<b>214 (82.31%)</b>	<b>30 (11.54%)</b>	<b>16 (6.15%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views on income distribution** and their attitudes towards the statement: "The VAT rate must be reduced" ( $p$  value = 0.0493).

Of all the respondents who believe that everyone should be entitled to keep the income they earn, 91.94% agree that the VAT rate must be reduced. By contrast, a relatively lower percentage (that is, 79.29%) of all the respondents who believe that all income earned should accrue to the government, which should distribute it equally amongst all South Africans, are in agreement with the statement. Those respondents who trust government with the distribution of tax funds are more likely to be more positive towards the current VAT rate.

#### **5.2.5 Statement 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)"**

The fifth statement dealing with general tax-related issues investigated in this study is: "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)". It was shown in Table 10 that 37.31% of the respondents are of the opinion that the income tax rate (%) should be the same regardless of the amount of income earned, 43.85% do not agree with this and 18.84% have no opinion regarding this matter. The findings relating to the fifth statement and the manner in which individual demographic, economic or other factors may influence the respondents' perceptions concerning this statement, are analysed below.

Table 11 reveals a strong relationship between the respondents' **population group** and their attitudes towards the statement: "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)" ( $p$  value < 0.0001).

Table 24 below analyses the relationship in more detail. The Indian (97.50%) and Coloured (87.80%) respondents regard the imposition of a fixed income tax rate more favourably than Black (13.00%) and White respondents (11.39%). This interesting finding may relate to the fact that members of the Indian and Coloured population groups often have stronger entrepreneurial tendencies and a fixed rate of tax would enable them to retain a larger proportion of their business profits.

**Table 24: Responses of population groups regarding the statement: “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)”**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
Black	13 (13.00%)	71 (71.00%)	16 (16.00%)	100
Coloured	36 (87.80%)	3 (7.32%)	2 (4.88%)	41
Indian	39 (97.50%)	1 (2.50%)	0 (0.00%)	40
White	9 (11.39%)	39 (49.37%)	31 (39.24%)	79
<b>Total</b>	<b>97 (37.31%)</b>	<b>114 (43.85%)</b>	<b>49 (18.84%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **home language** and their attitudes towards the statement: “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)” ( $p$  value < 0.0001).

Table 25 below analyses the relationship in greater detail. It can be seen from the table that English-speaking respondents, followed by the Afrikaans-speakers, believe more strongly that the income tax rate should be the same regardless of the amount of income earned. This is again an interesting finding and may be related to the fact that members of the Indian and Coloured population groups are more likely to speak either English or Afrikaans. These respondents are also more likely to have their own businesses and a fixed rate of tax would enable them to retain a larger proportion of their business profits. English and Afrikaans speakers may generally be in a higher-income tax bracket because of the economic

disadvantages suffered by members of the Black population group whose home languages are predominantly African.

**Table 25: Responses of language groups regarding the statement: “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)”**

LANGUAGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Afrikaans</b>	44 (40.74%)	36 (33.33%)	28 (25.93%)	<b>108</b>
<b>English</b>	40 (76.92%)	7 (13.46%)	5 (9.62%)	<b>52</b>
<b>Nguni</b>	3 (14.28%)	14 (66.67%)	4 (19.05%)	<b>21</b>
<b>Sotho</b>	9 (14.75%)	44 (72.14%)	8 (13.11%)	<b>61</b>
<b>Other</b>	1 (6.66%)	10 (66.67%)	4 (26.67%)	<b>15</b>
<b>Total</b>	<b>97 (37.74%)</b>	<b>111 (43.19%)</b>	<b>49 (19.07%)</b>	<b>257</b>

Table 11 reveals a strong relationship between whether or not the respondents **earn additional income** and their attitudes towards the statement: “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)” ( $p$  value = 0.0023).

Of all the respondents earning a second income, 55.74% believe that everybody should pay income tax using the same percentage irrespective, of the amount one earns, versus only 31.66% of respondents not earning a second income. As South Africa levies income tax at a progressive rate, those respondents earning a second income are likely to fall within a higher tax bracket (resulting in a lower after-tax earnings each month). Respondents earning a second income would, therefore, prefer not to pay tax according to progressive tax rates but rather at a fixed percentage of total income.

Table 11 reveals a strong relationship between the respondents’ **earnings potential** and their attitudes towards the statement: “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)” ( $p$  value = 0.0111).

Respondents earning more than R10 000 per month, before deductions, agree more strongly that the income tax rate should be the same regardless of the amount of income earned than lower-income earning respondents. Of all the respondents earning more than R10 000 per month before deductions, 49.23% are of the view that everybody should pay income tax using the same percentage irrespective of the amount of income earned. Only 34.00% of all the respondents below the tax threshold and 32.63% of all the respondents earning between R2 918 and R10 000 per month before deductions, support a fixed rate of taxation. Again, those respondents who earn higher incomes would fall within a higher tax bracket and would, therefore, prefer not to pay tax according to progressive tax rates, but rather at a fixed percentage.

Table 11 reveals a strong relationship between the **frequency of visits to state-funded medical facilities** by the respondents and their attitudes towards the statement: “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)” ( $p$  value < 0.0001).

Of all the respondents visiting state-funded medical facilities between 2 and 5 times per month, 60.00% agree that the income tax rate should be the same regardless of the amount of income earned. Of all the respondents visiting state-funded medical facilities once a month, 48.85% support a fixed income tax rate and only 10.11% of respondents not visiting state-funded medical facilities agree with the abovementioned statement. This finding appears to be counter-intuitive, as it is the lower-income earners who are more likely to visit state-funded medical facilities and these lower-income respondents were generally less supportive of a fixed rate of income tax.

Table 11 reveals a strong relationship between whether or not the respondents **partake in the Lotto at least four times per month** and their attitudes towards the statement: “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)” ( $p$  value = 0.0050).

Of all the respondents participating in the Lotto at least four times per month, 45.33% agree that the income tax rate (%) should be the same regardless of the amount of income earned. By contrast, only 26.36% of all the respondents not partaking in the Lotto at least four times per month, agree that the income tax rate (%) should be the same regardless of the amount of income earned. Respondents engaging in gambling activities on a regular basis are more in favour of a fixed income tax rate. Any relationship between partaking in the Lotto and support of a fixed rate of tax is, however, likely to be coincidental.

Table 11 reveals a strong relationship between whether or not the respondents **think that the Lotto is good because proceeds are used for charitable purposes** and their attitudes towards the statement: “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)” ( $p$  value = 0.0050).

Of all the respondents who believe that the Lotto is good because a portion of the money is allocated for charitable purposes, 45.33% also agree that the income tax rate should be the same regardless of the amount of income earned. By contrast, only 26.36% of those respondents who do not believe that the Lotto is good because a portion of the money is allocated for charitable purposes, agree that the income tax rate should be the same regardless of the amount of income earned. Respondents who have the means to wager money on the Lotto may be in a higher income bracket and prefer their income to be taxed at a fixed rate. Once again, any relationship is, however, most likely to be coincidental.

Table 11 reveals a strong relationship between whether or not the respondents **are registered with SARS as taxpayers** and their attitudes towards the statement: “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)” ( $p$  value = 0.0309).

Of all the respondents who are registered as taxpayers with SARS, 42.03% agree that the income tax rate should be the same regardless of the amount of income earned compared



with only 31.97% of those respondents not registered. Respondents who are registered as taxpayers with SARS are those earning above the tax threshold and they would prefer to pay tax at a fixed percentage, as this may directly impact their monthly cash earnings.

Table 11 reveals a strong relationship between the respondents' **level of support for the current government** and their attitudes towards the statement: "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)" ( $p$  value < 0.0001).

In Table 26 below, the relationship is analysed in more detail. The difference in perceptions between the various respondent groups is clear from this table. Of all the respondents who do not support the current government, 60.00% agree that the income tax rate (%) should be the same regardless of the amount of income earned. By contrast, only 40.91% of respondents who support the current government and 22.00% of respondents who are neutral towards the current government agree with the statement. The fiscal perceptions of a respondent (with specific reference to whether the individual supports government policies or not) affect the respondent's perceptions towards a fixed, as opposed to a progressive income tax rate. Those respondents in favour of the current government agree more strongly with progressive, tax rates. This may be related to the fact that tax revenues are used partly for the social upliftment of those members of the population who were previously economically disadvantaged. It is these respondents who are presently in the voting majority.

**Table 26: Responses concerning respondents' support for the current government and their attitudes towards the statement: "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)"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	45 (40.91%)	56 (50.91%)	9 (8.18%)	<b>110</b>
<b>Neutral</b>	22 (22.00%)	43 (43.00%)	35 (35.00%)	<b>100</b>
<b>Not at all</b>	30 (60.00%)	15 (30.00%)	5 (10.00%)	<b>50</b>
<b>Total</b>	<b>97 (37.31%)</b>	<b>114 (43.85%)</b>	<b>49 (18.84%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views about the future of South Africa** and their attitudes towards the statement: "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)" ( $p$  value < 0.0001).

Table 27 below analyses the relationship in more detail. Both those respondents who are concerned about the future of South Africa and those who are hopeful, agree more strongly that the income tax rate (%) should be the same regardless of the amount of income earned than those respondents who are neutral. Furthermore, of all the respondents who are neutral about the future of South Africa, 40.63% have no opinion at all. This finding does not appear to be meaningful.

**Table 27: Responses concerning respondents' views about the future of South Africa and their attitudes towards the statement: "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)"**

<b>VIEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	50 (47.17%)	46 (43.40%)	10 (9.43%)	<b>106</b>
<b>Neutral</b>	9 (14.06%)	29 (45.31%)	26 (40.63%)	<b>64</b>
<b>Hopeful</b>	38 (42.22%)	39 (43.34%)	13 (14.44%)	<b>90</b>
<b>Total</b>	<b>97 (37.31%)</b>	<b>114 (43.85%)</b>	<b>49 (18.84%)</b>	<b>260</b>

### **5.2.6 Statement 6: "I do not know why I have to pay tax"**

The sixth statement that deals with general tax-related issues examined in this study is: "I do not know why I have to pay tax". As presented in Table 10, just over half of the respondents (that is, 56.54%) believe that they know why they have to pay tax. By contrast, 31.54% of the respondents indicated that they do not know why they have to pay tax and 11.92% of the respondents have no opinion in this regard. The manner in which individual demographic,

economic or other factors influenced the respondents' perceptions concerning this statement, is analysed below.

Table 11 reveals a strong relationship between the **age** of the respondents and the statement: "I do not know why I have to pay tax" ( $p$  value = 0.0351).

Table 28 below analyses this relationship in more detail. As indicated in the table, there is a difference in perceptions between the various age groups. It appears that older respondents (over 50 years of age) believe to a slightly greater extent that they do not understand why they have to pay tax. Older respondents may no longer be employed, would most probably receive earnings from pensions or savings, and may believe that this should not be taxed.

**Table 28: Responses of age groups regarding the statement: "I do not know why I have to pay tax"**

AGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>21-29</b>	18 (32.14%)	29 (51.79%)	9 (16.07%)	<b>56</b>
<b>30-39</b>	19 (28.79%)	41 (62.12%)	6 (9.09%)	<b>66</b>
<b>40-49</b>	13 (21.67%)	43 (71.67%)	4 (6.66%)	<b>60</b>
<b>50-59</b>	16 (39.02%)	16 (39.02%)	9 (21.96%)	<b>41</b>
<b>60+</b>	16 (43.24%)	18 (48.65%)	3 (8.11%)	<b>37</b>
<b>Total</b>	<b>82 (31.54%)</b>	<b>147 (56.54%)</b>	<b>31 (11.92%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **population group** and their attitudes towards the statement: "I do not know why I have to pay tax" ( $p$  value < 0.0001).

In Table 29 below, the relationship is analysed in more detail. Although less than half of the respondents in each of the population groups agree with the abovementioned statement, it appears from the table that White respondents (45.57%) and Black respondents (34.00%) agree more strongly with the statement in comparison, with Coloured (21.95%) and Indian respondents (7.50%).

Smith (2003:6) argues that those respondents who belong to a racial minority may feel

alienated from democratic government and those in the majority may be reluctant to pay tax on the grounds that the burden should fall on those who benefited from racial privilege in the past. Moloko (1990:72) argues that Black professional employees need to be more informed about the history or the origin of taxation, the reasons why the government needs taxation revenue and how the government spends taxation revenue. This does not provide an explanation for the responses of the Coloured and Indian participants, but does explain the perceptions of the White and Black participants.

**Table 29: Responses of population groups regarding the statement: “I do not know why I have to pay tax”**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Black</b>	34 (34.00%)	54 (54.00%)	12 (12.00%)	<b>100</b>
<b>Coloured</b>	9 (21.95%)	31 (75.61%)	1 (2.44%)	<b>41</b>
<b>Indian</b>	3 (7.50%)	37 (92.50%)	0 (0.00%)	<b>40</b>
<b>White</b>	36 (45.57%)	25 (31.65%)	18 (22.78%)	<b>79</b>
<b>Total</b>	<b>82 (31.54%)</b>	<b>147 (56.54%)</b>	<b>31 (11.92%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the **home language** of the respondents and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value = 0.0036).

Table 30 below analyses this relationship in more detail. Of all the respondents who belong to the “other” language groups (that is, the Tshivenda and Xitsonga group), 53.33% agree with the abovementioned statement, followed by 36.07% of the Sotho group. The Afrikaans speakers agree to a similar extent (35.19%). However, only 19.23% of the English speaking group and 19.05% of the Nguni speakers agree with the statement. This finding is inconclusive, as home language in South Africa is not determined by the population group, with the exception of the Black community.

**Table 30: Responses of language groups regarding the statement: “I do not know why I have to pay tax”**

LANGUAGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Afrikaans</b>	38 (35.19%)	52 (48.15%)	18 (16.66%)	<b>108</b>
<b>English</b>	10 (19.23%)	41 (78.85%)	1 (1.92%)	<b>52</b>
<b>Nguni</b>	4 (19.05%)	14 (66.67%)	3 (14.28%)	<b>21</b>
<b>Sotho</b>	22 (36.07%)	33 (54.10%)	6 (9.83%)	<b>61</b>
<b>Other</b>	8 (53.33%)	4 (26.67%)	3 (20.00%)	<b>15</b>
<b>Total</b>	<b>82 (31.91%)</b>	<b>144 (56.03%)</b>	<b>31 (12.06%)</b>	<b>257</b>

Table 11 reveals a strong relationship between the **educational background** of the respondents and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value = 0.0013).

Of all the respondents in possession of a higher educational qualification, 73.33% believe that they understand why they have to pay tax. By contrast, only 55.36% of respondents who did not complete secondary school and 43.86% of those respondents with a grade 12/matric qualification, are of the opinion that they know why they have to pay tax. The more educated the respondents are, the more tax knowledge they would possess. Therefore, the more educated respondents would be most likely to have an increased understanding regarding the importance of taxation.

Table 11 reveals a strong relationship between the **employment status** of the respondents and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value = 0.0029).

Of all the unemployed respondents, 43.56%, and of all the self-employed respondents, 37.04%, agreed with the statement: “I do not know why I have to pay tax”. A smaller percentage of 21.21% of all the salaried respondents agreed with the statement. Those respondents who are unemployed, do not pay tax, and the self-employed may resent paying tax on their business profits.

Table 11 reveals a strong relationship between the **frequency of visits to state-funded medical facilities** by the respondents and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value < 0.0001).

Of all the respondents who do not visit state-funded medical facilities, 42.70% believe that they do not know why they have to pay tax. A slightly lower percentage of respondents, 37.50%, who visit state-funded medical facilities between 2 and 5 times per month, and 22.14% of respondents who visit these facilities once a month, are of the opinion that they do not know why they have to pay tax. Respondents who are dependent on the government for medical care may understand that the funding for this service is derived from tax revenue and may, therefore, appreciate the need for taxation.

Table 11 reveals a strong relationship between whether or not the respondents are **registered as taxpayers with SARS** and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value = 0.0098).

Of all the respondents not registered with SARS, 37.70% agree that they do not know why they have to pay tax, compared with only 26.09% of respondents registered as taxpayers with SARS. Those respondents registered as taxpayers are generally the higher-income earners of the South African population and would be more aware of tax issues than the respondents who are not registered.

Table 11 reveals a strong relationship between the respondents' **prior dealings with SARS** and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value = 0.0004).

Of all the respondents who have consulted SARS officials in the past, 69.91% believe that they know why they have to pay tax, compared to 48.10% of the respondents who have not consulted with SARS officials. Thus, respondents who have consulted with SARS officials in the past, agree to a greater extent that they know why they have to pay tax. Respondents who are subject to tax may have a greater understanding of the need to pay tax and, in

addition, SARS officials may have positively influenced the attitude of the respondents who consulted with them.

Table 11 reveals a strong relationship between the respondents' **level of support for the current government** and their attitudes towards the statement: "I do not know why I have to pay tax" ( $p$  value < 0.0001).

In Table 31 below, the relationship is analysed in more detail. Although, as indicated in the table, there is a difference in perceptions between the respondents' level of support for the government, it appears that less than half of the respondents in all the levels of support for the government believe that they do not know why they have to pay tax. The majority of those respondents, who are in favour of the government, understand why they have to pay tax. Respondents, who support the current government, possibly trust the government with the allocation of tax money to a great extent and are, therefore, more positive about paying tax.

**Table 31: Responses concerning respondents' support for the current government and their attitudes towards the statement: "I do not know why I have to pay tax"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	18 (16.36%)	84 (76.37%)	8 (7.27%)	<b>110</b>
<b>Neutral</b>	41 (41.00%)	38 (38.00%)	21 (21.00%)	<b>100</b>
<b>Not at all</b>	23 (46.00%)	25 (50.00%)	2 (4.00%)	<b>50</b>
<b>Total</b>	<b>82 (31.54%)</b>	<b>147 (56.54%)</b>	<b>31 (11.92%)</b>	<b>260</b>

Table 11 reflects a strong relationship between the respondents' **views regarding the future of South Africa** and their attitudes towards the statement: "I do not know why I have to pay tax" ( $p$  value < 0.0001).

In Table 32 below, this relationship is analysed in more detail. The differences in perceptions between the respondents' views regarding the future of South Africa can be seen from this table. Respondents who are hopeful regarding South Africa's future agree to a lesser extent with the statement: "I do not know why I have to pay tax", in comparison with those

respondents who are neutral and those who are concerned about South Africa’s future. As may be anticipated, respondents who are hopeful about the future of South Africa support the government and, therefore, appreciate the need for taxation.

**Table 32: Responses concerning respondents’ views about the future of South Africa and their attitudes towards the statement: “I do not know why I have to pay tax”**

<b>IEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	44 (41.51%)	55 (51.89%)	7 (6.60%)	<b>106</b>
<b>Neutral</b>	24 (37.50%)	25 (39.06%)	15 (23.44%)	<b>64</b>
<b>Hopeful</b>	14 (15.56%)	67 (74.44%)	9 (10.00%)	<b>90</b>
<b>Total</b>	<b>82 (31.54%)</b>	<b>147 (56.54%)</b>	<b>31 (11.92%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **views relating to income distribution** and their attitudes towards the statement: “I do not know why I have to pay tax” ( $p$  value = 0.0117).

The findings of the study revealed that 41.94% of all the respondents who are of the opinion that everyone should be entitled to keep the income they earn, believe that they do not know why they have to pay tax. By contrast, 28.28% of all the respondents who are of the opinion that all income earned should accrue to government, which should distribute it equally among all South Africans, agree that they do not know why they have to pay tax. This finding is what might have been expected, as those believing that they should keep all the income they earn, would not support the payment of tax.

### **5.2.7 Statement 7: “Waste and corruption in government is high”**

The seventh statement examined in this study that deals with general tax-related issues is: “Waste and corruption in government is high”. It was significantly found that the majority of the respondents (that is, 87.69%) believe that waste and corruption in government is high (see Table 10). It is also evident from Table 11 that no individual demographic, economic or other



factor influenced the respondents' perceptions with regard to this statement. This is a significant finding which should be a matter of concern to the government.

### **5.2.8 Statement 8: “Rich people should pay tax at a higher rate”**

The eighth statement that relates to general tax issues explored in this study is: “Rich people should pay tax at a higher rate”. As highlighted in Table 10, a relatively high percentage of respondents (that is, 63.08%) are of the view that wealthy people should pay tax at a higher rate. The extent to which individual demographic, economic or other factors influenced the respondents' perceptions concerning this statement, is now discussed.

Table 11 reveals a strong relationship between the **gender** of the respondents and their attitudes towards the statement: “Rich people should pay tax at a higher rate” ( $p$  value = 0.0364).

Of all the female respondents, 70.49% are in favour of progressive tax rates versus 56.52% of the male respondents. Traditionally female respondents earned less than male respondents. Consequently, female respondents did not pay tax at the highest rate. Therefore, females may be more in favour of progressive tax rates.

Table 11 reveals a strong relationship between the **population group** to which the respondents belong and their attitudes towards the statement: “Rich people should pay tax at a higher rate” ( $p$  value < 0.0001).

In Table 33 below, the relationship is analysed in greater detail. Although, as shown in the table, there is a difference in perceptions between the various population groups, a high proportion of all population groups (apart from the Indian respondents) agree that wealthy people should pay tax at a higher rate. It is clear that the Indian respondents agree with the abovementioned statement to a somewhat lesser extent in comparison with the other

population groups. It is possible that the Indian respondents could have been the highest income earners and, therefore, the least sympathetic regarding a higher rate of tax.

**Table 33: Responses of population groups regarding the statement: “Rich people should pay tax at a higher rate”**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Black</b>	72 (72.00%)	16 (16.00%)	12 (12.00%)	<b>100</b>
<b>Coloured</b>	27 (65.85%)	14 (34.15%)	0 (0.00%)	<b>41</b>
<b>Indian</b>	7 (17.50%)	33 (82.50%)	0 (0.00%)	<b>40</b>
<b>White</b>	58 (73.42%)	11 (13.92%)	10 (12.66%)	<b>79</b>
<b>Total</b>	<b>164 (63.08%)</b>	<b>74 (28.46%)</b>	<b>22 (8.46%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the **educational background** of the respondents and their attitudes towards the statement: “Rich people should pay tax at a higher rate” ( $p$  value = 0.0190).

Of all the respondents who have a higher educational qualification, 51.11% believe that wealthy people should not pay taxes at a higher rate. On the other hand, respondents who do not have a higher educational qualification are of the view that wealthy people should pay tax at a higher rate and are thus more in favour of progressive tax rates. This is evident, as 71.43% of respondents who have not completed secondary school, and 68.42% of all respondents who completed grade 12/matric are in support of progressive tax rates. Respondents in possession of a higher education are likely to prefer a fixed rate of tax as they would probably have a higher earnings capacity and would, therefore, be taxed at higher rates.

Table 11 reveals a strong relationship between whether or not the respondents **earn additional income** and their attitudes towards the statement: “Rich people should pay tax at a higher rate” ( $p$  value = 0.0048).

Only 55.74% of all the respondents earning a second income are in favour of progressive tax rates compared to 65.33% of all the respondents not earning a second income. Respondents earning a second income are generally taxed at higher rates, which would cause them to prefer a fixed rate of tax.

Table 11 reveals a strong relationship between the frequency with which respondents **visit state-funded medical facilities** and their attitudes towards the statement: “Rich people should pay tax at a higher rate” ( $p$  value = 0.0026).

Of all the respondents who do not visit state-funded medical facilities, 78.65% are in favour of progressive tax rates, compared to 57.20% of all the respondents who visit these facilities between 2 and 5 times per month and 54.20% of all the respondents visiting once a month. Those respondents who are dependent on the government for medical care may understand that the funding for this service is derived from tax revenue and would support progressive tax rates. The actual response is contrary to what might have been expected. Wealthier respondents are less likely to make use of state-funded medical facilities and one would have expected them to oppose progressive tax rates. A possible explanation for these findings could be that these respondents realise the importance and benefit of the government bearing the responsibility for the health of a large segment of the South African population that is unable to afford private medical care.

Table 11 reveals a strong relationship between whether or not the respondents are **registered with SARS as taxpayers** and their attitudes towards the statement: “Rich people should pay tax at a higher rate” ( $p$  value = 0.0422).

Only 58.70% of all the respondents who are registered taxpayers with SARS agree that wealthy people should pay taxes at a higher rate, compared with 68.03% of those respondents not registered with SARS. Respondents not registered as taxpayers with SARS are, therefore, more in favour of progressive tax rates than those respondents who are registered. Respondents registered with SARS are higher income earners and are bearing the burden of paying tax. They would generally not agree with taxing the rich at higher rates.

Table 11 reveals a strong relationship between respondents' **prior dealings with SARS** and their attitudes towards the statement: "Rich people should pay tax at a higher rate" ( $p$  value = 0.0070).

Of all the respondents who have consulted with SARS officials in the past, 54.90% agree that wealthy people should pay taxes at a higher rate compared with 68.35% of those respondents who have not previously consulted with SARS officials. This finding appears to be contradictory as the wealthier taxpaying respondents were found to be less supportive of progressive rates. Respondents who have had prior dealings with SARS would be those who fall within the taxpaying bracket and are unlikely to believe that the rich should be more heavily taxed.

Table 11 reveals a strong relationship between respondents' **views regarding the future of South Africa** and their attitudes towards the statement: "Rich people should pay tax at a higher rate" ( $p$  value = 0.0023).

In Table 34 below, the relationship is analysed in more detail. Although, as indicated in the table, there is a difference in perceptions between the respondents' views regarding the future of South Africa, a high proportion of all respondent groups agree that the wealthy should pay tax at a higher rate. Optimism (or the lack of it) about the future of South Africa may not be linked to the earnings levels of the respondents, which is a possible explanation for this finding.

**Table 34: Responses concerning respondents' views about the future of South Africa and their attitudes towards the statement: "Rich people should pay tax at a higher rate"**

<b>VIEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	72 (67.93%)	33 (31.13%)	1 (0.94%)	<b>106</b>
<b>Neutral</b>	42 (65.63%)	12 (18.75%)	10 (15.62%)	<b>64</b>
<b>Hopeful</b>	50 (55.56%)	29 (32.22%)	11 (12.22%)	<b>90</b>
<b>Total</b>	<b>164 (63.08%)</b>	<b>74 (28.46%)</b>	<b>22 (8.46%)</b>	<b>260</b>

### **5.2.9 Statement 9: “Tax is very complicated – I do not know how to calculate my own tax liability”**

The ninth statement investigated in this study dealing with tax-related issues is: “Tax is very complicated – I do not know how to calculate my own tax liability”. As shown in Table 10, 37.69% of the respondents indicated that tax is very complicated and that they do not know how to calculate their own tax liability. Interestingly, the same percentage of respondents indicated the opposite and 24.62% have no opinion. The manner in which individual demographic, economic or other factors influenced the respondents’ perceptions concerning this statement, is analysed below.

Table 11 reveals a strong relationship between respondents’ **gender** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value = 0.0089).

Of all the female respondents, 43.44% agree with the abovementioned statement, in comparison with 32.61% of the male respondents. A greater number of female respondents believe that tax is very complicated and, consequently, do not know how to calculate their own tax liability. Traditionally, fewer female respondents were employed and males were regarded as the main providers. Thus, it may not have been necessary for females to understand the workings of tax to the same extent as males.

Table 11 reveals a strong relationship between the respondents’ **population group** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

In Table 35 below the relationship is analysed in more detail. It can be seen from this table that there is a difference in perceptions between the various population groups. It is also apparent that a somewhat higher proportion of White respondents, Coloured and Indian respondents are of the opinion that tax is very complicated. By contrast, a somewhat lower proportion of the Black respondents noted this response.

A possible explanation for the slightly higher percentage of White respondents agreeing with the abovementioned statement could be because during the apartheid era, White respondents were the only population group responsible for paying taxes. White respondents are thus more familiar with the complexity of tax legislation.

**Table 35: Responses of population groups regarding the statement: “Tax is very complicated – I do not know how to calculate my own tax liability”**

<b>POPULATION GROUP</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Black</b>	23 (23.00%)	22 (22.00%)	55 (55.00%)	<b>100</b>
<b>Coloured</b>	18 (43.90%)	23 (56.10%)	0 (0.00%)	<b>41</b>
<b>Indian</b>	16 (40.00%)	24 (60.00%)	0 (0.00%)	<b>40</b>
<b>White</b>	41 (51.90%)	29 (36.71%)	9 (11.39%)	<b>79</b>
<b>Total</b>	<b>98 (37.69%)</b>	<b>98 (37.69%)</b>	<b>64 (24.62%)</b>	<b>260</b>

Table 11 reveals a strong relationship between respondents’ **home language** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

Table 36 below analyses the relationship in more detail. This table shows that there is a difference in perceptions between the various language groups. It is, however, apparent that the Afrikaans, English and other language group (that is, Tshivenda and Xitsonga), agree to a greater extent that tax is very complicated, compared to the Sotho and Nguni speakers. If one combines the Black language groups, 54.64% (53 out of 97) of the respondents expressed no opinion on the matter and 22.68% (22 out of 97) in each case agreed and disagreed with the statement. This finding supports the view that English and Afrikaans language speakers are higher-income earners due to previous economic discrimination and are more aware of the complexity of tax.

**Table 36: Responses of language groups regarding the statement: “Tax is very complicated – I do not know how to calculate my own tax liability”**

LANGUAGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Afrikaans</b>	54 (50.00%)	48 (44.44%)	6 (5.56%)	<b>108</b>
<b>English</b>	21 (40.38%)	28 (53.85%)	3 (5.77%)	<b>52</b>
<b>Nguni</b>	3 (14.29%)	8 (38.10%)	10 (47.61%)	<b>21</b>
<b>Sotho</b>	13 (21.31%)	13 (21.31%)	35 (57.38%)	<b>61</b>
<b>Other</b>	6 (40.00%)	1 (6.67%)	8 (53.33%)	<b>15</b>
<b>Total</b>	<b>97 (37.74%)</b>	<b>98 (38.13%)</b>	<b>62 (24.13%)</b>	<b>257</b>

Table 11 reveals a strong relationship between respondents’ **educational background** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

Of all the respondents in possession of a higher educational qualification, 63.33% disagree with the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” and are, therefore, of the opinion that they know how to calculate their own tax liability. By contrast, 25.00% of all respondents who did not complete secondary school and 23.68% of all respondents who completed grade 12/matric disagree with the statement and are of the view that tax is not very complicated and that they know how to calculate their own tax liability. Respondents 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.

Table 11 reflects a strong relationship between respondents’ **employment status** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

Of all the unemployed respondents, 39.60% and of all the salaried respondents, 38.64% are of the opinion that tax is complicated. A somewhat lower percentage, 25.93%, of all the self-employed agree with the abovementioned statement, and thus believe that tax is complicated and that they do not know how to calculate their own tax liability. As unemployed respondents are not exposed to taxes and the workings thereof, and employers calculate and deduct taxes

on behalf of salaried taxpayers, these two groups are less likely to understand how to calculate their tax liability. Self-employed respondents, on the other hand, are responsible for the calculation and payment of their own taxes. It is submitted that when greater involvement is required on the part of the taxpayer, the more the taxpayer is “forced” to learn about tax, and as a result, that taxpayer may conclude that taxation is not overly complicated.

Table 11 reveals a strong relationship between whether or not the respondents **earn additional income** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value = 0.0029).

Of all the respondents earning a second income, 44.26% believe that tax is complicated and that they do not know how to calculate their own tax liability compared to only 35.68% of respondents not earning a second income. Individuals are required to calculate the additional tax payable on their second income themselves. They might find this a somewhat challenging task. However, this finding appears to be in contrast with the above finding relating to the self-employed.

Table 11 reveals a strong relationship between the respondents’ **earnings potential** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

Of all the middle-income earners, 54.74%, and 31.00% of all the lower-income earners, agree that: “Tax is very complicated – I do not know how to calculate my own tax liability”. Of all the higher-income earners, only 23.08% agree with the statement. The higher-income earners would generally be more educated and may find it easier to understand the tax legislation.

Table 11 reflects a strong relationship between the **number of persons living within a household** and the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value = 0.0263).



Table 37 below analyses the relationship in more detail. As indicated in the table, there is a difference in perceptions relating to the number of persons living within a household. Fewer than half of the respondents in all cases agree with the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” and 42.86% of all the respondents with one or two persons living in their households, 38.33% of all the respondents with three people, 38.89% of all the respondents with four people, 35.29% with five and 28.95% of respondents with six or more people living within their household, agree. These findings appear to be contradictory, as one would have expected the responses to largely agree with the responses relating to the earnings potential of the participants.

**Table 37: Responses concerning the number of people living within respondents’ households and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability”**

NUMBER OF PEOPLE LIVING WITHIN A HOUSEHOLD	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
1-2	24 (42.86%)	19 (33.93%)	13 (23.21%)	56
3	23 (38.33%)	21 (35.00%)	16 (26.67%)	60
4	28 (38.89%)	34 (47.22%)	10 (13.89%)	72
5	12 (35.29%)	15 (44.12%)	7 (20.59%)	34
6+	11 (28.95%)	9 (23.68%)	18 (47.37%)	38
<b>Total</b>	<b>98 (37.69%)</b>	<b>98 (37.69%)</b>	<b>64 (24.62%)</b>	<b>260</b>

Table 11 reveals a strong relationship between whether the respondents are **risk-takers or not** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value = 0.0046).

Of all the respondents who consider themselves to be risk-takers, 47.33% disagree with the statement: “Tax is very complicated – I do not know how to calculate my own tax liability”. Of all the respondents who do not consider themselves to be risk-takers, 27.91% disagree with the statement. Respondents, who consider themselves to be more likely to take risks, may not deem it to be important to understand all the specific details associated with tax legislation. On the other hand, respondents who are more risk averse may want to be familiar with all the precise details that surround tax legislation in order to comply with them. Hence,

respondents who are less likely to take risks would regard taxation as being more complicated, in comparison to higher risk-takers.

Table 11 reveals a strong relationship between whether or not the respondents **partake in the Lotto at least four times per month** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value = 0.0340).

This study shows that 40.67% of all the respondents who partake in the Lotto at least four times per month agree that tax is very complicated and that they do not know how to calculate their own tax liability. By contrast, only 33.64% of all the respondents who do not partake in the Lotto at least four times per month, agree with the aforementioned statement. This finding appears to be contrary to the previous conclusion, where risk-takers were thought to be less concerned with understanding the tax legislation. From this contradiction, it would appear that there is no real relationship between risk-taking and the level of understanding of taxation.

Table 11 reveals a strong relationship between whether or not the respondents **are registered with SARS as taxpayers** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

Respondents registered with SARS as taxpayers believe to a greater extent that tax is very complicated and that they do not know how to calculate their own tax liability, in comparison with those not registered. This is evident, as 53.62% of all the respondents registered with SARS disagree with the abovementioned statement, compared to 19.67% of all the respondents not registered. Respondents who are registered with SARS are liable to pay tax. They are regularly confronted with tax-related issues and may, therefore, be more aware of the complexity of tax legislation.

Table 11 reveals a strong relationship between whether or not the respondents had **prior dealings with SARS** and their attitudes towards the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” ( $p$  value < 0.0001).

Respondents, who have consulted with SARS officials in the past, disagree more strongly that tax is very complicated and that they do not know how to calculate their own tax liability, with 61.76% disagreeing with the abovementioned statement. This was in comparison with 22.15% of all the respondents who have not consulted with SARS officials in the past. Prior dealings with SARS may have positively influenced respondents' perceptions concerning the complexity of calculating their own tax liability.

Table 11 reveals a strong relationship between the respondents' **level of support for the current government** and their attitudes towards the statement: "Tax is very complicated – I do not know how to calculate my own tax liability" ( $p$  value = 0.0068).

Table 38 below analyses this relationship in more detail. This table shows differences in perceptions relating to the respondents' level of support for the current government. Of all the respondents who do not support the current government, 52.00% agree with the statement: "Tax is very complicated – I do not know how to calculate my own tax liability". In comparison, 37.00% of respondents who are neutral towards the current government, and 31.82% who support the government, agree with the statement. Those respondents not in favour of the current government might also have stronger opinions about the complexity of tax.

**Table 38: Responses concerning respondents' support for the current government and their attitudes towards the statement: "Tax is very complicated – I do not know how to calculate my own tax liability"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	35 (31.82%)	45 (40.91%)	30 (27.27%)	<b>110</b>
<b>Neutral</b>	37 (37.00%)	32 (32.00%)	31 (31.00%)	<b>100</b>
<b>Not at all</b>	26 (52.00%)	21 (42.00%)	3 (6.00%)	<b>50</b>
<b>Total</b>	<b>98 (37.69%)</b>	<b>98 (37.69%)</b>	<b>64 (24.62%)</b>	<b>260</b>

### **5.2.10 Statement 10: “The amount of tax I have to pay is reasonable considering the benefits received”**

The tenth statement that deals with general tax-related issues is: “The amount of tax I have to pay is reasonable considering the benefits received”. As highlighted in Table 10, only 24.23% of the respondents are of the opinion that the amount of tax that they have to pay is reasonable considering the benefits received, 38.46% of the respondents do not agree with this statement and 37.31% have no opinion in this regard. The manner in which individual demographic, economic or other factors influenced the respondents’ perceptions on this statement, is analysed below.

Table 11 reveals a strong relationship between the respondents’ **age** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value = 0.0018).

In Table 39 below, the relationship is analysed in more detail. Although, as indicated in the table, there are differences in perceptions between the various age groups of the respondents, it appears that in general, the older respondents (over 50 years of age) agree to a greater extent that the amount of tax they have to pay is unreasonable considering the benefits they receive. Older respondents are usually retired and, therefore, dependent on pensions and/or cash savings, which they may believe should not be taxed. On the other hand, younger respondents (below 50 years of age) tend to believe that the amount of tax they pay is reasonable considering the benefits they receive.

In addition to the above, it is noted that respondents in the age group 21-29 are slightly less positive about the aforementioned statement than those that fall within the age group 30-49. Table 39 shows that 36.36% of respondents in the age group 30-39 and 35.00% of respondents in the age group 40-49 disagree with the statement, compared to 28.57% of the respondents in the age group 21-29. Respondents in the age group 21-29 are just beginning their careers and thus have limited earning capacity. This might, in turn, lead to greater concern about the amount they have to forgo in the form of taxation.

**Table 39: Responses of age groups regarding the statement: “The amount of tax I have to pay is reasonable considering the benefits received”**

AGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
21-29	13 (23.21%)	16 (28.57%)	27 (48.22%)	56
30-39	21 (31.82%)	24 (36.36%)	21 (31.82%)	66
40-49	23 (38.33%)	21 (35.00%)	16 (26.67%)	60
50-59	4 (9.76%)	20 (48.78%)	17 (41.46%)	41
60+	2 (5.41%)	19 (51.35%)	16 (43.24%)	37
<b>Total</b>	<b>63 (24.23%)</b>	<b>100 (38.46%)</b>	<b>97 (37.31%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **population group** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value < 0.0001).

In Table 40 below, the relationship is analysed in more detail. The differences in perceptions between the various population groups are shown in this table. It is evident from the table that 50.00% of all Indian respondents and 39.02% of all Coloured respondents, consider the amount of tax paid as being reasonable, compared to the benefits they receive in return. By contrast, only 2.53% of White respondents agree with the abovementioned statement. If one ignores the responses of Black participants who have no opinion on the matter, 25 out of the remaining 33 Black respondents (75.76%) agree that the tax that they pay is reasonable in relation to the benefits they receive. This confirms the view that the Black participants are more supportive of the government, as they possibly benefit more from government social benefits.

In relation to the White respondents, Lieberman (2001:548) argues that given the important political changes in South Africa, including the promulgation of a non-racial constitution, there is good reason to believe that Whites will resist paying tax in future. This supports the findings of the present research.

**Table 40: Responses of population groups regarding the statement: “The amount of tax I have to pay is reasonable considering the benefits received”**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Black</b>	25 (25.00%)	8 (8.00%)	67 (67.00%)	<b>100</b>
<b>Coloured</b>	16 (39.02%)	23 (56.10%)	2 (4.88%)	<b>41</b>
<b>Indian</b>	20 (50.00%)	20 (50.00%)	0 (0.00%)	<b>40</b>
<b>White</b>	2 (2.53%)	49 (62.03%)	28 (35.44%)	<b>79</b>
<b>Total</b>	<b>63 (24.23%)</b>	<b>100 (38.46%)</b>	<b>97 (37.31%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **home language** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value < 0.0001).

Table 41 below analyses the relationship in more detail. Although there are differences in perceptions between the respondents and their various home languages, it is evident that less than 50.00% of all the language groups agree with the abovementioned statement. In Table 41 it is indicated that the Nguni (42.86%) and the English speakers (38.46%) agree more strongly with the abovementioned statement than the Sotho (21.31%), other language groups (20.00%) and Afrikaans speakers (16.67%). These findings appear to be inconclusive and may indicate that any relationship between language and opinions about the benefits received in relation to tax paid, is purely coincidental.

**Table 41: Responses of language groups regarding the statement: “The amount of tax I have to pay is reasonable considering the benefits received”**

LANGUAGE GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Afrikaans</b>	18 (16.67%)	65 (60.19%)	25 (23.14%)	<b>108</b>
<b>English</b>	20 (38.46%)	27 (51.92%)	5 (9.62%)	<b>52</b>
<b>Nguni</b>	9 (42.86%)	1 (4.76%)	11 (52.38%)	<b>21</b>
<b>Sotho</b>	13 (21.31%)	7 (11.48%)	41 (67.21%)	<b>61</b>
<b>Other</b>	3 (20.00%)	0 (0.00%)	12 (80.00%)	<b>15</b>
<b>Total</b>	<b>63 (24.51%)</b>	<b>100 (38.91%)</b>	<b>94 (36.58%)</b>	<b>257</b>

Table 11 reveals a strong relationship between the respondents' **educational background** and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received" ( $p$  value < 0.0001).

Of all the respondents in possession of a higher education qualification, 38.89% agree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received", in comparison with 21.05% of all the respondents with a grade 12/matric qualification and 7.14% of all the respondents who did not complete secondary school. Therefore, respondents in possession of a higher educational qualification are more positive regarding the amount of tax they pay, in comparison to the benefits they receive in return. The more educated respondents may better understand the need to contribute towards government spending than the less educated respondents.

Table 11 reveals a strong relationship between the respondents' **employment status** and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received" ( $p$  value < 0.0001).

Salaried respondents agree more strongly with the statement, in comparison with the self-employed and unemployed respondents. Of all the salaried respondents, 42.42% agree with the statement compared to only 7.41% of all the self-employed and only 4.95% of the unemployed. The salaried respondents may possibly experience the impact of tax, which is deducted by the employer, to a lesser extent than those who are self-employed, and thus directly involved in calculating their own tax liability.

Table 11 reveals a strong relationship between whether or not the respondents **earn additional income** and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received" ( $p$  value = 0.0012).

Of all the respondents earning a second income, 27.87% agree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received", compared to

only 23.12% of all the respondents not earning a second income. This finding appears to contradict the earlier analysis of perceptions of regarding the imposition of a fixed tax rate.

Table 11 reveals a strong relationship between the respondents' **earnings potential** and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received" ( $p$  value < 0.0001).

The results are surprising, as only 7.00% of all the respondents earning below the tax threshold are of the opinion that the amount of tax they have to pay is reasonable, considering the benefits they receive. Results show further that 33.85% of all the respondents earning more than R10 000 per month before deductions, and 35.79% of all the respondents earning between R2 918 and R10 000 per month before deductions, agree with the abovementioned statement. A possible explanation for the finding could be that the higher-income earners would also be the more educated respondents, who would conceivably have a greater understanding of the need to contribute income to the government to provide for social and other benefits.

Table 11 reveals a strong relationship between the **frequency of visits to state-funded medical facilities** by the respondents and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received" ( $p$  value = 0.0003).

Of all the respondents visiting state-funded medical facilities once a month, 35.11% agree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received", compared to 25.00% of all the respondents visiting state-funded medical facilities between 2 and 5 times per month and only 7.87% of all the respondents not visiting these facilities. Respondents who do not visit state-funded medical facilities are generally those respondents who can afford private medical treatment and are, therefore, less dependent on the government for medical treatment. Consequently, these respondents may believe that they do not receive sufficient benefits for the amount of tax they pay.



Table 11 reveals a strong relationship between the **risk profile** of the respondents and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value = 0.0218).

Respondents who consider themselves to be risk-takers appear to be less satisfied that the amount of tax they have to pay is reasonable considering the benefits they receive. Only 18.32% of all the respondents who consider themselves to be risk-takers, agree with the statement, compared with 30.23% of all the respondents who do not consider themselves to be risk-takers. This finding possibly reveals that no real relationship exists between risk-taking and the belief that the benefits derived from the tax that respondents pay is reasonable.

Table 11 reveals a strong relationship between whether or not respondents **partake in the Lotto at least four times per month** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value = 0.0062).

Of all the respondents partaking in the Lotto at least four times per month, 30.00% agree that the amount of income tax they have to pay is reasonable considering the benefits they receive. By contrast, only 16.36% of all respondents not partaking in the Lotto at least four times per month, agree with the statement. As was the case with the previous finding, the link between risk-taking and perceptions of the fairness of taxation appears to be weak.

Table 11 reveals a strong relationship between whether or not respondents **think that the Lotto is good because proceeds are used for charitable purposes** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value = 0.0036).

Of all those respondents who think that the Lotto is good because a portion of the money is allocated for charitable purposes, 28.22% are of the opinion that the amount of tax paid is reasonable considering the benefits they receive in return. By contrast, only 10.34% of all respondents who do not agree that the Lotto is good because a portion of the money is allocated for charitable purposes, believe that the benefits they receive are reasonable. There

might be a link between the allocation of proceeds derived from the Lotto and the allocation of tax revenue.

Table 11 reveals a strong relationship between whether or not the respondents are **registered with SARS as taxpayers** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value < 0.0001).

Respondents registered as taxpayers with SARS agree more strongly with the statement: “The amount of tax I have to pay is reasonable considering the benefits received”, compared to respondents not registered as taxpayers with SARS. Of all the respondents registered as taxpayers with SARS, 39.13% agree with the abovementioned statement, compared to 7.38% of respondents not registered as taxpayers with SARS. Respondents registered as taxpayers with SARS, fall within a higher income bracket and may be more educated than those respondents who are not registered. The more educated respondents would better comprehend the need to pay tax, in order to provide social benefits for South African citizens.

Table 11 reveals a strong relationship between respondents’ **prior dealings with SARS** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value < 0.0001).

Respondents, who consulted with SARS officials in the past, agree more strongly with the statement. This is evident, as 43.14% of all the respondents who consulted with SARS officials in the past, agree with the statement, compared to only 12.03% of all the respondents who have not consulted with SARS officials in the past. It appears that prior dealings with SARS may positively influence respondents’ perceptions concerning the benefits provided in return for taxes paid.

Table 11 reveals a strong relationship between the respondents’ **level of support for the current government** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value < 0.0001).

In Table 42 below, the relationship is analysed in more detail. The differences in perceptions between the respondents' level of support for the current government is evident from this table. It can be seen that less than half of all the respondent groups in this case agree with the abovementioned statement.

Table 42 shows that 60.00% of respondents who do not support the current government, are of the opinion that the amount of tax they have to pay is unreasonable, considering the benefits they receive. A lower percentage (40.00%) of respondents who are neutral and 27.27% of respondents who support the current government, are of the opinion that the amount of tax they have to pay is unreasonable considering the benefits they receive. If the responses of those who have no opinion concerning the abovementioned statement are ignored, 57.75% (41 out of 71) of those who support the government, believe that the tax they pay is reasonable, compared with 33.33% (15 out of 45) of those who do not support the government. This finding is what would be expected.

**Table 42: Responses concerning respondents' support for the current government and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	41 (37.28%)	30 (27.27%)	39 (35.45%)	<b>110</b>
<b>Neutral</b>	7 (7.00%)	40 (40.00%)	53 (53.00%)	<b>100</b>
<b>Not at all</b>	15 (30.00%)	30 (60.00%)	5 (10.00%)	<b>50</b>
<b>Total</b>	<b>63 (24.23%)</b>	<b>100 (38.46%)</b>	<b>97 (37.31%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views regarding the future of South Africa** and their attitudes towards the statement: "The amount of tax I have to pay is reasonable considering the benefits received" ( $p$  value < 0.0001).

This relationship is further analysed in Table 43 below. The differences in perceptions between the respondents' views regarding the future of South Africa can be seen from this table. It is evident that none of the respondent groups agree to the extent of more than

50.00% that the amount of tax they have to pay is reasonable, considering the benefits received. However, respondents who are concerned about the future of South Africa (51.89%), disagree more strongly that the amount of tax they have to pay is reasonable considering the benefits they receive, in comparison with those respondents who are neutral (31.25%) and those who are hopeful (27.78%) about South Africa’s future. As may be anticipated, respondents who are concerned about the future of South Africa do not believe to a great extent that they receive sufficient benefits in relation to the taxes they are paying.

**Table 43: Responses concerning respondents’ views about the future of South Africa and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received”**

<b>IEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	25 (23.58%)	55 (51.89%)	26 (24.53%)	<b>106</b>
<b>Neutral</b>	2 (3.12%)	20 (31.25%)	42 (65.63%)	<b>64</b>
<b>Hopeful</b>	36 (40.00%)	25 (27.78%)	29 (32.22%)	<b>90</b>
<b>Total</b>	<b>63 (24.23%)</b>	<b>100 (38.46%)</b>	<b>97 (37.31%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents’ **views on income distribution** and their attitudes towards the statement: “The amount of tax I have to pay is reasonable considering the benefits received” ( $p$  value = 0.0322).

Of all the respondents who are of the opinion that all income earned should accrue to the government, which should distribute it equally among all South Africans, 27.27% agree with the statement: “The amount of tax I have to pay is reasonable considering the benefits received”. By contrast, a lower percentage (that is, 14.52%) of respondents who are of the opinion that everyone should keep the income they earn, agree with the abovementioned statement. Those respondents who trust government with the distribution of tax revenue are more likely to be more positive about the current level of benefits received from the government.

### **5.2.11 Statement 11: “The government does not provide enough information about how they use taxpayers’ money”**

The final statement investigated in this study that deals with general tax-related issues is: “The government does not provide enough information about how they use taxpayers’ money”. As is evident from Table 10, just over half (that is, 51.92%) of the respondents are of the opinion that the government does not provide enough information about how they use taxpayers’ money. The manner in which individual demographic, economic or other factors influenced the respondents’ perceptions regarding this statement, is analysed below.

Table 11 reveals a strong relationship between the respondents’ **gender** and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value = 0.0499).

Of all the female respondents, 58.20% agree with the statement: “The government does not provide enough information about how they use taxpayers’ money”. By contrast, only 46.38% of all the male respondents agree with the statement.

Regarding this issue, Wallen, Waitzkin and Stoeckle (in Paludi & Steuernagel, 1990:232) found that female respondents ask significantly more questions than male respondents. In this previous research, females were the recipients of a greater total number of informative statements or explanations. This may support the findings of the present study.

Table 11 reveals a strong relationship between the **population group** to which the respondents belong and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value < 0.0001).

In Table 44 below, the relationship is analysed in more detail. The table shows the differences in perceptions between the various population groups. It is also apparent that the Coloured population group agrees, to a greater extent, that the government does not provide enough information about how they use taxpayers’ money. Of all the Coloured respondents, 80.49%

agree with the abovementioned statement, in comparison with 52.50% of all the Indian respondents, 45.57% of all the White respondents and 45.00% of all the Black respondents. It is interesting to note that the Coloured respondents believe most strongly that they need more information about how the government uses taxpayers' money.

If the responses of participants who expressed no opinion on the abovementioned statement are ignored, 100.00% (36 out of 36) of White participants, 82.50% (33 out of 40) of Coloured participants, 55.56% (45 out of 81) of Black participants, and 52.50% (21 out of 40) of Indian participants, believe that the government does not provide enough information. The marked reaction of all the population groups to the need for greater transparency regarding the utilisation of tax revenue is a significant finding which should be taken note of by government.

**Table 44: Responses of population groups regarding the statement: “The government does not provide enough information about how they use taxpayers’ money”**

POPULATION GROUP	Agree with Statement (frequency and row percentage)	Disagree with Statement (frequency and row percentage)	No Opinion (frequency and row percentage)	TOTAL
<b>Black</b>	45 (45.00%)	36 (36.00%)	19 (19.00%)	<b>100</b>
<b>Coloured</b>	33 (80.49%)	7 (17.07%)	1 (2.44%)	<b>41</b>
<b>Indian</b>	21 (52.50%)	19 (47.50%)	0 (0.00%)	<b>40</b>
<b>White</b>	36 (45.57%)	0 (0.00%)	43 (54.43%)	<b>79</b>
<b>Total</b>	<b>135 (51.92%)</b>	<b>62 (23.85%)</b>	<b>63 (24.23%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the **home language** of the respondents and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value < 0.0001).

Table 45 below analyses the relationship in greater detail. The differences in perceptions between the different language groups are apparent from this table. More specifically, this table shows that the Sotho (62.30%), Afrikaans (57.41%) and English (53.85%) speakers agree to a somewhat greater extent that the government does not provide enough information about how they use taxpayers’ money, compared with the Nguni (19.05%) and other

language (13.33%) speakers. The two latter groups only represent a small proportion of the sample, however.

If the responses of participants who expressed no opinion on the abovementioned statement are ignored, and if the Black language speakers are grouped together, 89.86% (62 out of 69) of Afrikaans speakers, 59.57% (28 out of 47) of English speakers, 56.41% (44 out of 78) of Black language speakers, as well as 69.07% (134 out of 194) of all the language groups, expressed the need for more information. The phenomenon is of relevance to the government.

**Table 45: Responses of language groups regarding the statement: “The government does not provide enough information about how they use taxpayers’ money”**

<b>LANGUAGE GROUP</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Afrikaans</b>	62 (57.41%)	7 (6.48%)	39 (36.11%)	<b>108</b>
<b>English</b>	28 (53.85%)	19 (36.54%)	5 (9.61%)	<b>52</b>
<b>Nguni</b>	4 (19.05%)	14 (66.67%)	3 (14.28%)	<b>21</b>
<b>Sotho</b>	38 (62.30%)	16 (26.23%)	7 (11.47%)	<b>61</b>
<b>Other</b>	2 (13.33%)	4 (26.67%)	9 (60.00%)	<b>15</b>
<b>Total</b>	<b>134 (52.14%)</b>	<b>60 (23.35%)</b>	<b>63 (24.51%)</b>	<b>257</b>

Table 11 reveals a strong relationship between the **employment status** of the respondents and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value = 0.0235).

Of all the self-employed respondents, 70.37%, and of all the unemployed respondents, 58.42%, believe that the government does not provide enough information about how they use taxpayers’ money. By contrast, a somewhat lower percentage of all salaried respondents, 43.18%, agree with the aforementioned. Respondents responsible for paying tax by means of provisional tax payments may be more critical of the lack of information about the use of taxpayer revenue than respondents who have their tax deducted by their employers.

Table 11 reveals a strong relationship between the **frequency of visits to state-funded medical facilities** by the respondents and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value < 0.0001).

Of all the respondents visiting state-funded medical facilities between 2 and 5 times per month, 65.00% agree that the government does not provide enough information about how they use taxpayers’ money. Of all the respondents visiting these facilities once a month, 50.38% agree with the statement. In addition, 48.31% of the respondents not visiting these facilities at all, agree with the aforementioned. Those respondents dependent on the government for medical care, may have a lower level of education and may be less informed about tax matters.

Table 11 reveals a strong relationship between whether or not the respondents **partake in the Lotto at least four times per month** and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value = 0.0028).

Of all the respondents who partake in the Lotto at least four times per month, 55.33% agree that the government does not provide enough information about how they use taxpayers’ money. By contrast, a slightly lower percentage, 47.27%, of all respondents who do not partake in the Lotto at least four times per month, agree with the statement. Any relationship between participating in the Lotto and a perception of insufficient information is likely to be coincidental.

Table 11 reveals a strong relationship between whether or not respondents **think the Lotto is good as proceeds are used for charitable purposes** and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money” ( $p$  value < 0.0001).



Of all the respondents who think that the Lotto is good because a portion of the money is allocated for charitable purposes, 55.94% agree that the government does not provide enough information about how they use taxpayers' money. By contrast, a somewhat lower percentage, 37.93%, of those respondents who do not agree that the Lotto is good because a portion of the money is allocated for charitable purposes, believe that the government does not provide enough information about how they use taxpayers' money.

It is unlikely that gambling by means of the Lotto and approving of the use of Lotto funds, has any relationship with the lack of information about the use of tax revenue. The findings simply suggest that there is a general public perception that too little information is provided about the use of tax revenue by the present government.

Table 11 reveals a strong relationship between whether or not respondents have had **prior dealings with SARS** and their attitudes towards the statement: "The government does not provide enough information about how they use taxpayers' money" ( $p$  value = 0.0003).

Respondents that have not consulted with SARS officials in the past, agree more strongly that the government does not provide enough information about how they use taxpayers' money. Of all the respondents that have not consulted with SARS officials in the past, 60.13% agree with this statement compared to 39.22% of all the respondents who have not consulted with SARS officials in the past. Prior dealings with SARS may have influenced respondents' perceptions positively with regard to the communication by government of its spending priorities.

Table 11 reveals a strong relationship between the respondents' **level of support for the current government** and their attitudes towards the statement: "The government does not provide enough information about how they use taxpayers' money" ( $p$  value < 0.0001).

In Table 46 below, the relationship is analysed in more detail. The differences in perceptions concerning the respondents' level of support are shown in this table. The results show that respondents, who do not support the government, agree to a somewhat greater extent that

the current government does not provide enough information about how they use taxpayers' money.

Of the respondents who do not support the current government, 78.00% agree that the government does not provide enough information about how they use taxpayers' money, in comparison with only 47.00% of all the respondents who are neutral and 44.55% of all the respondents who support the current government. If the responses of participants who express no opinion on the abovementioned statement are ignored, 50.00% (49 out of 98) of those who support the government and 88.64% (39 out of 44) of those who do not support the government, believe that the government does not provide enough information about how they use taxpayers' money. A lack of support for the government is also likely to influence perceptions about a general lack of information and transparency by government regarding the utilisation of taxpayers' money.

**Table 46: Responses concerning respondents' support for the current government and their attitudes towards the statement: "The government does not provide enough information about how they use taxpayers' money"**

<b>SUPPORT FOR CURRENT GOVERNMENT</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Support</b>	49 (44.55%)	49 (44.55%)	12 (10.90%)	<b>110</b>
<b>Neutral</b>	47 (47.00%)	8 (8.00%)	45 (45.00%)	<b>100</b>
<b>Not at all</b>	39 (78.00%)	5 (10.00%)	6 (12.00%)	<b>50</b>
<b>Total</b>	<b>135 (51.92%)</b>	<b>62 (23.85%)</b>	<b>63 (24.23%)</b>	<b>260</b>

Table 11 reveals a strong relationship between the respondents' **views towards the future of South Africa** and their attitudes towards the statement: "The government does not provide enough information about how they use taxpayers' money" ( $p$  value < 0.0001).

In Table 47 below, the relationship is analysed in more detail. Of all the respondents who are concerned about the future of South Africa, 68.87% agree that the government does not provide enough information about how they use taxpayers' money. Of all those respondents who are hopeful about the future of South Africa, 44.44% agree with the statement. Of all the

respondents who are neutral about the future of South Africa, 34.38% agree with the statement. Ignoring the responses of participants who expressed no opinion on the abovementioned statement, 79.35% (73 out of 92) of those who are concerned and 52.63% (40 out of 76) of those who are hopeful, believe that they are provided with too little information about the use of tax revenue. Again, this finding is to be expected, as those respondents concerned about the future of South Africa are likely to be those who do not support the government and perceive that there is a lack of information and transparency. It is significant, however, that the majority of all respondents expressed the desire for more information.

**Table 47: Responses concerning respondents’ views about the future of South Africa and their attitudes towards the statement: “The government does not provide enough information about how they use taxpayers’ money”**

<b>VIEWS ABOUT THE FUTURE OF SOUTH AFRICA</b>	<b>Agree with Statement (frequency and row percentage)</b>	<b>Disagree with Statement (frequency and row percentage)</b>	<b>No Opinion (frequency and row percentage)</b>	<b>TOTAL</b>
<b>Concerned</b>	73 (68.87%)	19 (17.92%)	14 (13.21%)	<b>106</b>
<b>Neutral</b>	22 (34.38%)	7 (10.94%)	35 (54.68%)	<b>64</b>
<b>Hopeful</b>	40 (44.44%)	36 (40.00%)	14 (15.56%)	<b>90</b>
<b>Total</b>	<b>135 (51.92%)</b>	<b>62 (23.85%)</b>	<b>63 (24.23%)</b>	<b>260</b>

### 5.3 PERCEPTIONS OF TAX EVASION

In addition to general tax-related statements, respondents were also requested to agree, disagree or indicate if they have no opinion concerning a number of statements that relate to tax evasion. The statements, as well as different responses from the respondents, are presented in Table 48.

**Table 48: Percentage of respondents who agree, disagree or have no opinion regarding statements relating to tax evasion**

Statements relating to tax evasion	Percentage of respondents who agreed with statement	Percentage of respondents who disagreed with statement	Percentage of respondents who had no opinion regarding the statement
1. The fiscal authorities (SARS) would notice if I decided to evade tax	61.15%	16.15%	22.70%
2. Government receives enough tax so it does not matter if some people evade tax	19.62%	64.23%	16.15%
3. 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%
4. Since so many other people are evading tax, I cannot be blamed for evading tax	12.31%	68.46%	19.23%
5. I work hard for the income I receive so I should be allowed to keep it all for myself	24.23%	60.77%	15.00%
6. People evade tax because the risk that the authorities will find out is low	45.38%	30.38%	24.24%
7. Wealthy people evade tax more often than poor people	63.85%	16.92%	19.23%

Certain responses revealed in [Table 48](#) appear to support earlier research, notably responses concerning the seventh statement. Responses regarding the third and sixth statement also support earlier research, but to a lesser extent than responses concerning the seventh statement. Responses regarding the first and sixth statement would be expected to be rather similar, as both relate to the risk of discovery. The responses to these statements, however, appear to be contradictory. The other responses (that is, responses regarding the second, fourth and fifth statement) appear to differ from what previous research indicated would have been the case.

The Cronbach alpha as calculated for this question (question 20) was 0.72 (v34 needed to be reversed). This provided an acceptable level of reliability and the variables have been grouped together using the mean average score for the individual statements in the question for further discussion purposes. In order to express a more meaningful mean score, “1” was

allocated when the respondent agreed with a specific statement, “2” if the respondent expressed no opinion and “3” when the respondent disagreed.

The General Linear Model procedure (GLM procedure) indicated that the individual demographic, economic or other factors are associated with the respondents’ attitudes towards tax evasion with a high level of statistical significance ( $p$  value  $< 0.01$ ). The results of the GLM procedure indicated a  $p$  value  $< 0.0001$ .

### **5.3.1 Individual demographic, economic or other factors influencing respondents’ attitudes towards tax evasion**

The relationship between the individual demographic, economic or other factors and the manner in which they influence the respondents’ attitudes towards tax evasion and tax compliance, is presented in Table 49. This section discusses the relationship between the individual demographic, economic or other factors and the manner in which they influenced the respondents attitudes towards tax evasion (section 5.4.1 discusses the aforementioned relationship regarding tax compliance). Where previous research was performed regarding these factors, this is also highlighted and compared with the findings of the present study.

**Table 49: Relationship between respondents’ demographic, economic or other factors and their attitudes towards tax evasion and tax compliance**

	Tax evasion	Tax compliance
<b>Demographic factors</b>		
Age	$p = 0.0085$	$p = 0.0122$
Gender		
Population group	$p < 0.0001$	$p = 0.0002$
Home language		
Educational background	$p = 0.0052$	
Employment status		
Earning additional income		
Earnings potential		
<b>Economic circumstances</b>		
Type of dwelling		
Visits to state-funded medical facilities		

Number of persons living in household		
<b>Risk profile</b>		
Risk-taker or not		$p = 0.0012$
Gambling habits		
Partake in Lotto		
Lotto is good - proceeds used for charity		$p = 0.0379$
Registered as taxpayer with SARS		
Prior dealings with SARS		$p = 0.0160$
<b>Political/Fiscal attitudes</b>		
Supports current government		
Views about the future of South Africa		
Views relating to income distribution	$p = 0.0018$	$p = 0.0356$

**Age:** According to Webley *et al.* (1991:68-77), young people are more likely to be associated with tax evasion behaviour.

From Table 49, it appears that there is a strong relationship between the age of the respondents and the respondents' attitude towards tax evasion ( $p$  value = 0.0085).

Furthermore, it was found that persons in the age group 60 and above disagree to a greater extent that tax evasion is acceptable (that is, this group will tend to evade less).

[This was substantiated with the Tukey's Studentized Range (HSD) and mean score.]

**Gender:** Friedland *et al.* (1978:113) found that females evaded tax more readily than men. By contrast, three of the four studies conducted by Webley *et al.* (1991:110) revealed that men evaded tax more often than women.

The present study, however, showed no differences in perceptions between males and females with regard to tax evasion (see Table 49).

**Population group:** The results of the present study (see Table 49) shows a strong relationship between the population group to which a respondent belongs and their attitudes towards tax evasion ( $p$  value < 0.0001).

In this regard, respondents belonging to the White population group disagree less with statements relating to tax evasion (that is, more respondents from the White population group are of the opinion that it is not wrong to evade tax).

Regarding this issue, Smith (2003:6) suggests that in South Africa a possibility might exist that those citizens in the racial minority may feel alienated from democratic government. Lieberman (2001:548) argues that given the important political changes in South Africa, including the promulgation of a non-racial constitution, there is good reason to believe that Whites will resist paying tax in future.

In light of these arguments and the above findings, the present study suggests that the White population group is less positive towards paying tax and may experience a sense of alienation from the government, as they have a smaller voting power than the Black population group. Therefore, they may be less supportive towards government and paying tax.

[The above was substantiated with the Scheffe's test and mean score.]

**Educational background:** Groenland and Van Veldhoven (1983, in Webley *et al.*, 1991:59) found that people with a higher level of education evaded tax more than those with a lower level of education. Vogel (1974:501) confirms this by stating that the tax system in Sweden creates unequal tax minimisation opportunities, since education is a necessary precondition to the successful practice of either tax minimisation or evasion. Another study performed by Fallan (1999:173-184) indicates that increased tax knowledge has meant that people consider their own tax evasion more seriously. Finally, a study by Almond and Verba (1963:379-387), investigating political attitudes and democracy in five nations, also found that education is an important factor in determining a citizen's orientation towards government, authority and the individual's beliefs, feelings and evaluations of the political and governmental system as a whole.

Table 49, also reveals a strong relationship between the respondents' educational background and their attitudes towards tax evasion ( $p$  value = 0.0052).

Respondents in possession of a higher educational qualification, disagree the most strongly that tax evasion is justifiable (that is, may tend to evade less). Respondents that have not completed school, agree to the greatest extent that tax evasion is justifiable (that is, may tend to evade tax more). The mean score for respondents who have completed grade 12/matric, fell between the respondents in possession of a higher education and respondents who have not completed school. The more educated respondents may tend to evade tax to a lesser degree as a consequence of their knowledge about the penalties related to tax evasion.

[This was substantiated with the mean score but not with the Tukey's Studentized Range (HSD) or Scheffe's test.]

**Employment status:** Webley *et al.* (1991:68-77) found that people who are employed are most likely to be associated with tax evasion behaviour. In an experiment conducted by Webley *et al.* (1991:102), strong support was provided for the proposition that greater opportunity leads to greater tax evasion.

The present study, however, showed no difference in perceptions between the respondents with differing employment statuses regarding tax evasion (see [Table 49](#)).

**Risk profile:** Dean *et al.* (1980:42) found that the desire to “beat the system” is a possible reason for tax evasion.

However, the present study revealed no difference in perceptions between respondents with different risk profiles concerning tax evasion.

**Level of support for current government:** In Lewis's (1982:172) model of tax evasion, in relation to individuals, fiscal attitudes and perceptions (which include the individual's support for government policies) affect a taxpayer's decision whether or not to evade paying tax.



The findings of the present study, however, reveal no difference in perceptions between the respondents with differing levels of support for the current government regarding tax evasion (see [Table 49](#)).

**Views on the future of South Africa:** According to Lewis's (1982:172) model of tax evasion, some taxpayers may have a better understanding of the working of fiscal policy than others, and, by contrast, tax authorities who are perceived as rigorous invaders of personal liberty may, in turn, engender more antipathetic tax attitudes. This is also influenced by the characteristics of taxpayers in terms of their individual, group and demographic differences. Surveys have identified a host of these variables, which include income and anticipated future economic well-being.

Nevertheless, as can be seen from [Table 49](#), there appears to be no difference in perceptions between the respondents with differing levels of support for the current government and tax evasion.

**Views on income distribution:** Lewis's (1982:172) model of tax evasion, as far as the authorities are concerned, shows that one of the factors that is regarded as important, is the government's fiscal policy. In addition, according to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors, such as the tax system.

The findings of the present study also reveal ([see Table 49](#)) a strong relationship between the respondents' views on income distribution and their attitudes towards tax evasion ( $p$  value = 0.0018).

It appears that respondents who are of the opinion that everyone should be entitled to keep the income they earn, disagree less strongly with statements relating to tax evasion (that is, will tend to evade more), compared to those who believe that all income earned should accrue to the government, which should distribute this equally among all South Africans.

Those respondents who are in support of a government with socialistic policies, are more positive towards tax and will, therefore, tend to evade less.

[The mean score substantiated this – no additional statistical tests were necessary as only two variables were present in this analysis.]

**Prior dealings with SARS:** From Table 49, it can be seen that there is no difference in perceptions of the respondents who did or did not have prior dealings with SARS and tax evasion.

Nevertheless, it is still important to highlight the findings resulting from the means procedure. Respondents who have consulted with SARS officials previously were also requested to indicate whether they found these officials to be efficient, believe that they were treated with respect, and found their knowledge of tax-related issues to be of a high standard.

The findings reveal that:

- Respondents who found SARS officials to be efficient, disagreed to a greater extent with statements relating to tax evasion (that is, will tend to evade tax less) when compared to those respondents who did not find SARS officials to be efficient. SARS officials may, therefore, have an important role to play in influencing taxpayers to be more positive towards paying tax.
- Contradictory to what may have been expected, it appears from this study that respondents who believe that SARS officials treated them with respect, disagree to a lesser extent with statements relating to tax evasion (that is, will tend to evade tax more), compared to those respondents who are of the opinion that SARS officials did not treat them with respect.
- Respondents who are of the opinion that SARS officials are knowledgeable, disagree to a greater extent with tax evasion statements (that is, will tend to evade tax less), when compared to respondents who indicated the opposite. Again, this study indicates that SARS officials have an important role to play in influencing taxpayers to be more positive towards paying tax.

### **5.3.2 Relationship between respondents' perceptions regarding a specific tax-related statement and tax evasion**

The respondents' perceptions regarding a specific individual statement relating to taxation (question 18) are compared with their attitudes towards tax evasion (question 20) in this section.

In the original questionnaire (see [Appendix B](#)), the value of "1" was allocated if the respondent agreed, "2" if the respondent disagreed, and "3" if the respondent had no opinion concerning a specific statement. For statistical purposes, the order was changed to provide a more meaningful analysis. A new variable "r" was used where a value of "1" was allocated if the respondent agreed, "2" if the respondent had no opinion, and "3" if the respondent did not agree with a specific statement.

[Table 50](#) analyses the relationship between the respondents' views concerning a specific tax-related issue and their attitudes towards tax evasion and tax compliance. This section discusses the relationship between the respondents' views concerning a specific tax-related issue and their attitudes towards tax evasion (section 5.4.2 discusses the aforementioned relationship regarding tax compliance). Where previous research was performed regarding these factors, this is also highlighted and compared with the findings of the present study.

**Table 50: Relationship between respondents' views on specific tax-related statements and their attitudes towards tax evasion and tax compliance**

<b>General tax-related statements</b>	<b>Tax evasion</b>	<b>Tax compliance</b>
A large proportion of taxes is used by the government for meaningless purposes	$p = 0.0267$	$p = 0.0309$
It is unfair to pay tax		$p = 0.0006$
Income tax rates must be reduced		$p = 0.0241$
The VAT rate must be reduced		$p = 0.0081$
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)	$p = 0.0487$	$p < 0.0001$
I do not know why I have to pay tax	$p < 0.0001$	
Waste and corruption in government is high		

Rich people should pay tax at a higher rate		$p < 0.0001$
Tax is very complicated - I do not know how to calculate my own tax liability	$p = 0.0003$	$p < 0.0001$
The amount of tax I have to pay is reasonable considering the benefits received	$p < 0.0001$	$p < 0.0001$
The government does not provide enough information about how they use taxpayers' money	$p = 0.0058$	$p = 0.0041$

**Statement 1: “A large proportion of taxes is used by the government for meaningless purposes”**

A study by Dean *et al.* (1980:42) concludes that a possible reason for tax evasion is perceived government wastage of tax revenue.

Table 50 reveals a strong relationship between the respondents' views on the statement: “A large proportion of taxes is used by the government for meaningless purposes” and their attitudes towards tax evasion ( $p$  value = 0.0267).

In Table 51 below, the relationship is analysed in more detail. Although there is a difference in perceptions between the respondents' views relating to tax evasion, the majority of all respondents (58.46%) agreed with the statement: “A large proportion of taxes is used by the government for meaningless purposes”. It appears, however, that the majority of respondents (78.26%) who agree with the statements relating to tax evasion (that is, those who will tend to evade more), also agree that a large proportion of taxes is used by the government for meaningless purposes. If the responses of those who expressed no opinion on the abovementioned statement are ignored, 90.00% (18 out of 20) of those who agree with statements relating to tax evasion (that is, those who will tend to evade more), agree with the statement: “A large proportion of taxes is used by the government for meaningless purposes”. To encourage taxpayers to be more positive towards paying their taxes, government should take note of the need to address corruption and investigate the possible misuse of tax revenue.

**Table 51: Relationship between respondents’ perceptions regarding the statement: “A large proportion of taxes is used by the government for meaningless purposes” and their attitudes towards tax evasion**

Response regarding the statement: “A large proportion of taxes is used by the government for meaningless purposes”	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Agree</b>	18 (78.26%)	82 (59.85%)	52 (52.00%)	<b>152 (58.46%)</b>
<b>No opinion</b>	3 (13.04%)	14 (10.22%)	6 (6.00%)	<b>23 (8.85%)</b>
<b>Disagree</b>	2 (8.70%)	41 (29.93%)	42 (42.00%)	<b>85 (32.69%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

**Statement 2: “It is unfair to pay tax”**

A study by Webley *et al.* (1991:68-77) revealed that people use the unfairness of the tax system as a justification for evasion.

However, responses reflected in Table 50 indicate that there is no relationship between the respondents’ views concerning the unfairness of the tax system and their attitudes towards tax evasion. This finding is not what might have been expected.

**Statement 3: “Income tax rates must be reduced”**

A study conducted in North Carolina by Song and Yarbrough (1978:450), which requested respondents to compare and rank each of the five commonly discussed shortcomings of income tax, showed that the chief shortcoming listed by the respondents, was that the tax rate is too high. In addition, a South African study by Oberholzer (2005:249-275), revealed that a substantial proportion of the respondents indicated that they would support the introduction of lower tax rates.

However, from Table 50, it appears that there is no relationship between the respondents' views on the statement: "Income tax rates must be reduced" and their attitudes towards tax evasion. Once again, this is an unexpected finding.

**Statement 4: "The VAT rate must be reduced"**

A substantial proportion of South African respondents indicated that they would support the introduction of lower tax rates (Oberholzer, 2005:249-275).

Nevertheless, it appears from this study (see Table 50) that there is no relationship between the respondents' views on the statement: "The VAT rate must be reduced" and their attitudes towards tax evasion. This, too, is an unexpected result.

**Statement 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)"**

Table 50 reveals a strong relationship between the respondents' views on the statement: "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)" and their attitudes towards tax evasion ( $p$  value = 0.0487).

In Table 52 below, the relationship is analysed in greater detail. As indicated in the table, there is a difference in perceptions between the respondents' views relating to tax evasion and income tax rates. A high percentage (56.52%) of respondents who agree with the statements relating to tax evasion (i.e. those who will tend to evade more), disagree with the statement: "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)". If the responses of those who expressed no opinion on the abovementioned statement, are ignored, 59.10% (13 out of 22) of those who agree with statements relating to tax evasion (that is, those who will tend to evade more), disagree with the statement: "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)". Respondents, who would be more likely to evade tax, possibly prefer progressive tax rates. By engaging in actions to reduce their taxable income, they would realise a higher marginal saving in tax.

**Table 52: Relationship between respondents' perceptions regarding the statement: "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)" and their attitudes towards tax evasion**

Response regarding the statement: "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)"	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Agree</b>	9 (39.13%)	44 (32.12%)	44 (44.00%)	<b>97 (37.31%)</b>
<b>No opinion</b>	1 (4.35%)	34 (24.82%)	14 (14.00%)	<b>49 (18.84%)</b>
<b>Disagree</b>	13 (56.52%)	59 (43.06%)	42 (42.00%)	<b>114 (43.85%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

**Statement 6: "I do not know why I have to pay tax"**

Table 50 reveals a strong relationship between the respondents' views concerning the statement: "I do not know why I have to pay tax" and their attitude towards tax evasion ( $p$  value < 0.0001).

In Table 53 below, the relationship is analysed in more detail. As indicated in the table, there is a difference in perceptions between the respondents' views concerning whether or not they know why they have to pay tax and tax evasion issues. The majority of respondents (56.52%) who agree with the statements relating to tax evasion (that is, those who will tend to evade more), also agree with the statement: "I do not know why I have to pay tax". If the responses

of those who express no opinion on the abovementioned statement are ignored, 61.90% (13 out of 21) of those who agree with statements relating to tax evasion (that is, those who will tend to evade more), also agree with the statement: “I do not know why I have to pay tax”.

A lack of information appears to give rise to a pro-evasive social attitude. The present study supports the view that government should provide all citizens with more information on taxes, in order to create a more positive tax culture.

**Table 53: Relationship between respondents’ perceptions regarding the statement: “I do not know why I have to pay tax” and their attitudes towards tax evasion**

Response regarding the statement: “I do not know why I have to pay tax”	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Agree</b>	13 (56.52%)	45 (32.85%)	24 (24.00%)	<b>82 (31.54%)</b>
<b>No opinion</b>	2 (8.70%)	25 (18.25%)	4 (4.00%)	<b>31 (11.92%)</b>
<b>Disagree</b>	8 (34.78%)	67 (48.90%)	72 (72.00%)	<b>147 (56.54%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

**Statement 9: “Tax is very complicated – I do not know how to calculate my own tax liability”**

After all their experimental studies into tax evasion, Webley *et al.* (1991:122) contend that for some participants the task of complying with tax legislation was too difficult. Some comments received, included: “I was not quite sure what I was doing” and “I do not know a lot about tax forms, to be honest and I was just guessing a lot of it” and “I am afraid”. In addition, in a study conducted in North Carolina by Song and Yarbrough (1978:450), respondents were asked to compare and rank each of the five commonly discussed shortcomings of income tax. The following two statements ranked second and third respectively:

- there are too many loopholes; and
- the regulations are too complicated.



Table 50 reveals a strong relationship between the respondents' views concerning the statement: "Tax is very complicated – I do not know how to calculate my own tax liability" and their attitudes towards tax evasion ( $p$  value = 0.0003).

In Table 54 below, the relationship is analysed in more detail. As indicated in the table, there is a difference in perceptions between whether or not the respondents do or do not believe that tax is complicated and their attitudes towards tax evasion issues. A high proportion (73.91%) of all the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), agree with the statement: "Tax is very complicated – I do not know how to calculate my own tax liability". The complexity of tax structures appears to have a negative influence on taxpayers' willingness to contribute to the fiscus.

**Table 54: Relationship between respondents' perceptions regarding the statement: "Tax is very complicated - I do not know how to calculate my own tax liability" and their attitudes towards tax evasion**

Response with regard to the statement: "Tax is very complicated – I do not know how to calculate my own tax liability"	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Agree</b>	17 (73.91%)	46 (33.58%)	35 (35.00%)	<b>98 (37.69%)</b>
<b>No opinion</b>	0 (0.00%)	44 (32.11%)	20 (20.00%)	<b>64 (24.62%)</b>
<b>Disagree</b>	6 (26.09%)	47 (34.31%)	45 (45.00%)	<b>98 (37.69%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

**Statement 10: "The amount of tax I have to pay is reasonable considering the benefits received"**

In a South African study by Oberholzer (2005:249-275) the findings indicate that, on the whole, respondents are positive about paying tax, if the government applies the revenue appropriately for the benefit of the taxpayer.

Table 50 reveals a strong relationship between the respondents' views on the statement: "The amount of tax I have to pay is reasonable considering the benefits received" and their attitudes towards tax evasion ( $p$  value < 0.0001).

In Table 55 below the relationship is analysed in more detail. As indicated in the table, there is a difference in perceptions between respondents who are and those who are not of the view that the amount of tax they have to pay is reasonable considering the benefits received and tax evasion issues. A large proportion (86.96%) of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), disagree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received". If the responses of those who expressed no opinion on the abovementioned statement are ignored, 90.90% (20 out of 22) of those who agree with statements relating to tax evasion (that is, those who will tend to evade more), disagree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received". This finding is what would be 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.

**Table 55: Relationship between respondents' perceptions regarding the statement: "The amount of tax I have to pay is reasonable considering the benefits received" and their attitudes towards tax evasion**

Response regarding the statement: "The amount of tax I have to pay is reasonable considering the benefits received"	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Agree</b>	2 (8.69%)	24 (17.52%)	37 (37.00%)	<b>63 (24.23%)</b>
<b>No opinion</b>	1 (4.35%)	66 (48.17%)	30 (30.00%)	<b>97 (37.31%)</b>
<b>Disagree</b>	20 (86.96%)	47 (34.31%)	33 (33.00%)	<b>100 (38.46%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

**Statement 11: “The government does not provide enough information about how they use taxpayers’ money”**

A study conducted by Oberholzer (2005:249-275) shows that a significant percentage of the South African respondents are of the opinion that the government should be transparent in the utilisation of taxpayers’ money.

Table 50 reveals a strong relationship between the respondents’ views regarding whether or not the government provides enough information about how they use taxpayers’ money and their attitudes towards tax evasion ( $p$  value = 0.0058).

In Table 56 below, the relationship is analysed in more detail. Although there is a difference in perceptions between the respondents’ views regarding whether or not the government provides enough information about how they use taxpayers’ money and their attitudes towards tax evasion, the majority (51.92%) of all respondents agreed with the statement: “The government does not provide enough information about how they use taxpayers’ money”. However, it appears that a large proportion (78.26%) of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), agree with this statement. If the responses of those who expressed no opinion on the abovementioned statement are ignored, 90.00% (18 out of 20) of those who agree with statements relating to tax evasion (that is, those who will tend to evade more), also agree with the statement: “The government does not provide enough information about how they use taxpayers’ money”.

Peters (1991:188) believed that, on the whole, citizens appreciate the benefits they receive from government and tend to be much more willing to pay taxation when reminded of the benefits received as a consequence of doing so.

This study indicates that increased communication regarding the utilisation of fiscal receipts could potentially help to reduce the number of tax evasion cases.

**Table 56: Relationship between respondents' perceptions regarding the statement: "The government does not provide enough information about how they use taxpayers' money" and their attitudes towards tax evasion**

Response regarding the statement: "The government does not provide enough information about how they use taxpayers' money"	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Agree</b>	18 (78.26%)	72 (52.55%)	45 (45.00%)	<b>135 (51.92%)</b>
<b>No opinion</b>	3 (13.04%)	39 (28.47%)	21 (21.00%)	<b>63 (24.23%)</b>
<b>Disagree</b>	2 (8.70%)	26 (18.98%)	34 (34.00%)	<b>62 (23.85%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

#### 5.4 PERCEPTIONS OF TAX COMPLIANCE

Respondents were provided with a list of general statements that relate to tax compliance and were requested to provide a "yes" or "no" response in relation to these statements. [Table 57](#) indicates the percentage of respondents who provided a positive response concerning these statements.

**Table 57: 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 was legally permitted when I submitted my income tax return	17.69%
I would consider making higher deductions than legally permitted when I submit my income tax return in 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%

Table 57 indicates that just over half of the respondents (51.15%) report all of their income to the authorities when they submit their tax return every year. It is also evident from this table that only 18.15% believe that they would consider not reporting all of their income to the authorities when they submit their tax return in future.

A relatively low percentage of the respondents (17.69%) indicated that they have previously made higher deductions than legally permitted when submitting their income tax return. Nevertheless, 20.77% believe that they would consider doing so in the future.

The findings presented in Table 57 indicate that 31.54% of the respondents are of the view that they would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should. In addition, 40.38% believe that if a tax advisor advises them not to declare all of their income, that they would take this person's advice.

The Cronbach alpha for this question (question 23) was calculated to be 0.74 (v48 needed to be reversed). This provided an acceptable level of reliability and the variables were grouped together for further discussion purposes.

The GLM procedure indicated that the individual demographic, economic or other factors are associated with the respondents' attitudes towards tax compliance with a high level of statistical significance ( $p$  value < 0.01). The results of the GLM procedure indicated a  $p$  value < 0.0001.

#### **5.4.1 Individual demographic, economic or other factors influencing respondents' attitudes towards tax compliance**

The relationship between the individual demographic, economic or other factors and the manner in which they influenced the respondents' attitudes towards tax compliance is presented in Table 49. Where previous research was performed regarding these factors, this is also highlighted and compared with the findings of the present study.

**Age:** According to Webley *et al.* (1991:68-77) younger people are most likely to be associated with tax evasion behaviour.

Table 49 demonstrates a strong relationship between the age of the respondent and the respondent's attitude towards tax compliance ( $p$  value = 0.0122).

The present study indicated that respondents over the age of 60 years are less likely to evade tax than younger respondents (that is, 21-29 years of age).

[This is substantiated by Tukey's Studentized Range (HSD) and mean score.]

**Population group:** Table 49 reveals a strong relationship between the population group to which the respondents belong and the respondents' attitudes towards tax compliance ( $p$  value = 0.0002).

Contrary to the findings relating to tax evasion, where White respondents appeared to be of the opinion that it is not wrong to evade tax, it appears that both Black and White respondents are more likely to be tax compliant than respondents from both the Coloured and Indian population groups.

Friedman (2003a:7) argues that tax compliance may have originally been inspired by political loyalty but that the behaviour may survive even after its cause has passed into history. Friedman (2003b), in particular, argues that it is possible in South Africa that many Whites may be more likely to conform (to tax compliance) than many Blacks. This author further states that: "Whites learned to comply because for years the system worked for them and doing your duty thus made sense. For many Blacks, it was irrational to obey until 1994. The switch to a legitimate government may not instantly cause either group to unlearn years of learned behaviour." This explains the higher level of compliance of White respondents (in the present study), but does not provide an explanation for the responses of the Black, Coloured and Indian participants. In order to create a more positive tax culture, government could

possibly focus more strongly on educating the Coloured and Indian groups about the importance of paying their taxes.

[The findings above were substantiated with the Scheffe's test and mean score.]

**Risk profile:** Dean *et al.* (1980:42) found that the desire to “beat the system” is a possible cause of tax evasion.

Table 49 reveals a strong relationship between the risk profile of the respondents and the respondents' attitudes towards tax compliance ( $p$  value = 0.0012).

From this study it also appears that respondents who consider themselves to be risk-takers, are somewhat more likely to evade tax than those who consider themselves to be more risk-averse. The risk profile, as a characteristic of a taxpayer, may have a direct impact on their tax compliance behaviour.

[The abovementioned finding was substantiated by the mean score.]

**Think Lotto is good because proceeds are used for charitable purposes:** Table 49 reveals a strong relationship between the respondents' views on whether they believe that the Lotto is good because proceeds are used for charitable purposes and their attitudes towards tax compliance ( $p$  value = 0.0379).

Respondents who think that the Lotto is good because a portion of the proceeds is allocated for charitable purposes, appear to be slightly less tax compliant than those who do not agree. Those who believe that the Lotto is good may, be more likely to partake in it and thus be more risk seeking. Any relationship, however, is likely to be coincidental.

[The abovementioned finding was again substantiated by the mean score.]

**Prior dealings with SARS:** Lewis (1982:172) suggests that tax inspectors influence a person's attitude to behaviour.

Table 49 reveals a strong relationship between respondents who have or have not consulted with SARS officials in the past and their attitudes towards tax compliance ( $p$  value = 0.0160).

It was found that respondents, who have consulted with SARS officials in the past, are more likely to comply with tax requirements than those who have not (substantiated by the mean score). Personal contact with tax authorities appears to have a positive impact on taxpayer compliance.

Respondents who have consulted with SARS officials previously were also requested to indicate whether they found these officials to be efficient, believe that they were treated with respect, and found their knowledge of tax-related issues to be of a high standard.

The following provides the results from the means procedure:

- Respondents who believe that SARS officials are efficient, appear to be more tax compliant than those respondents who are of the opinion that SARS officials are not efficient. A strong focus on customer relationship management by the government could potentially encourage a positive tax compliance attitude amongst taxpayers. This could, in turn, enhance the government's attempts to create a positive tax culture.
- Contradictory to what may have been expected, it appears from the findings of this study that respondents who believe that SARS officials treated them with respect, are somewhat less tax compliant than those respondents who indicated the opposite.
- Respondents who believe that SARS officials are knowledgeable, were again found to be slightly more tax compliant than respondents who indicated that SARS officials were not knowledgeable. Once again, a focus on customer relationship management by the fiscal authorities could potentially result in a more positive tax compliance attitude amongst taxpayers and enhance the government's attempts to create a positive tax culture.



**Views on income distribution:** Considering Lewis's (1982:172) model of tax evasion, as far as the authorities are concerned, one of the factors that is regarded as important is the government's fiscal policy. In addition, according to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system.

Table 49 reveals a strong relationship between the respondents' views on income distribution and their attitudes towards tax compliance ( $p$  value = 0.0356).

Respondents who are of the opinion that everyone should be entitled to keep the income they earn, are somewhat less tax compliant than those who believe that all income earned should accrue to the government, which should distribute this equally among all South Africans. Respondents who are of the opinion that everyone should be entitled to keep the income they earn, are also less likely to comply with their tax duties.

[The mean score substantiated this finding.]

#### **5.4.2 Relationship between respondents' perceptions regarding a specific tax-related statement and tax compliance**

The respondents' perceptions regarding a specific individual statement relating to taxation (question 18) are compared with their attitudes towards tax compliance (question 23) in this section.

A value of "1" was allocated if the respondent answered "yes" to a general statement on tax compliance and "2" if the respondent answered "no" to a statement on tax compliance. For statistical purposes, the first statement needed to be reversed.

Table 50 shows the relationship between the respondents' views about specific tax-related statements and their attitudes towards tax compliance. Where a relationship was found, this is

discussed below. In addition, if previous related research has been performed, this is also highlighted and compared with the results of this study.

**Statement 1: “A large proportion of taxes is used by the government for meaningless purposes”**

A study by Dean *et al.* (1980:42) concluded that a possible reason for tax evasion is government wastage of tax revenue.

This view is substantiated by the results as indicated in Table 50, where a strong relationship exists between the respondents’ views concerning the statement: “A large proportion of taxes is used by the government for meaningless purposes” and their attitudes towards tax compliance (*p* value = 0.0309).

Table 58 below analyses the relationship in more detail. As indicated in the table, there is a difference in perceptions between the respondents’ views concerning the statement and their attitudes towards tax compliance, but the majority of respondents (58.46%) agreed with the statement: “A large proportion of taxes is used by the government for meaningless purposes”. It appears, however, that a large proportion (74.47%) of the respondents who are less tax compliant, also agree with this statement. To create a more positive tax culture, an increased drive by the government to minimise the misuse of tax revenue should be implemented.

**Table 58: Relationship between respondents’ perceptions regarding the statement: “A large proportion of taxes is used by the government for meaningless purposes” and their attitudes towards tax compliance**

Response regarding the statement: “A large proportion of taxes is used by the government for meaningless purposes”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
Agree	35 (74.47%)	117 (54.93%)	<b>152 (58.46%)</b>
No opinion	1 (2.13%)	22 (10.33%)	<b>23 (8.85%)</b>
Disagree	11 (23.40%)	74 (34.74%)	<b>85 (32.69%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 2: “It is unfair to pay tax”**

A study by Webley *et al.* (1991:68-77) revealed that people use the unfairness of the tax system as a justification for evasion.

Table 50 reveals a strong relationship between the respondents’ views on the statement: “It is unfair to pay tax” and their attitudes towards tax compliance ( $p$  value = 0.0006).

In Table 59 below, the relationship is analysed in more detail. As indicated in the table, the majority of respondents (73.46%) disagreed with the statement: “It is unfair to pay tax”. There are, however, differences in perceptions between the respondents’ views regarding the fairness of paying tax and their attitudes towards tax compliance. It appears that a somewhat greater proportion (75.59%) of the respondents who are more tax compliant, disagree with the abovementioned statement than those who are less tax compliant (63.83%). If the responses of those who expressed no opinion on this statement are ignored, 85.64% (161 out of 188) of those who are more tax compliant, disagree with the statement: “It is unfair to pay tax”, while 65.22% (30 out of 46) of those who are less tax compliant, disagree with the statement. A possible explanation for the finding could be that the less tax compliant respondents believe that the amount of tax they actually do pay (as a consequence of not being tax compliant) is fair.

**Table 59: Relationship between respondents’ perceptions regarding the statement: “It is unfair to pay tax” and their attitudes towards tax compliance**

Response regarding the statement: “It is unfair to pay tax”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	16 (34.04%)	27 (12.68%)	<b>43 (16.54%)</b>
<b>No opinion</b>	1 (2.13%)	25 (11.73%)	<b>26 (10.00%)</b>
<b>Disagree</b>	30 (63.83%)	161 (75.59%)	<b>191 (73.46%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

### **Statement 3: “Income tax rates must be reduced”**

A study conducted in North Carolina by Song and Yarbrough (1978:450) requested respondents to compare and rank each of the five commonly discussed shortcomings of income tax. Their results showed that the chief shortcoming listed by the respondents, was that the tax rate is too high. In addition, a South African study by Oberholzer (2005:249-275) revealed that a substantial proportion of the respondents indicated that they would support the introduction of lower tax rates.

Table 50 reveals a strong relationship between the respondents’ views concerning the statement: “Income tax rates must be reduced” and the respondents’ attitudes towards tax compliance ( $p$  value = 0.0241).

Table 60 below analyses the relationship in more detail. Although, as indicated in the table, the majority of respondents (77.31%) agreed with the statement: “Income tax rates must be reduced”, differences exist between the respondents’ views regarding this statement and their attitudes towards tax compliance. A large proportion of the respondents who are less tax compliant (91.49%) agree that income tax rates must be reduced. It could be argued that taxpayers’ beliefs concerning the fairness of the current income tax rates, may have an influence on their tax behaviour. Government should increase their education drive in order to inform taxpayers of the reasons for present tax structures. A comparison with the structures implemented in other countries, could aid in achieving a more positive tax culture.

**Table 60: Relationship between respondents’ perceptions regarding the statement: “Income tax rates must be reduced” and their attitudes towards tax compliance**

<b>Response regarding the statement: “Income tax rates must be reduced”</b>	<b>“Yes” response to tax compliance statements (frequency and column percentage)</b>	<b>“No” response to tax compliance statements (frequency and column percentage)</b>	<b>TOTAL</b>
<b>Agree</b>	43 (91.49%)	158 (74.18%)	<b>201 (77.31%)</b>
<b>No opinion</b>	0 (0.00%)	19 (8.92%)	<b>19 (7.31%)</b>
<b>Disagree</b>	4 (8.51%)	36 (16.90%)	<b>40 (15.38%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

#### **Statement 4: “The VAT rate must be reduced”**

A substantial proportion of South African respondents indicated that they would support the introduction of lower tax rates (Oberholzer, 2005:249-275).

Table 50 reveals a strong relationship between the respondents’ views regarding the statement: “The VAT rate must be reduced” and their attitudes towards tax compliance ( $p$  value = 0.0081).

In Table 61 below, the relationship is analysed in more detail. Although, as indicated in the table, the majority of respondents (82.31%) agreed with the statement: “The VAT rate must be reduced”, there appeared to be differences between the respondents’ views concerning this statement and their attitudes towards tax compliance issues. A somewhat larger proportion of respondents, who are less tax compliant, agrees with the statement (97.87%), compared with those who are more tax compliant (78.87%). This is an unexpected result. Opportunities for individuals not to comply with the payment of VAT are limited. It is expected that a perception regarding the fairness of the VAT rate may not influence compliance behaviour too strongly.

**Table 61: Relationship between respondents’ perceptions regarding the statement: “The VAT rate must be reduced” and their attitudes towards tax compliance**

<b>Response regarding the statement: “The VAT rate must be reduced”</b>	<b>“Yes” response to tax compliance statements (frequency and column percentage)</b>	<b>“No” response to tax compliance statements (frequency and column percentage)</b>	<b>TOTAL</b>
<b>Agree</b>	46 (97.87%)	168 (78.87%)	<b>214 (82.31%)</b>
<b>No opinion</b>	0 (0.00%)	16 (7.51%)	<b>16 (6.15%)</b>
<b>Disagree</b>	1 (2.13%)	29 (13.62%)	<b>30 (11.54%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 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)”**

Table 50 reveals a strong relationship between the respondents’ views concerning the statement: “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)” and the respondents’ attitudes towards tax compliance ( $p$  value < 0.0001).

Table 62 below analyses the relationship in more detail. It appears that a larger proportion of the respondents who are less tax compliant (76.60%), agree with this statement, compared to those who are more tax compliant (28.64%). If the responses of those who expressed no opinion on the abovementioned statement are ignored, 81.82% (36 out of 44) of those who are less compliant, agree with the statement compared to 36.53% (61 out of 167) of those who are more tax compliant. Respondents with a negative attitude towards tax compliance prefer a fixed tax rate. This finding is what would be expected.

**Table 62: Relationship between respondents’ perceptions regarding the statement: “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)” and their attitudes towards tax compliance**

<b>Response regarding the statement: “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)”</b>	<b>“Yes” response to tax compliance statements (frequency and column percentage)</b>	<b>“No” response to tax compliance statements (frequency and column percentage)</b>	<b>TOTAL</b>
<b>Agree</b>	36 (76.60%)	61 (28.64%)	<b>97 (37.31%)</b>
<b>No opinion</b>	3 (6.38%)	46 (21.60%)	<b>49 (18.84%)</b>
<b>Disagree</b>	8 (17.02%)	106 (49.76%)	<b>114 (43.85%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 8: “Rich people should pay tax at a higher rate”**

Table 50 reveals a strong relationship between the respondents’ views concerning the statement: “Rich people should pay tax at a higher rate” and the respondents’ attitudes towards tax compliance ( $p$  value < 0.0001).

In Table 63 below, the relationship is analysed in more detail. Although the majority of all respondents (63.08%) agreed with the statement: “Rich people should pay tax at a higher rate”, differences in perceptions between the respondents’ views concerning this statement and their attitudes towards tax compliance is evident from this table. It appears that a higher proportion (53.19%) of the respondents who are less tax compliant, disagree with the abovementioned statement than those who are more tax compliant (23.00%). This finding coincides with the previous finding and it appears that respondents who have a negative attitude towards tax compliance would prefer a fixed tax rate and disagree that wealthy people should be taxed at a higher rate.

**Table 63: Relationship between respondents’ perceptions regarding the statement: “Rich people should pay tax at a higher rate” and their attitudes towards tax compliance**

Response regarding the statement: “Rich people should pay tax at a higher rate”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	22 (46.81%)	142 (66.67%)	<b>164 (63.08%)</b>
<b>No opinion</b>	0 (0.00%)	22 (10.33%)	<b>22 (8.46%)</b>
<b>Disagree</b>	25 (53.19%)	49 (23.00%)	<b>74 (28.46%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 9: “Tax is very complicated – I do not know how to calculate my own tax liability”**

After all their experimental studies into tax evasion Webley *et al.* (1991:122) contend that for some participants, the task of completing their tax returns is too difficult. Some comments

received, included: “I was not quite sure what I was doing” and “I do not know a lot about tax forms, to be honest and I was just guessing a lot of it” and “I am afraid”. In addition, a study conducted in North Carolina by Song and Yarbrough (1978:450), requested respondents to compare and rank each of the five commonly discussed shortcomings of income tax. The following two statements were ranked second and third respectively:

- there are too many loopholes; and
- the regulations are too complicated.

Table 50 reveals a strong relationship between the respondents’ views on the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” and the respondents’ attitudes towards tax compliance ( $p$  value < 0.0001).

Table 64 below analyses this relationship in more detail. The differences in perceptions between the respondents’ views regarding the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” and their attitudes towards tax evasion, are evident from this table. More specifically, it is apparent that the more tax compliant respondents are fairly evenly divided between those agreeing (34.74%), those disagreeing (35.21%) and those who have neutral views (30.05%). The less tax compliant respondents all have an opinion regarding this matter with 51.06% agreeing and 48.94% disagreeing with the statement. This finding is inconclusive.

**Table 64: Relationship between respondents’ perceptions regarding the statement: “Tax is very complicated – I do not know how to calculate my own tax liability” and their attitudes towards tax compliance**

Response regarding the statement: “Tax is very complicated – I do not know how to calculate my own tax liability”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	24 (51.06%)	74 (34.74%)	<b>98 (37.69%)</b>
<b>No opinion</b>	0 (0.00%)	64 (30.05%)	<b>64 (24.62%)</b>
<b>Disagree</b>	23 (48.94%)	75 (35.21%)	<b>98 (37.69%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>



**Statement 10: “The amount of tax I have to pay is reasonable considering the benefits received”**

In a South African study by Oberholzer (2005:249-275) it was found that, on the whole, the respondents are positive about paying tax, if the government applies it appropriately for the benefit of the taxpayer.

Table 50 reveals a strong relationship between the respondents’ views concerning the statement: “The amount of tax I have to pay is reasonable considering the benefits received” and the respondents’ attitudes towards tax compliance ( $p$  value < 0.0001).

In Table 65 below, the relationship is analysed in more detail. As indicated in the table, there is a difference in perceptions between the respondents’ views concerning the statement: “The amount of tax I have to pay is reasonable considering the benefits received” and their attitudes towards tax compliance. It appears that a higher proportion of the respondents (70.21%) who are less tax compliant, disagree with the statement, compared to those who are more tax compliant (31.46%). If the responses of those who express no opinion on the abovementioned statement are ignored, 76.74% (33 out of 43) of those who are less tax compliant, disagree with the statement, compared to 55.83% (67 out of 120) of those who are more tax compliant. This finding is what would be expected, as taxpayers who are satisfied with the amount and fairness of taxation being levied against their income, would be more likely to be compliant in their tax behaviour.

**Table 65: Relationship between the respondents’ perceptions regarding the statement: “The amount of tax I have to pay is reasonable considering the benefits received” and their attitudes towards tax compliance**

Response regarding the statement: “The amount of tax I have to pay is reasonable considering the benefits received”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	10 (21.28%)	53 (24.88%)	<b>63 (24.23%)</b>
<b>No opinion</b>	4 (8.51%)	93 (43.66%)	<b>97 (37.31%)</b>
<b>Disagree</b>	33 (70.21%)	67 (31.46%)	<b>100 (38.46%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 11: “The government does not provide enough information on how they use taxpayers’ money”**

A study conducted by Oberholzer (2005:249-275) showed that a significant percentage of the South African respondents believe that the government should be transparent in the utilisation of taxpayers’ money.

Table 50 reveals a strong relationship between the respondents’ perceptions regarding the statement: “The government does not provide enough information about how they use taxpayers’ money” and their attitudes towards tax compliance ( $p$  value = 0.0041).

In Table 66 below, the relationship is analysed in more detail. Although the majority of all respondents (51.92%) agreed with the statement: “The government does not provide enough information about how they use taxpayers’ money”, there is a difference in perceptions between the respondents’ views regarding this statement and their attitudes towards tax compliance. A somewhat higher proportion of respondents (72.34%) who are less tax compliant, also agree with the statement, compared to those who are more tax compliant (47.42%). If the responses of those who expressed no opinion on the statement, are ignored, 79.07% (34 out of 43) of those who are less tax compliant, agree with the statement, compared to 65.58% (101 out of 154) of those who are more tax compliant. Increased

communication regarding the utilisation of fiscal receipts for the public domain could aid in reducing the incidence of tax evasion.

**Table 66: Relationship between respondents’ perceptions regarding the statement: “The government does not provide enough information about how they use taxpayers’ money” and their attitudes towards tax compliance**

Response regarding the statement: “The government does not provide enough information about how they use taxpayers’ money”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	34 (72.34%)	101 (47.42%)	<b>135 (51.92%)</b>
<b>No opinion</b>	4 (8.51%)	59 (27.70%)	<b>63 (24.23%)</b>
<b>Disagree</b>	9 (19.15%)	53 (24.88%)	<b>62 (23.85%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

The relationship between the respondents’ perceptions with regard to specific tax-related statements (and factors that influenced these perceptions) and their attitudes towards tax evasion and tax compliance, have been discussed.

The following section investigates the relationship between the respondents’ perceptions regarding a specific tax evasion statement (question 20) and their attitudes towards tax compliance (question 23).

**5.4.3 Relationship between respondents’ perceptions regarding specific statements that concern tax evasion (excluding those statements relating to penalties related to tax evasion) and tax compliance**

This section investigates whether the respondents’ views with regard to a **specific** tax evasion statement (question 20) may influence their tax compliance behaviour (question 23). Previously the statements on tax evasion were grouped together for reporting purposes. In this section they are broken down into the individual statements as contained in the questionnaire. The two statements dealing with the penalties related to tax evasion are, however, discussed in section 5.5.3.

Table 67 shows the relationship between the respondents' views concerning a specific tax evasion statement and their attitudes towards tax compliance. With the exception of the first statement in Table 67, the table shows that all the relationships are highly significant. Where previous research has been performed, this is also noted and compared with the results of the current study.

**Table 67: Relationship between respondents' attitudes regarding specific tax evasion statements and their attitudes towards tax compliance**

Specific tax evasion statement (as per question 20)	Tax compliance matters
The fiscal authorities (SARS) would notice if I decided to evade tax	
Government receives enough tax so it does not matter if some people evade tax	$p < 0.0001$
The burden of tax is so heavy that many people are forced to evade it in order to survive	$p < 0.0001$
Since so many other people are evading tax, I cannot be blamed for evading tax	$p = 0.0019$
I work hard for the income I receive so I should be allowed to keep it all for myself	$p < 0.0001$
People evade tax because the risk that the authorities will find out is low	$p = 0.0067$
Wealthy people evade tax more often than poor people	$p = 0.0023$

**Statement 2: "Government receives enough tax so it does not matter if some people evade tax" (Second statement in question 20 – see Appendix B)**

From Table 67 it appears that there is a strong relationship between the respondents' views on the statement: "Government receives enough tax so it does not matter if some people evade tax" and the respondents' attitudes towards tax compliance ( $p$  value  $< 0.0001$ ).

Table 68 below, analyses the relationship in more detail. The majority of all the respondents, 64.23%, did not agree with the statement: "Government receives enough tax so it does not matter if some people evade tax". This table, however, shows the differences in perceptions

between the respondents' views concerning this statement and their attitudes towards tax compliance. It appears that 61.70% of the respondents, who are less tax compliant, agree with the aforementioned statement, compared to 10.33% of the respondents who are more tax compliant. If the responses of those who expressed no opinion on the abovementioned statement are ignored, 63.04% (29 out of 46) who are less tax compliant, agree with the statement, compared to 12.79% (22 out of 172) of those who are more tax compliant. A possible reason for non-compliance behaviour by taxpayers, may be the perception that government receives enough tax revenue.

**Table 68: Relationship between respondents' perceptions regarding the statement: "Government receives enough tax so it does not matter if some people evade tax" and their attitudes towards tax compliance**

Response regarding the statement: "Government receives enough tax so it does not matter if some people evade tax"	"Yes" response to tax compliance statements (frequency and column percentage)	"No" response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	29 (61.70%)	22 (10.33%)	<b>51 (19.62%)</b>
<b>No opinion</b>	1 (2.13%)	41 (19.25%)	<b>42 (16.15%)</b>
<b>Disagree</b>	17 (36.17%)	150 (70.42%)	<b>167 (64.23%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 3: "The burden of tax is so heavy that many people are forced to evade it in order to survive" (Third statement in question 20 – see Appendix B)**

A study by Dean *et al.* (1980:42) showed that a possible reason for tax evasion is financial hardship.

Table 67 reveals a strong relationship between the respondents' views on the statement: "The burden of tax is so heavy that many people are forced to evade it in order to survive" and their attitudes towards tax compliance ( $p$  value < 0.0001).

Table 69 below, analyses this relationship in more detail. As indicated in the table, there is a difference in perceptions between the respondents' views concerning the statement: "The

burden of tax is so heavy that many people are forced to evade it in order to survive” and respondents’ attitudes towards tax compliance. It appears that respondents, who are less tax compliant, agree to a somewhat greater extent (80.85%) with the statement than those who are more compliant (38.03%). If the responses of those who expressed no opinion on the abovementioned statement are ignored, 82.61% (38 out of 46) who are less tax compliant, agree with the statement, compared to 57.39% (101 out of 176) of those who are more tax compliant. A possible reason for non-compliance behaviour by taxpayers may be financial hardship.

**Table 69: Relationship between respondents’ perceptions regarding the statement: “The burden of tax is so heavy that many people are forced to evade it in order to survive” and their attitudes towards tax compliance**

Response regarding the statement: “The burden of tax is so heavy that many people are forced to evade it in order to survive”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	38 (80.85%)	81 (38.03%)	<b>119 (45.77%)</b>
<b>No opinion</b>	1 (2.13%)	37 (17.37%)	<b>38 (14.61%)</b>
<b>Disagree</b>	8 (17.02%)	95 (44.60%)	<b>103 (39.62%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 4: “Since so many other people are evading tax, I cannot be blamed for evading tax” (Fourth statement in question 20 – see Appendix B)**

Table 67 reveals a strong relationship between the respondents’ views on the statement: “Since so many other people are evading tax, I cannot be blamed for evading tax” and their attitudes towards tax compliance ( $p$  value = 0.0019).

In Table 70 below, the relationship is analysed in more detail. The majority of all respondents (68.46%) disagreed with the statement: “Since so many other people are evading tax, I cannot be blamed for evading tax”. This table, however, shows the difference in perceptions between the respondents’ views concerning this statement and their attitudes towards tax compliance. It appears that the respondents, who are less tax compliant, agree to a slightly

greater extent (23.40%) with the abovementioned statement than those who are more tax compliant (9.86%). If the responses of those who express no opinion on the abovementioned statement are ignored, 24.44% (11 out of 45) who are less tax compliant, agree with the statement, compared to 12.73% (21 out of 165) of those who are more tax compliant. The tax compliance attitudes of taxpayers may be influenced by the behaviour of other taxpayers.

**Table 70: Relationship between respondents’ perceptions regarding the statement: “Since so many other people are evading tax, I cannot be blamed for evading tax” and their attitudes towards tax compliance**

Response regarding the statement: “Since so many other people are evading tax, I cannot be blamed for evading tax”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	11 (23.40%)	21 (9.86%)	<b>32 (12.31%)</b>
<b>No opinion</b>	2 (4.26%)	48 (22.54%)	<b>50 (19.23%)</b>
<b>Disagree</b>	34 (72.34%)	144 (67.60%)	<b>178 (68.46%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 5: “I work hard for the income I receive so I should be allowed to keep it all for myself” (Fifth statement in question 20 – see Appendix B)**

Dean *et al.* (1980:42) found that greed is a possible cause of tax evasion.

Table 67 reveals a strong relationship between the respondents’ views on the statement: “I work hard for the income I receive so I should be allowed to keep it all for myself” and their attitudes towards tax compliance ( $p$  value < 0.0001).

In Table 71 below, the relationship is analysed in more detail. Although the majority of all the respondents, 60.77%, disagreed with the statement: “I work hard for the income I receive so I should be allowed to keep it all for myself”, the differences in perceptions between the respondents’ views concerning this statement and their attitudes towards tax compliance issues, is shown in this table. The results show that more than half of the respondents, 57.45%, who are less tax compliant, agree with the abovementioned statement, compared

with only 16.90% who are more tax compliant. If the responses of those who expressed no opinion on the abovementioned statement are ignored, 62.79% (27 out of 43) who are less tax compliant, agree with the statement, compared to 20.22% (36 out of 178) of those who are more tax compliant. A possible reason for taxpayers not complying with tax may be greed.

**Table 71: Relationship between respondents’ perceptions regarding the statement: “I work hard for the income I receive so I should be allowed to keep it all for myself” and their attitudes towards tax compliance**

Response regarding statement: “I work hard for the income I receive so I should be allowed to keep it all for myself ”	“Yes” response to tax compliance statements (frequency and column percentage)	“No” response to tax compliance statements (frequency and column percentage)	TOTAL
<b>Agree</b>	27 (57.45%)	36 (16.90%)	<b>63 (24.23%)</b>
<b>No opinion</b>	4 (8.51%)	35 (16.43%)	<b>39 (15.00%)</b>
<b>Disagree</b>	16 (34.04%)	142 (66.67%)	<b>158 (60.77%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

**Statement 7: “Wealthy people evade tax more often than poor people” (Seventh statement in question 20 – see Appendix B)**

The perceived lack of equity in the opportunity to avoid tax in Lewis’s (1982:172) model of tax evasion, relates to the perception that the tax system may appear unfair, in the sense that people with higher incomes are perceived as having greater opportunities to legally avoid paying tax.

Table 67 reveals a strong relationship between the respondents’ views on the statement: “Wealthy people evade tax more often than poor people” and their attitudes towards tax compliance ( $p$  value = 0.0023).

In Table 72 below, the relationship is analysed in greater detail. Although the majority of all the respondents, 63.85%, agreed with the statement: “Wealthy people evade tax more often than poor people”, this table indicates the difference in perceptions between the respondents’ views concerning this statement and their attitudes towards tax compliance matters. Of the



less tax compliant respondents, 82.98%, agree with the statement, compared to 59.62% of those respondents who are more tax compliant. If the responses of those who expressed no opinion on the abovementioned statement are ignored, 84.78% (39 out of 46) of those who are less tax compliant agree with the statement, compared to 77.44% (127 out of 164) of those who are more tax compliant. A justification for taxpayers to evade tax might be that people with higher incomes are perceived as having greater opportunities to legally avoid paying tax.

**Table 72: Relationship between respondents’ perceptions regarding the statement: “Wealthy people evade tax more often than poor people” and their attitudes towards tax compliance**

<b>Response regarding the statement: “Wealthy people evade tax more often than poor people”</b>	<b>“Yes” response to tax compliance statements (frequency and column percentage)</b>	<b>“No” response to tax compliance statements (frequency and column percentage)</b>	<b>TOTAL</b>
<b>Agree</b>	39 (82.98%)	127 (59.62%)	<b>166 (63.85%)</b>
<b>No opinion</b>	1 (2.13%)	49 (23.00%)	<b>50 (19.23%)</b>
<b>Disagree</b>	7 (14.89%)	37 (17.38%)	<b>44 (16.92%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

The next section investigates the relationship between the respondents’ perceptions with regard to the penalties related to tax evasion and tax evasion itself.

## **5.5 PERCEPTIONS OF PENALTIES RELATED TO TAX EVASION**

This concluding section of the chapter reports on the respondents’ opinion with regard to the punishment for tax evasion. Where previous research has been performed in this regard, this is also noted and compared with the results of the current study.

### **5.5.1 Respondents’ perceptions regarding the appropriateness of penalties related to tax-related offences**

In a Swedish study, Vogel (1974:499-513) requested taxpayers to choose suitable penalties for tax evasion from a set of fixed alternative penalties. The penalties ranged from no penalty or a fine, to prison sentences of various lengths. Findings reveal that the choice of a prison term appears to be a good indicator of the perceived seriousness of tax offences. The present study followed a similar approach.

In question 21 of the final questionnaire, a range of crimes which occur frequently in a South African context (that is, shoplifting, housebreaking, tax evasion, drunken driving, failing to report additional income and hijacking) were listed. Respondents were requested to indicate which penalty (that is, no penalty, fine or imprisonment) they considered to be appropriate for each crime.

Table 73 presents a number of crimes and indicates the percentage of respondents who are of the opinion that a specific penalty is appropriate for committing such a crime.

**Table 73: Crimes and appropriate penalties as indicated by the respondents**

<b>Type of crime</b>	<b>Percentage of respondents who indicated that there should be no penalty for criminals</b>	<b>Percentage of respondents who indicated that there should be a fine for criminals</b>	<b>Percentage of respondents who indicated that criminals should be imprisoned</b>
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%

It would appear from Table 73 that most respondents support some form of punishment for tax evasion and failing to report additional income. The majority of respondents regard a fine

to be the appropriate punishment. If imprisonment is an indicator of how seriously a particular crime is regarded, it is clear that tax evasion and failing to report additional income are regarded to be far less serious than other crimes (with only 15.00% and 8.46% respectively, of respondents proposing imprisonment as a penalty).

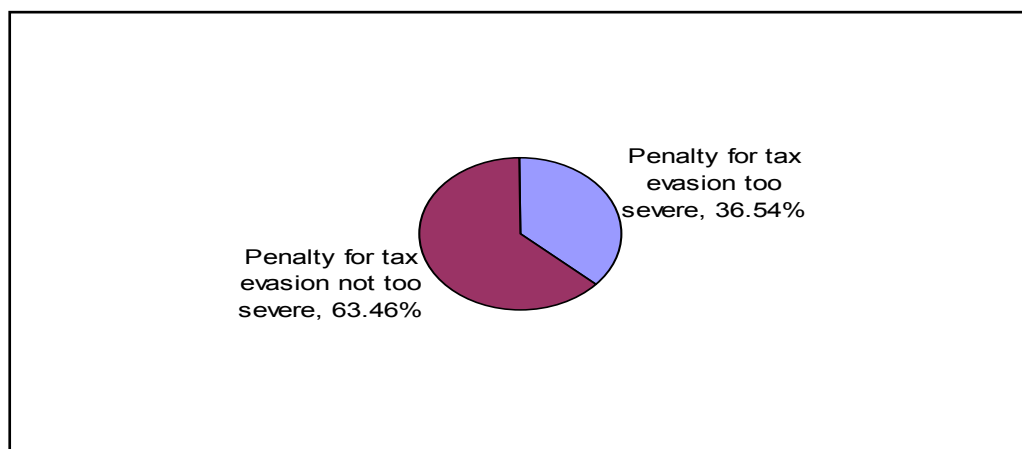
### **5.5.2 Relationship between respondents' perceptions regarding the severity of penalties for tax evasion and tax evasion and tax compliance**

Allingham and Sandmo's (1972:338) classical model assumes that behaviour is influenced by the penalties for fraud. The classical model predicts that the severity of penalties will affect evasion and it is logical to infer that if penalties are severe, people will be more compliant.

A person who commits tax evasion in South Africa is guilty of an offence and liable, upon conviction, to a fine or to imprisonment for a period not exceeding five years (section 104 of the Income Tax Act). Question 22 in the questionnaire requested respondents to indicate whether they thought that these penalties were too severe (that is, too high).

Of all the respondents, 36.54% believe that the penalty for tax evasion (that is, where a person is guilty of an offence and is liable on conviction to a fine or to imprisonment for a period not exceeding five years) is too severe (refer to Figure 20).

**Figure 20: Percentage of respondents who indicated that the penalty for tax evasion is too severe/not too severe**



The relationship between the respondents' attitudes towards the severity of the punishment for tax evasion, and their attitudes towards tax evasion and tax compliance, was also investigated. Table 74 considers these findings. Where previous research has been performed, this is noted and compared with the results of the current study.

**Table 74: Relationship between respondents' attitudes towards the severity of punishment for tax evasion and their attitudes towards tax evasion and tax compliance**

Question 22 in the final questionnaire	Tax evasion Matters	Tax compliance matters
A person committing tax evasion is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding five years. Do you think these penalties are too severe (i.e. high)?	$p = 0.0004$	

From Table 74 it appears that there is a strong relationship between the respondents' views regarding the harshness of the penalties for tax evasion and their attitudes towards evasion ( $p$  value = 0.0004). No meaningful relationship appears to exist between respondents' views concerning the severity of penalties for tax evasion and their attitudes towards tax compliance.

Although the minority of all respondents (36.54%) believed that the penalty for tax evasion is too severe (see Figure 20), Table 75 below indicates the difference in perceptions between the respondents' attitudes towards the severity of the penalties for tax evasion and their attitudes towards tax evasion. Of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), 73.91%, also believe that the penalties associated with tax evasion are too severe. This finding appears to contradict the classical model of Allingham and Sandmo (1972:338), as the present study appears to indicate that South African taxpayers will not be more compliant because they believe that the penalties associated with tax evasion, are too severe.

**Table 75: Relationship between respondents' views regarding the severity of penalties for tax evasion and their attitudes towards tax evasion**

Response regarding the statement: "Do you think the penalties for tax evasion are too severe"	Agree with tax evasion statements (frequency and column percentage)	No opinion regarding tax evasion statements (frequency and column percentage)	Disagree with tax evasion statements (frequency and column percentage)	TOTAL
<b>Yes</b>	17 (73.91%)	42 (30.66%)	36 (36.00%)	<b>95 (36.54%)</b>
<b>No</b>	6 (26.09%)	95 (69.34%)	64 (64.00%)	<b>165 (63.46%)</b>
<b>Total</b>	<b>23</b>	<b>137</b>	<b>100</b>	<b>260</b>

Finally, this section investigates whether the respondents' views concerning a specific tax evasion statement relating to penalties for tax evasion (question 20), might influence their tax compliance behaviour (question 23).

### **5.5.3 Relationship between respondents' perceptions regarding specific statements that concern penalties associated with tax evasion and tax compliance**

This section investigates whether the respondents' views with regard to a **specific** tax evasion statement (question 20), might influence their tax compliance behaviour (question 23). The two statements dealing specifically with the penalties for tax evasion (excluded from the discussion in section 5.4.3) are the focus of this section.

These two statements include: "The fiscal authorities (SARS) would notice if I decided to evade tax", and "People evade tax because the risk that the authorities will find out is low".

Table 67 shows the relationship between the respondents' views concerning a specific tax evasion statement and their attitudes towards tax compliance. Table 67 shows that no relationship exists between the respondents' perceptions regarding the statement: "The fiscal authorities (SARS) would notice if I decided to evade tax" and their attitudes towards tax compliance. However, a significantly high relationship is present with regard to the respondents' perceptions concerning the statement: "People evade tax because the risk that

the authorities will find out is low” and their attitudes towards tax compliance. This relationship is analysed in further detail. Where previous research has been performed, this is also noted and compared with the results of the current study.

**Statement 6: “People evade tax because the risk that the authorities will find out is low” (Sixth statement in question 20 – see Appendix B)**

A study by Dean *et al.* (1980:39-40) found that tax evasion may increase if people believed that they would not be detected. In an experiment by Webley *et al.* (1991:102), strong support was also provided for the proposition that greater opportunity leads to greater tax evasion. In addition, in Slemrod’s (1992:6) summary of Kent Smith’s (1992:223-250) study, he notes that normative commitment to compliance could be positively reinforced by the effective detection, particularly for tax laws not rooted in values based on the relationships among individuals.

Table 67 reveals a strong relationship between the respondents’ views regarding the statement: “People evade tax because the risk that the authorities find out is low” and their attitudes towards tax compliance ( $p$  value = 0.0067).

This relationship is analysed in more detail in Table 76 below. This table indicates the differences in perceptions between the respondents’ views concerning the statement: “People evade tax because the risk that the authorities find out is low” and respondents’ attitudes towards tax compliance. The results show that a higher percentage of the less tax compliant respondents had an opinion on this issue, where 57.45% of these respondents, as compared with 42.72% of the more tax compliant respondents, agreed with the statement. If the responses of those who expressed no opinion on the abovementioned statement are ignored, 61.36% (27 out of 44) who are less tax compliant, agree with the statement, compared to 59.48% (91 out of 153) of those who are more tax compliant. Thus, it appears that the less tax compliant respondents believe more strongly that the risk that the authorities will find out is low. Tax evasion may, therefore, increase if people believe that they will not be detected.

**Table 76: Relationship between respondents’ perceptions regarding the statement: “People evade tax because the risk that the authorities find out is low” and their attitudes towards tax compliance**

Response regarding the statement: “People evade tax because the risk that the authorities find out is low ”	“Yes” response to questions regarding tax compliance (frequency and column percentage)	“No” response to questions regarding tax compliance (frequency and column percentage)	TOTAL
<b>Agree</b>	27 (57.45%)	91 (42.72%)	<b>118 (45.38%)</b>
<b>No opinion</b>	3 (6.38%)	60 (28.17%)	<b>63 (24.24%)</b>
<b>Disagree</b>	17 (36.17%)	62 (29.11%)	<b>79 (30.38%)</b>
<b>Total</b>	<b>47</b>	<b>213</b>	<b>260</b>

## 5.6 SUMMARY

This chapter analysed the results of this study with specific reference to the relationships between the different characteristics and circumstances of the individual respondents and their attitudes towards various tax-related matters, tax evasion and tax compliance in general. Where applicable, the results of this study were compared to earlier research.

Various demographic, economic or other factors of individual respondents, potentially influencing their attitudes with regard to general issues related to taxation, were explored.

It was found that a number of demographic variables examined in the study, affected respondents’ perceptions regarding tax evasion statements, significantly. These include age, population group, educational background and the respondents’ views on income distribution in South Africa.

A number of demographic variables examined in the study were also found to affect tax compliance responses. These include age, population group, prior dealings with SARS officials, views on income distribution in South Africa, whether respondents consider themselves to be risk-takers and whether respondents approve of the Lotto because a portion of Lotto funds is allocated for charitable purposes. In relation to the last variable, any relationship is likely to be coincidental.

The relationship between the respondents' views with regard to a specific tax-related statement and tax evasion and tax compliance was investigated. A number of statistical significances were highlighted.

This chapter also investigated the relationship between the respondents' views concerning a specific tax evasion statement and their attitudes towards tax compliance. It appeared that there was a strong relationship between the respondents' views on six of the seven specific tax evasion statements and their attitudes towards tax compliance.

Finally, the respondents' perceptions, with regard to penalties for tax evasion and how this influences their attitudes towards tax compliance, were discussed.

The final chapter details significant findings of the research and discusses the results of the open-ended question in the questionnaire, dealing specifically with any further comments of the respondents with regard to taxation in South Africa. The chapter concludes the study by highlighting areas flowing from this study that may be suitable for future research.



## **CHAPTER 6: CONCLUSIONS AND IMPLICATIONS**

### **6.1 INTRODUCTION**

The collection of taxes provides the South African government with resources, which would, *inter alia*, allow the reduction of poverty and reduce inequalities by enabling the government to redistribute wealth through the tax system (Friedman, 2003a:5).

The present study investigated the perceptions of taxation amongst taxpayers in South Africa. The reason for determining these perceptions was to investigate factors which could influence the perceptions and attitudes of taxpayers towards taxation and, therefore, government policy regarding taxation. This, in turn, could enable government to market itself and its services more effectively to the general public. As the efficient and effective collection of taxes depends to a large extent on narrowing the tax gap, knowledge about how citizens perceive a tax regime, will assist the fiscal authorities to achieve this.

This final chapter summarises the conclusions and discusses the implications of the study. A short summary of suggested strategies that could be implemented by government to address tax evasion is provided. An open-ended question included in the research questionnaire provided respondents with the opportunity to express any additional viewpoints regarding taxation in South Africa. These responses are analysed in this chapter. This chapter also highlights recently published literature relevant to this study (that is, literature published since the initial literature review was performed). Finally, the conclusions and recommendations of this study are presented.

### **6.2 STRATEGIES FOR GOVERNMENT TO ADDRESS TAX EVASION**

A Tax Justice Network briefing paper (2005:7) states: “The associated problems of capital flight, tax avoidance and tax competition are emerging as the next major global issue”. The

strategies which could be utilised by governments to address this problem of tax evasion, can be categorised into those which define and criminalise tax evasion (for example, anti-avoidance legislation), those which punish evasion (revenue powers), those which forgive tax evaders and allow them to re-enter the formal economy (settlements and amnesties), and those which appeal to, or seek to, create group norms of compliant behaviour (naming and shaming) (Allingham & Sandmo, 1972:338; Franzoni, 2000:153-176; Tyran & Feld, 2002).

Regarding this issue, Lewis (1982:179) is of the opinion that two major policy initiatives remain: increasing the deterrence capabilities of tax authorities and seeking an improvement in taxpayers' attitudes and perceptions *vis-à-vis* the government and tax authorities. He believes that what is required is compliance to rules prompted by conscience, rather than fear of punishment.

Elaborating on this theme, Lewis (1982:127) points out that governments often implement tax policies aimed at reducing tax evasion by increasing fines or the likelihood of detection of the evaders. These are attempts to manipulate behaviour without discovering how and why that specific behaviour came about. He further asserts that these measures are not only incomplete as explanations, but that treatment or tax policies directed only at curtailing symptoms, may also be less effective (and may even have negative consequences) in the long run. It can be assumed that decisions to evade are not determined solely by a taxpayer's interaction and communication with the revenue authorities and the tax structure. The decision to evade is also affected by the attitudes, perceptions and moral judgments of individuals through their associations with family, friends and reference groups.

The Australian Cash Economy Task Force (1998:24) believes that the most effective approach to maximise voluntary compliance is for a tax authority to adopt a hierarchical approach to regulation with the main elements being:

- understanding taxpayer behaviour;
- building community partnerships;
- increased flexibility in the tax authority's operations to encourage and support compliance; and

- more and escalating regulatory options to enforce compliance.

According to Frame (1992:17), the real answer to large-scale avoidance or evasion is effective legislation and efficient administration. This author also contends that the use of retrospective legislation to counter tax evasion undermines the entire fiscal system and the trust between taxpayers and revenue authorities. This is aimed at countering a problem that should be, and is minimal in those fiscal systems which are effectively drafted, efficiently enforced and accepted as reasonable by the majority of taxpayers. He further comments that if South Africa develops a fiscal system that is effective, it will also be viewed as fair. By contrast, however, if the rate of tax rises above that which is acceptable to the community, evasion and law breaking will be the result. McKerchar (2003:19) proposes that an understandable tax system without unnecessary complexity, would go a long way to improving the efficiency and effectiveness of tax administration.

Jones and Luscombe (2004:10-13) state that in the United States of America, the Internal Revenue Service (IRS) is trying to promote compliance through improvements in customer service. In addition, Gardiner (2004) mentions that in the United States, the IRS is actively pursuing “abusive” tax transactions harshly by increasing staff in the enforcement functions and improving the audit rate.

Stewart (1994:27) emphasises that one way to narrow the tax gap in South Africa, would be to rearrange internal spending priorities so that Inland Revenue would emerge as a professional, free-standing agency with a budget capable of attracting legal and accountancy skills comparable with those in the private sector. He asserts that professionals can bring in additional revenue for the government and with a small outlay narrow the tax gap. Coetzee (1998:23) states that the South African government aims to increase tax compliance by only awarding tenders to taxpayers whose tax affairs are in order and to publish the names of tax offenders.

Counihan (2000:81) proposes the ideal solution to the issue of tax evasion very elegantly when he states that if tax administration continues to develop to a situation where every

honest taxpayer trusts it and every dishonest one is afraid of it, the moral issue of paying taxes will improve.

In South Africa, according to Trevor Manuel, the present Minister of Finance, SARS is trying to improve business operations through the “Siyakha transformation programme”. This programme was launched in 2000 to fundamentally reshape SARS into a 21<sup>st</sup> century organisation able to sustain the collection of revenues and fulfil its responsibilities with optimum efficiency. This programme would need to address historic SARS inefficiencies, which included a bureaucratic culture, the lack of a service culture and client facilities, inadequate understanding of the tax gap, inefficient processes and organisation of functions, and a workforce that did not match South Africa’s demographics (SARS, 2005).

With the above problem areas clearly identified, the programme was designed to achieve the following outcomes:

- SARS to become outward and taxpayer focused;
- to optimise the first time “end to end” resolution of taxpayer queries through an optimal mix of working environment, skills and technological enhancements;
- to standardise processes, procedures, training material, technologies, interdependencies and operations;
- to create multi-functional teams across departments and functions;
- to build compliance capacity and skills in line with the SARS compliance model;
- to improve turnaround times; and
- to optimally co-locate customs and revenue activities where applicable (SARS, 2005).

A number of other solutions implemented by SARS include the introduction of new technology for the processing of tax forms, the introduction of a complaints office and the provision of simpler tax forms, as well as the provision of more accessible contact centres for small business (Loxton, 2002:3).

### **6.3 RESPONDENTS' COMMENTS REGARDING TAXATION IN SOUTH AFRICA**

The final question in the questionnaire was an open-ended question that requested respondents to indicate whether they had any further comments regarding taxation in South Africa (for example, if they would like to be more informed about taxation by receiving brochures, pamphlets and gaining exposure to tax-related issues through other forms of media). Of the 260 questionnaires administered by MarkData, this question was left blank on 116 questionnaires, the response “none” or “no comment” appeared on thirty-one questionnaires, the response “no” appeared on thirty-three questionnaires, four questionnaires had a “yes” response and three questionnaires had responses of no value (two respondents indicated that they are not registered as taxpayers and the third response read: “Not really interested to discuss this matter”).

The remainder of the responses received revolved around a need for information regarding taxation and specific comments regarding tax-related matters.

#### **6.3.1 A need for information regarding tax**

A number of respondents (thirty-five) commented that they would like to be more informed regarding taxation by, for example, receiving brochures, pamphlets and gaining exposure to tax-related issues through other forms of media. These comments are analysed in Appendix C and are summarised below. Appendix D contains a list of the actual comments (as received).

Specific comments received from respondents regarding being more informed about taxation included:

- a number of respondents indicated a general need for tax education;
- several respondents expressed a need to know more about the allocation of tax revenue by government;

- certain respondents indicated the way in which they would like to receive tax-related information; and
- some respondents mentioned that government should make better use of the media to convey information regarding taxation (for example, pamphlets, television, radio, the Internet, as well as obtaining information from information offices in townships and schools).

It appears, therefore, that some respondents are eager to learn more about taxation. These responses support the view of Lewis (1982:366). He believes that governments should endeavour to broaden the knowledge of the tax system, both as an ethical responsibility, and in an attempt to make fiscal policy changes more understandable, not least because they may have a fundamental influence on electoral choice (Lewis, 1982:366). Peters (1991:188) believes that, on the whole, citizens appreciate the benefits they receive from government and tend to be far more willing to pay taxes when reminded of these benefits. Lewis (1982:59) highlights fiscal ignorance as a major contributor to the formation of negative views towards taxation. Those who are less educated and amongst the lower paid are most likely to be fiscally ignorant. They view taxation as burdensome and pointless and regard government services as bearing little or no relation to taxes paid. Those who are more educated are less fiscally ignorant and among the better remunerated. Those who are more educated also view taxation in terms, not only of its burden, but also in the light of the benefits and services that the government provides from its revenue.

Vogel (1974:512) emphasises the importance of education and information in the process of opinion formation. A deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behaviour. The Australian Cash Economy Task Force (1998:36) asserts that it is essential for taxing authorities to perform an educational role in the community. The Australian Cash Economy Task Force (1998:36) states that when the tax authority is seen to give the community assistance and support, it is more likely that the community will perceive the authority as fair and approachable, even if the taxpayers do not accept that all of their obligations are reasonable. A study undertaken by

Fallan (1999:173-184) indicated that better tax knowledge has significantly changed both male and female attitudes towards the fairness of the tax system.

Croome, as cited by Kemp (2002), believes that SARS needs to undertake an education programme to help increase awareness amongst taxpayers. More than a decade ago, Moloko (1990:72) argued that Black professional employees especially need to be educated about the history or the origin of taxation, the reasons why the government needs taxation income and how the government spends taxation income. If the way the government spends such income is deemed to be equally beneficial to all citizens, the negative attitude by the Black population group towards taxation could change.

The efficacy of propaganda and educational programmes would depend to a large extent upon the distinction to be made between the interests of governments and those of revenue authorities. While an interest (for example, reducing tax evasion) may be shared by government and revenue authorities, an increase in fiscal awareness may not be. Some governments may see fiscal awareness as a good thing, while others may not; a fiscally knowledgeable public may be a less deferential public and may be seen by tax officials as likely to clog machines of many present-day revenue administrations (Lewis, 1982:221). Chait (1993:40-45) highlights the fact that an enormous amount of effort needs to be directed towards reaching the customer base of taxpayers and that education and marketing is necessary to encourage the public to cooperate. Another method to improve taxpayers' perceptions is by improving the relationship between Inland Revenue and the tax paying public.

The Australian Cash Economy Task Force (1998:21) believes that motivating taxpayers to do the right thing, and constraining the motivation to be non-compliant, will establish an environment that is more conducive to tax compliance. This model is more complete than the audit approach, more realistic in its underpinnings and more pragmatic in its enforcement.

### **6.3.2 Specific comments concerning tax issues**

Some of the respondents also provided specific comments that concern tax-related issues in South Africa. These comments can be divided into two main categories. The first category comprises thirteen of the respondents who are generally positive about the government and taxation. These respondents believe to a great extent that it is good to pay tax as this creates a better country for all South Africans. Refer to Appendix E for a list of the actual comments (as received). The second category comprises twenty-seven respondents who are generally not as positive about the current government and taxes. These negative comments are analysed into themes in Appendix F and summarised below. Refer to Appendix G for a list of the actual comments (as received).

Specific negative comments received from respondents regarding general tax-related matters include:

- a number of respondents were concerned that the government is wasting the tax money collected;
- certain respondents suggested that the government should amend its current focus areas of spending – the areas of spending in need of increased tax revenue, are job creation, infrastructure and municipal services, hospitals and welfare;
- several respondents mentioned a reduction in the current tax rates;
- some respondents indicated that they do not want to pay tax at all;
- certain respondents noted that they are not receiving enough benefits for their taxes;
- some respondents expressed negative views towards the current government;
- one respondent mentioned that it would be better if a fixed rate of tax is imposed; and
- another respondent indicated that the more wealthy could aid those who are less fortunate by means of paying their taxes.

The next section highlights recent literature that relates to the present study which has been published since the initial literature review was performed.



## 6.4 REVIEW OF RECENT LITERATURE

A number of authors have acclaimed the present SARS Commissioner, Pravin Gordhan, for the increase in tax revenue collections which has resulted in the tax burden being spread more equitably over a larger proportion of the South African population (Delpont, 2004:6; Kemp, 2004:12; Smith, 2003:19; Lieberman, 2001:516). Delpont (2004:6) further asserts that: "...a change of culture has taken place which, though driven to a certain extent by fear, forces respect and makes people think differently about their tax commitments".

The present SARS Commissioner, Pravin Gordhan (as quoted by Thersby, 2005:4) issued a stern statement to taxpayers that tax evasion will not be tolerated. He warns: "The architects of certain tax aggressive structures will not be permitted to abuse South Africa's tax provisions in ways clearly unintended by the legislature. They will be vigorously challenged". Horak (2007:1) mentions that SARS has once again launched an attack on the morality (or lack thereof) of certain taxpayers and their advisers. This author states, however, that: "...the Commissioner's approach reflects a worrying trend; one that can also be observed at the level of the ordinary tax assessor – that the main objective of SARS is to collect money and not to enforce the law". Habashi (2002:16) confirms this view by stating that the uncooperative attitude of SARS causes undue hardship and frustration to all taxpayers.

Troskie (in *Business Day*, 2006:17) believes that the present tax landscape is entirely different to that of a few years ago and although tax morality has changed over time and people appear to be more willing to pay their taxes, they will always "search for opportunities to reduce taxes". This author is of the opinion that the battle between SARS and the taxpayer will continue.

This section concludes by considering a number of international studies that have been carried out relating to the topic of the present research. Richardson (2005:22) conducted an exploratory cross-cultural study of tax fairness perceptions and tax compliance behaviour in Australia and Hong Kong. The findings from this study demonstrate no universal cross-cultural relationships between the different facets of tax fairness perceptions and tax

compliance behaviour. This author argues, however, that “cultural setting” is an important factor that should be taken into account in international tax compliance research.

Alm and Torgler (2006:229) mention that tax morale is likely to differ across countries because of cultural differences. The authors define tax morale as the moral principles or values that individuals hold about paying their tax. A number of factors that might influence tax morale include perceptions of fairness, trust in institutions of government, the nature of the fiscal exchange between taxpayers and the government, and a range of individual characteristics.

Feld and Frey (2007:115) hold the view that citizens and the state appear to develop their fiscal relationships according to a psychological tax contract that establishes fiscal exchange between taxpayers and tax authorities. However, this reaches beyond pure exchanges, and involves loyalties and ties between the contract partners. Tax morale is thus a function of: 1) the fiscal exchange where taxpayers get public services for the tax prices they pay; 2) the political procedures that lead to this exchange; and 3) the personal relationship between the taxpayers and the tax administrators.

## **6.5 SUMMARY OF FINDINGS AND CONCLUSIONS OF THE RESEARCH**

The primary objective of this study was to determine the perceptions of South African taxpayers about various aspects of taxation. The present study adopts the viewpoint that South African taxpayers’ perceptions influence their attitudes towards tax compliance and it is important to concentrate on changing taxpayers’ perceptions with regard to taxation in order to achieve a more positive attitude towards tax compliance.

### **6.5.1 Perceptions about general tax-related issues amongst South African taxpayers**

The respondents’ perceptions with regard to a number of general tax-related statements were determined.

Just over half of the respondents (58.46%) are of the opinion that a large proportion of taxes is used by the government for meaningless purposes. Although the majority of the respondents believe that it is fair to pay tax (73.46%), respondents generally believe that both the income tax rates (77.31%) and the VAT rate should be reduced (82.31%).

In terms of the income tax rate, 37.31% of the respondents are of the opinion that the rate should be the same regardless of the amount of income earned, 43.85% do not agree with this, and 18.84% have no opinion regarding this statement.

Just over half of the respondents, 56.54%, believe that they know why they have to pay tax. Only 31.54% are of the opinion that they do not know why they have to do so and 11.92% have no opinion.

A significant finding was that the majority of the respondents (87.69%) believe that waste and corruption in government is high. In addition, more than half of the respondents (51.92%) agree that the government does not provide enough information on how they use taxpayers' money.

A relatively high percentage of the respondents, 63.08% are of the view that wealthy people should pay tax at a higher rate. Further investigations showed that 24.23% of the respondents are of the opinion that the amount of tax that they have to pay is reasonable considering the benefits received, 38.46% do not agree with this and 37.31% have no opinion.

Only 37.69% of the respondents believe that tax is not complicated and that they know how to calculate their own tax liability. Nevertheless, the same percentage of respondents indicated the opposite, while 24.62% have no opinion.

## **6.5.2 Demographic, economic or other factors that might influence taxpayers' attitudes with regard to general tax-related issues**

From this study it also appears that various demographic, economic or other factors potentially influence respondents' attitudes with regard to general tax-related issues. In [Table 77](#) a summary of the specific demographic, economic or other factors influencing a specific tax-related statement, is indicated.

**Table 77: Summary of relationship between respondents' demographic, economic or other factors and their attitudes towards tax-related statements**

<b>Statements relating to general tax issues</b>	<b>Demographic, economic or other factors that influence respondents' attitudes towards general tax-related statements</b>
A large proportion of taxes is used by the government for meaningless purposes	Age, population group, educational background, employment status, earnings potential, number of persons in household, belief that the Lotto is good because proceeds are used for charity*, registered as taxpayer with SARS, support for current government, views about the future of South Africa and views on income distribution
It is unfair to pay tax	Population group, earnings potential, visits to state-funded medical facilities, belief that the Lotto is good because proceeds are used for charity*, support for current government, views about the future of South Africa and views on income distribution
Income tax rates must be reduced	Population group, earnings potential, belief that the Lotto is good because proceeds are used for charity*, registered as taxpayer with SARS, support for current government, views about the future of South Africa and views on income distribution
The VAT rate must be reduced	Earnings potential, support for current government and views on income distribution
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)	Population group, home language, earning additional income, earnings potential, visits to state-funded medical facilities, partaking in Lotto*, belief that the Lotto is good because proceeds are used for charity*, registered as taxpayer with SARS, support for current government and views about the future of South Africa
I do not know why I have to pay tax	Age, population group, home language, educational background, employment status, visits to state-funded medical facilities, registered as taxpayer with SARS,

	prior dealings with SARS, support for current government, views about the future of South Africa and views on income distribution
Waste and corruption in government is high	No factors influenced respondents' perceptions regarding this statement
Rich people should pay tax at a higher rate	Gender, population group, educational background, earning additional income, visits to state-funded medical facilities, registered as taxpayer with SARS, prior dealings with SARS and views about the future of South Africa
Tax is very complicated – I do not know how to calculate my own tax liability	Gender, population group, home language, educational background, employment status, earning additional income, earnings potential, number of persons in household, being a risk-taker or not, partaking in Lotto*, registered as taxpayer with SARS, prior dealings with SARS and support for current government
The amount of tax I have to pay is reasonable considering the benefits received	Age, population group, home language, educational background, employment status, earning additional income, earnings potential, visits to state-funded medical facilities, being a risk-taker or not, partaking in Lotto*, belief that the Lotto is good because proceeds are used for charity*, registered as taxpayer with SARS, prior dealings with SARS, support for current government, views about the future of South Africa and views on income distribution
The government does not provide enough information about how they use taxpayers' money	Gender, population group, home language, employment status, visits to state-funded medical facilities, partaking in Lotto*, belief that the Lotto is good because proceeds are used for charity*, prior dealings with SARS, support for current government and views about the future of South Africa

\*Any relationship, however, is likely to be coincidental.

From these findings it appears that citizen involvement is necessary to build a closer relationship between the taxpayers and the government. Careful consideration should be given to the various factors that may influence a taxpayer's attitude, when managing the relationship between taxpayers and the government. Table 78 indicates the number of statements where the respondents' attitudes were influenced by a specific demographic, economic or other factor.

**Table 78: Number of statements where respondents' attitudes were influenced by a specific demographic, economic or other factor**

<b>Demographic, economic or other factor</b>	<b>Number of statements</b>
Population group	9
Support for current government	9
Views about the future of South Africa	8
Earnings potential	7
Registered as taxpayer with SARS	7
Visits to state-funded medical facilities	6
Belief that the Lotto is good because proceeds are used for charity*	6
Views on income distribution	6
Home language	5
Educational background	5
Employment status	5
Prior dealings with SARS	5
Earning additional income	4
Partaking in Lotto*	4
Age	3
Gender	3
Number of persons in household	2
Being a risk-taker or not	2
Type of dwelling	0
Gambling habits	0

\*Any relationship, however, is likely to be coincidental.

In [Table 78](#) it is indicated that the respondents' population group and level of support for the current government, are associated with their attitudes towards the largest number of tax-related statements.

As one of the aims of this study was to investigate whether perceptions differed amongst the various South African population groups regarding tax-related issues, the details of these findings are discussed in section 6.5.7.

The differences in perceptions regarding the respondents' level of support for the current government and general tax-related issues are now discussed.

1. **Taxes are used by the government for meaningless purposes:** The findings of this study show that respondents who support the current government believe to a lesser

extent than other respondents that a large proportion of taxes is used by the government for meaningless purposes (see [Table 11](#) and [Table 15](#)).

2. **It is unfair to pay tax:** This study shows that respondents who do not support the government at all agree to a somewhat greater extent that it is unfair to pay tax. By contrast, a much lower proportion of the respondents who are neutral towards, and those who support the current government, agree that it is unfair to pay tax (see [Table 11](#) and [Table 18](#)).
3. **Reduction in income tax rates:** Although a high proportion of all the respondents agree that income tax rates must be reduced, those respondents who do not support the current government at all, agree to a greater extent, that income tax rates should be reduced (see [Table 11](#) and [Table 21](#)).
4. **Reduction in the VAT rate:** A high proportion of all the respondent groups agree that the VAT rate should be reduced. Nevertheless, a higher proportion of respondents who do not support the government at all, agree that there should be a reduction in the VAT rate (see [Table 11](#) and [Table 23](#)).
5. **Income tax rate should be the same regardless of the amount of income earned:** The results of the study show that a marginally higher proportion of respondents who do not support the current government agree that the income tax rate (%) should be the same, regardless of the amount of income earned. In addition, respondents who support the current government, agree slightly more with the statement than those respondents who are neutral towards the current government (see [Table 11](#) and [Table 26](#)).
6. **Understanding the need to pay tax:** Findings of the current study reveal that although there is a difference in perceptions between the respondents' level of support for the current government, less than half of the respondents in all the levels of support for the government believe that they do not know why they have to pay tax. Despite this, the

results indicate that respondents who support the current government have a greater understanding of why they have to pay tax (see [Table 11](#) and [Table 31](#)).

7. **Tax is complicated and unsure how to calculate own tax liability:** The findings of the current study reveal that respondents who do not support the current government, agree to a greater extent, than those who are neutral and those who support the current government, that tax is very complicated and that they do not know how to calculate their own tax liability. In addition, respondents who are neutral towards the current government, agree slightly more, than those respondents who support the government, that tax is complicated and that they do not know how to calculate their own tax liability (see [Table 11](#) and [Table 38](#)).
8. **The amount of tax paid is reasonable considering the benefits received:** The findings of this study show that less than half of all the respondent groups agree that the amount of tax paid is reasonable considering the benefits received. Nevertheless, a greater proportion of respondents, who do not support the current government, believe that the amount of tax they have to pay is unreasonable considering the benefits they receive. It is also evident that respondents who are neutral agree slightly more, than those who support the current government that the amount of tax they have to pay is unreasonable considering the benefits they receive (see [Table 11](#) and [Table 42](#)).
9. **The government does not provide enough information about how they use taxpayers' money:** This study shows that respondents who do not support the government, agree, to a greater extent, that the current government does not provide enough information about how they use taxpayers' money, in comparison to respondents who are neutral towards and those who support the current government (see [Table 11](#) and [Table 46](#)).

The above highlights the findings regarding differences in perceptions in relation to general tax-related statements and the respondents' level of support for the current government.



**Overall conclusion regarding various demographic, economic or other factors that might influence taxpayers' attitudes with regard to general tax-related issues:** Taking all the above findings into account, this study argues that government should, in the management of their relationship with South African taxpayers, take cognisance of the specific factors that may influence their attitudes towards taxation.

### **6.5.3 Perceptions about tax evasion and tax compliance statements amongst South African taxpayers**

The following summarises the findings of this study regarding the respondents' attitudes towards **tax evasion**:

- A high proportion of the respondents (61.15%) agree that the fiscal authorities (SARS) would notice if they decided to evade tax. Of all the respondents, 63.85% are of the opinion that wealthy people evade tax more often than poor people.
- Slightly less than half of the respondents (45.77%) believe that the burden of taxation is so heavy that many people are forced to evade taxation in order to survive. Of all the respondents, 45.38% believe that people evade tax because the risk that the authorities will find out is low.
- A low proportion of the respondents (24.23%) take the view that they work hard for the income they receive, so they should be allowed to keep it all for themselves. Of all the respondents, 19.62% agree that government receives enough tax so it does not matter if some people evade tax. In addition, 12.31% of the respondents believe that since so many other people are evading tax, they cannot be blamed for avoiding tax.

This study found that a number of demographic factors influenced respondents' attitudes towards tax evasion. These include age, population group, educational background and the respondents' views on income distribution in South Africa.

The following summarises the findings of this study regarding the respondents' perceptions on **tax compliance**:

- Just over half of the respondents (51.15%) report all of their income to the authorities when they submit their tax return every year. In addition, a low proportion (18.15%) indicated that they would consider not reporting all of their income to the authorities when they submit their tax return in future.
- A low proportion (17.69%) of the respondents indicated that they have previously made higher deductions than legally permitted when submitting their income tax return. However, a slightly higher proportion (20.77%) noted that they believe they would consider doing so in the future.
- A low proportion (31.54%) of the respondents agreed that they would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should. In addition, 40.38% believe that if a tax advisor advises them not to declare all of their income, that they would take this person's advice.

This study also found that a number of factors influenced respondents' attitudes towards tax compliance. These include age, population group, prior dealings with SARS officials, views on income distribution in South Africa, whether or not respondents consider themselves to be risk-takers and whether respondents think that the Lotto is good because a portion is allocated for charitable purposes. However, considering the last variable, any relationship is likely to be coincidental. The findings set out above appear to support the view that a considerable tax gap exists in South Africa.

#### **6.5.4 Relationship between respondents' views regarding specific tax-related statements and their attitudes towards tax evasion and tax compliance**

The relationship between the respondents' views with regard to a specific tax-related statement and their attitudes towards tax evasion and tax compliance was investigated in the present study. A number of statistical significances were highlighted (see Table 79).

**Table 79: Respondents' perceptions regarding specific tax-related statements and their attitudes towards tax evasion and tax compliance**

General tax-related statements	Tax evasion	Tax compliance
A large proportion of taxes is used by the government for meaningless purposes	$p = 0.0267$	$p = 0.0309$
It is unfair to pay tax		$p = 0.0006$
Income tax rates must be reduced		$p = 0.0241$
The VAT rate must be reduced		$p = 0.0081$
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)	$p = 0.0487$	$p < 0.0001$
I do not know why I have to pay tax	$p < 0.0001$	
Waste and corruption in government is high		
Rich people should pay tax at a higher rate		$p < 0.0001$
Tax is very complicated – I do not know how to calculate my own tax liability	$p = 0.0003$	$p < 0.0001$
The amount of tax I have to pay is reasonable considering the benefits received	$p < 0.0001$	$p < 0.0001$
The government does not provide enough information about how they use taxpayers' money	$p = 0.0058$	$p = 0.0041$

### **6.5.5 Relationship between taxpayers' views concerning a specific tax evasion statement and their attitudes towards tax compliance**

This study also investigated the relationship between the respondents' views concerning a specific tax evasion statement and their attitudes towards tax compliance. It appears that there is a strong relationship between the respondents' views on six of the seven specific tax evasion statements and the respondents' attitudes towards tax compliance (see [Table 80](#)).

**Table 80: Relationship between respondents' attitudes towards a specific tax evasion statement and their attitudes towards tax compliance**

Specific tax evasion statements	Tax compliance matters
The fiscal authorities (SARS) would notice if I decided to evade tax	

Government receives enough tax so it does not matter if some people evade tax	$p < 0.0001$
The burden of tax is so heavy that many people are forced to evade it in order to survive	$p < 0.0001$
Since so many other people are evading tax, I cannot be blamed for evading tax	$p = 0.0019$
I work hard for the income I receive so I should be allowed to keep it all for myself	$p < 0.0001$
People evade tax because the risk that the authorities will find out is low	$p = 0.0067$
Wealthy people evade tax more often than poor people	$p = 0.0023$

### 6.5.6 Perceptions about tax penalties

The relationship between respondents' perceptions regarding the penalties for tax evasion and their attitudes towards tax compliance was examined. From this study it appears that the respondents have stronger views regarding the punishment for crimes such as hijacking, housebreaking and drunken driving. The respondents do not perceive tax evasion and failing to report additional income to be as serious as these crimes. South African respondents, therefore, do not appear to perceive tax offences to be as serious as other crimes.

Of all the respondents, 36.54% believe that the penalty for tax evasion (that is, where a person is guilty of an offence and is liable on conviction to a fine or to imprisonment for a period not exceeding five years) is too severe.

A finding from the study that appears to contradict the classical model of Allingham and Sandmo (1972:338) is that South African taxpayers may not be more tax compliant, because they believe the penalties relating to tax evasion are too severe. The last finding with regard to penalties associated with tax evasion, is that tax evasion may increase if people believe that they will not be detected.

### **6.5.7 Perceptions about taxation amongst the various South African population groups**

A further aim of this study was to investigate whether perceptions differed amongst the various South African population groups regarding tax-related issues. This section highlights those areas where the respondents' population group had an impact on their perceptions.

#### **Population groups and tax-related issues:**

- 1. Taxes are used by the government for meaningless purposes:** The majority of the respondents believe that a large proportion of taxes are used by the government for meaningless purposes. However, the Black respondents disagree to a greater extent with the aforementioned (see Table 11 and Table 13).
- 2. It is unfair to pay tax:** The respondents are generally of the opinion that it is fair to pay tax. However, the Coloured and White population groups believe more strongly than the Indian and Black population groups that it is not fair to pay tax (see Table 11 and Table 17).
- 3. Reduction in income tax rates:** A high proportion of all the population groups agree that income tax rates must be reduced. Even so, it was also noted that the Black population group agree to a lesser extent than the other population groups concerning this matter (see Table 11 and Table 20).
- 4. Income tax rate should be the same regardless of the amount of income earned:** The Indian and Coloured respondents regard the imposition of a fixed income tax rate more favourably than Black and White respondents (see Table 11 and Table 24).
- 5. Understanding the need to pay tax:** Less than half of the respondents in each of the population groups are of the view that they do not know why they have to pay tax. In comparison with the Coloured and Indian respondents, the White and Black respondents

believe to a greater extent that they do not know why they have to pay tax (see [Table 11](#) and [Table 29](#)).

6. **Wealthy should pay tax at higher rate:** A high proportion of all the population groups agree that wealthy people should pay tax at a higher rate. Nevertheless, in comparison with the other population groups, it was found that the Indian respondents agree to a lesser extent, that the wealthy should pay tax at a higher rate (see [Table 11](#) and [Table 33](#)).
7. **Tax is complicated and unsure how to calculate own tax liability:** The findings of the study revealed that a higher proportion of White, Coloured and Indian respondents are of the opinion that tax is very complicated. By contrast, a somewhat lower proportion of the Black respondents noted that tax is complicated and that they do not know how to calculate their own tax liability (see [Table 11](#) and [Table 35](#)).
8. **The amount of tax paid is reasonable considering the benefits received:** Although less than half of the respondents in each of the population groups agree that the amount of tax they pay is reasonable considering the benefits they receive, the White respondents believe to a greater extent that the amount of tax they pay is unreasonable considering the benefits they receive (see [Table 11](#) and [Table 40](#)).
9. **The government does not provide enough information about how they use taxpayers' money:** The majority of all the population groups are of the opinion that the government does not provide enough information about how they use taxpayers' money. Despite this, it was noted that the Coloured population group agree to a greater extent with the aforementioned than the other population groups (see [Table 11](#) and [Table 44](#)).

#### **Population group and tax evasion issues:**

The findings of the study revealed that the population group to which the respondents belong, influences their perceptions regarding tax evasion issues (see [Table 49](#)). It was found that, in

relation to the other population groups, respondents in the White population group believe to a greater extent that it is not wrong to evade taxation.

**Population group and attitudes towards tax compliance:**

The results of the study revealed that the respondents’ population group influences their attitudes towards tax compliance issues (see Table 49). Contrary to the findings relating to tax evasion, where White respondents appeared to be of the opinion that it is not wrong to evade tax, it appears that both Black and White respondents are more likely to be tax compliant than respondents from both the Coloured and Indian population groups.

**6.5.8 Findings from the present research versus findings from previous research**

The final aim of this study was to assess whether the findings from the present research substantiate findings from earlier research.

**Individual demographic, economic or other factors and respondents’ attitudes towards general tax-related issues**

This section considers the results of the current study and results of previous research regarding individual demographic, economic or other factors that influence respondents’ perceptions of general tax-related issues. These findings are highlighted in Table 81.

**Table 81: Findings from the current study and findings from past research in relation to individual demographic, economic or other factors influencing respondents’ attitudes towards general tax-related issues**

Statement	Factor	Past Research	Current Study
Income tax rates must be reduced	Age	Younger people are more favourably inclined towards increased services (thus higher tax rates). Conversely, those over 55 years of age are more fiscally conservative, favouring both tax and	No significant differences were found in relation to perceptions regarding the reduction in tax rates between respondents from different age groups.

		expenditure cuts. Thus, it appears as if attitudes and life experience may have an impact on taxpayers' actions (Mueller, 1963:233).	
	Employment status	Self-employed taxpayers are more likely to agree that tax revenue is too high and that the fiscal exchange rate is unfavourable (Vogel, 1974:507).	The present study shows no significant differences in perceptions regarding the reduction in tax rates between respondents with differing employment statuses.
The VAT rate must be reduced	Age	Younger people are more favourably inclined towards increased services (thus higher tax rates). Conversely, those over 55 years of age are more fiscally conservative, favouring both tax and expenditure cuts. Thus, it appears as if attitudes and life experience may have an impact on taxpayers' actions (Mueller, 1963:233).	No significant differences were found in relation to perceptions regarding the reduction in the VAT rate between respondents from different age groups.
	Employment status	Self-employed taxpayers are more likely to agree that tax revenue is too high and that the fiscal exchange rate is unfavourable (Vogel, 1974:507).	The present study shows no significant differences in perceptions regarding the reduction in the VAT rate between respondents with differing employment statuses.

**Individual demographic, economic or other factors influencing respondents' attitudes towards tax evasion**

This section considers the results of the current study and results of previous research regarding individual demographic, economic or other factors that influence respondents' perceptions of tax evasion. These findings are presented in Table 82.



**Table 82: Findings of current study and findings of past research in relation to respondents' individual demographic, economic or other factors and their attitudes towards tax evasion**

Factor	Past Research	Current Study
Age	Young people are more likely to be associated with tax evasion behaviour (Webley <i>et al.</i> , 1991:68-77).	The present study indicates a strong relationship between the age of the respondent and the respondent's attitude towards tax evasion (see <u>Table 49</u> ).  Respondents over 60 years of age believe to a greater extent that tax evasion is not acceptable.
Gender	Friedland <i>et al.</i> (1978:113) found that females evaded tax more readily than males.  Webley <i>et al.</i> (1991:68-77) revealed that men evaded tax more often than women.	No differences in perceptions between males and females with regard to tax evasion were found in this study (see <u>Table 49</u> ).
Educational background	Groenland and Van Veldhoven (1983, in Webley <i>et al.</i> , 1991:59) found that people with a higher level of education evaded tax more than those with a lower education.  The tax system in Sweden creates unequal tax minimisation opportunities, since education is a necessary precondition to the successful practice of either tax minimisation or tax evasion (Vogel, 1974:501).  Increased tax knowledge has meant that people consider their own tax evasion more seriously (Fallan, 1999:173-184).  Almond and Verba (1963:379-387) investigated political attitudes and democracy in five nations. They found that education is an important factor in determining a citizen's orientation towards government, authority and the individuals' beliefs, feelings and evaluations of the political and governmental system as a whole.	The current study reveals a strong relationship between the respondents' educational background and their attitudes towards tax evasion (see <u>Table 49</u> ).  It was found that respondents with a higher educational qualification may tend to evade less than the respondents that have not completed school. The mean score for respondents who have completed grade 12/matric, fell between the respondents in possession of a higher education and respondents who have not completed school.
Employment status	Webley <i>et al.</i> (1991:68-77) found that	The present study reveals no

	people who are employed are most likely to be associated with tax evasion behaviour. In an experiment conducted by Webley <i>et al.</i> (1991:102), strong support was provided for the proposition that greater opportunity leads to greater tax evasion.	differences in perceptions with regard to respondents' employment status (see <a href="#">Table 49</a> ).
Risk profile	Dean <i>et al.</i> (1980:42) noted that the desire to "beat the system" is a possible reason for tax evasion.	This study shows no differences in perceptions between respondents with different risk profiles (see <a href="#">Table 49</a> ).
Level of support for current government	In Lewis's (1982:172) model of tax evasion, in relation to individuals, fiscal attitudes and perceptions (which include the individual's support for government policies) affect a taxpayer's decision whether or not to evade paying tax.	The findings of the present study reveal no differences in perceptions between the respondents with differing levels of support for the current government regarding tax evasion (see <a href="#">Table 49</a> ).
Views on the future of South Africa	According to Lewis's (1982:172) model of tax evasion, some taxpayers may have a better understanding of the working of fiscal policy than others, and, by contrast, tax authorities who are perceived as rigorous invaders of personal liberty may, in turn, engender more antipathetic tax attitudes. This is also influenced by the characteristics of taxpayers in terms of their individual, group and demographic differences. Surveys have identified a host of these variables, which include income and anticipated future economic well-being.	This study reveals no differences in perceptions between the respondents' views on the future of South Africa and tax evasion (see <a href="#">Table 49</a> ).
Views on income distribution	In Lewis's (1982:172) model of tax evasion, as far as the authorities are concerned, one of the factors that is regarded as important, is the government's fiscal policy.  According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system.	This study reveals a strong relationship between the respondents' views on income distribution and their attitudes towards tax evasion (see <a href="#">Table 49</a> ).  Respondents who are of the opinion that everyone should be entitled to keep the income they earn, would evade tax more than those who believe that all income earned should accrue to the government, which should distribute this equally among all South Africans.

## **Relationship between respondents' perceptions regarding a specific tax-related statement and tax evasion**

This section shows the results of the current study in relation to previous research considering the relationship between respondents' perceptions towards specific tax-related statements and tax evasion. Table 83 highlights these findings.

**Table 83: Findings of current study and findings of past research considering the relationship between respondents' perceptions towards specific tax-related statements and tax evasion**

<b>Statement</b>	<b>Past Research</b>	<b>Current Study</b>
A large proportion of taxes is used by the government for meaningless purposes	A possible reason for tax evasion is government wastage (Dean <i>et al.</i> , 1980:42).	The present study reveals a strong relationship between the statement: "A large proportion of taxes is used by the government for meaningless purposes" and the respondents' attitudes towards tax evasion (see <u>Table 50</u> ).  The majority of all the respondents agreed with the statement: "A large proportion of taxes is used by the government for meaningless purposes". Similarly, the majority of respondents who agreed with the statements relating to tax evasion (that is, those who will tend to evade more), also agree with this statement (see <u>Table 51</u> ).
It is unfair to pay tax	Previous research revealed that people use the unfairness of the tax system as a justification for evasion (Webley <i>et al.</i> , 1991:68-77).	The current study shows no relationship between the respondents' views concerning the unfairness of the tax system and their attitudes towards tax evasion (see <u>Table 50</u> ).
Income tax rates must be reduced	A study conducted in North Carolina by Song and Yarbrough (1978:450) requested respondents to compare and rank each of the five commonly discussed shortcomings of income tax. Results showed that the chief shortcoming listed by the respondents was that the tax rate is too high.	Contrary to what might be expected, this study shows no relationship between the respondents' views on the statement: "Income tax rates must be reduced" and their attitudes towards tax evasion (see <u>Table 50</u> ).

	A South African study by Oberholzer (2005:249-275) revealed that a substantial proportion of the respondents indicated that they would support the introduction of lower tax rates.	
The VAT rate must be reduced	A substantial proportion of South African respondents indicated that they would support the introduction of lower tax rates (Oberholzer, 2005:249-275).	This study shows no relationship between the respondents' views on the statement: "The VAT rate must be reduced" and their attitudes towards tax evasion (see <u>Table 50</u> ).
Tax is very complicated – I do not know how to calculate my own tax liability	<p>Webley <i>et al.</i> (1991:122) contend after all their experimental studies into tax evasion, that for some participants the task of complying with tax legislation was too difficult. Some comments received included: "I was not quite sure what I was doing" and "I do not know a lot about tax forms, to be honest and I was just guessing a lot of it" and "I am afraid".</p> <p>Song and Yarbrough (1978:450) asked respondents to compare and rank each of the five commonly discussed shortcomings of income tax. They found that "there are too many loopholes" and "the regulations are too complicated" were ranked second and third respectively.</p>	<p>This study reveals a strong relationship between the respondents' views concerning the statement: "Tax is very complicated – I do not know how to calculate my own tax liability" and their attitudes towards tax evasion (see <u>Table 50</u>).</p> <p>A high proportion of all respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), agree that tax is complicated and that they do not know how to calculate their own tax liability (see <u>Table 54</u>).</p>
The amount of tax I have to pay is reasonable considering the benefits received	A past study found that on the whole, South African respondents are positive about paying tax, if the government applies the revenue appropriately for the benefit of the taxpayer (Oberholzer, 2005:249-275).	<p>The current study shows a strong relationship between the respondents' views on the statement: "The amount of tax I have to pay is reasonable considering the benefits received" and their attitudes towards tax evasion issues (see <u>Table 50</u>).</p> <p>A large proportion of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), disagree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received" (see <u>Table 55</u>).</p>

<p>The government does not provide enough information about how they use taxpayers' money</p>	<p>A study conducted by Oberholzer (2005:249-275) showed that a significant proportion of the South African respondents are of the opinion that the government should be more transparent in the utilisation of taxpayers' money.</p>	<p>This study shows a strong relationship between the respondents' views regarding whether or not the government provides enough information about how they use taxpayers' money and their attitudes towards tax evasion (see <a href="#">Table 50</a>).</p> <p>The majority of all respondents agreed with the statement: "The government does not provide enough information about how they use taxpayer's money". Similarly, a large proportion of respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), agree that the government does not provide enough information about how they use taxpayers' money (see <a href="#">Table 56</a>).</p>
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**Individual demographic, economic or other factors influencing respondents' attitudes towards tax compliance**

This section considers the results of the current study and results of previous research regarding individual demographic, economic or other factors that influence respondents' perceptions of tax compliance. These findings are presented in [Table 84](#).

**Table 84: Findings of current study and findings of past research in relation to respondents' individual demographic, economic or other factors and their attitudes towards tax compliance**

Factor	Past Research	Current Study
Age	People who are young are most likely to be associated with tax evasion behaviour (Webley <i>et al.</i> , 1991:68-77).	<p>The present study reveals a strong relationship between the age of the respondent and the respondent's attitude towards tax compliance (see <a href="#">Table 49</a>).</p> <p>This study indicates that respondents over 60 years of age are more likely to</p>

		be tax compliant, whereas younger respondents (that is, 21-29 years of age) are less likely to be tax compliant.
Risk profile	The desire to “beat the system” is a possible cause of tax evasion (Dean <i>et al.</i> , 1980:42).	<p>The current study reveals a strong relationship between the risk profile of the respondents and the respondents’ attitudes towards tax compliance (see <a href="#">Table 49</a>).</p> <p>It appears that respondents who consider themselves to be risk-takers are less likely to be tax compliant than those who consider themselves to be more risk averse.</p>
Prior dealings with SARS	Lewis (1982:172) suggests that tax inspectors influence a person’s attitude to tax behaviour.	<p>The current study reveals a strong relationship between whether or not respondents have consulted with SARS officials in the past and their attitudes towards tax compliance (see <a href="#">Table 49</a>).</p> <p>Respondents who have consulted with SARS officials in the past are more likely to comply with tax requirements than those who have not.</p>
Views on income distribution	<p>In Lewis’s (1982:172) model of tax evasion, as far as the authorities are concerned, one of the factors that is regarded as important, is the government’s fiscal policy.</p> <p>According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system.</p>	<p>This study reveals a strong relationship between the respondents’ views on income distribution and their attitudes towards tax compliance (see <a href="#">Table 49</a>).</p> <p>Respondents who are of the opinion that everyone should be entitled to keep the income they earn, are less tax compliant than those who believe that all income earned should accrue to the government, which should distribute this equally among all South Africans.</p>

**Relationship between respondents’ perceptions regarding a specific tax-related statement and their attitudes towards tax compliance**

In [Table 85](#) the findings of the current study and findings of past research is summarised and the relationship between respondents’ perceptions regarding specific tax-related statements and their attitudes towards tax compliance is highlighted.

**Table 85: Findings of present study and findings of past research concerning the relationship between respondents' perceptions regarding specific tax-related statements and their attitudes towards tax compliance**

Statement	Past Research	Current Study
A large proportion of taxes is used by the government for meaningless purposes	A possible reason for tax evasion is government wastage (Dean <i>et al.</i> , 1980:42).	<p>The present study reveals a strong relationship between the respondents' views concerning the statement: "A large proportion of taxes is used by the government for meaningless purposes" and their attitudes towards tax compliance (see <a href="#">Table 50</a>).</p> <p>The majority of all the respondents agreed with the statement: "A large proportion of taxes is used by the government for meaningless purposes". Similarly, a large proportion of the respondents who are less tax compliant, agree with this statement (see <a href="#">Table 58</a>).</p>
It is unfair to pay tax	People use the unfairness of the tax system as a justification of evasion (Webley <i>et al.</i> , 1991:68-77).	<p>The present study reveals a strong relationship between the respondents' views on the statement: "It is unfair to pay tax" and their attitudes towards tax compliance (see <a href="#">Table 50</a>).</p> <p>The majority of all the respondents disagreed with the statement: "It is unfair to pay tax". Nevertheless, a greater proportion of the respondents who are more tax compliant, disagree with the abovementioned statement than those who are less compliant (see <a href="#">Table 59</a>).</p>
Income tax rates must be reduced	<p>Song and Yarbrough (1978:450) requested respondents to compare and rank each of the five commonly discussed shortcomings of income tax. Findings showed that the chief shortcoming listed by respondents was that the tax rate is too high.</p> <p>A South African study by Oberholzer (2005:249-275) revealed that a substantial proportion of the</p>	<p>The current study reveals a strong relationship between the respondents' views concerning the statement: "Income tax rates must be reduced" and their attitudes towards tax compliance (see <a href="#">Table 50</a>).</p> <p>The majority of all the respondents agreed with the statement: "Income tax rates must be reduced" (see</p>

	respondents indicated that they would support the introduction of lower tax rates.	<u>Table 60</u> ). Similarly, a large proportion of the respondents who are less tax compliant, agree that income tax rates must be reduced.
The VAT rate must be reduced	A substantial proportion of South African respondents indicated that they would support the introduction of lower tax rates (Oberholzer, 2005:249-275).	The present study shows a strong relationship between the respondents' views regarding the statement: "The VAT rate must be reduced" and their attitudes toward tax compliance (see <u>Table 50</u> ).  The majority of all the respondents agreed with the statement: "The VAT rate must be reduced". However, a larger proportion of respondents who are less likely to be tax compliant, agree with the statement, compared with those who are more likely to be tax compliant (see <u>Table 61</u> ).
Tax is very complicated – I do not know how to calculate my own tax liability	Webley <i>et al.</i> (1991:122) contend, after all their experimental studies into tax evasion, that for some participants the task of completing their tax returns was too difficult. Some comments received included: "I was not quite sure what I was doing" and "I do not know a lot about tax forms, to be honest and I was just guessing a lot of it" and "I am afraid".  Song and Yarbrough (1978:450) requested respondents to compare and rank each of the five commonly discussed shortcomings of income tax. The following two statements were ranked second and third respectively, "there are too many loopholes" and "the regulations are too complicated".	This study reveals a strong relationship between the respondents' views on the statement: "Tax is very complicated – I do not know how to calculate my own tax liability" and their attitudes towards tax compliance (see <u>Table 50</u> ).  The findings of this study reveal that amongst those respondents that are more tax compliant, there is an even division between those who agree, those who disagree and those with neutral views towards the statement: "Tax is very complicated – I do not know how to calculate my own tax liability". On the other hand, the less tax compliant respondents all have an opinion on this matter where approximately half of these respondents either agree or disagree with the aforementioned statement (see <u>Table 64</u> ).
The amount of tax I have to pay is reasonable considering the benefits received	In a South African study by Oberholzer (2005:249-275), it was found that on the whole, the respondents are positive about paying tax if the government applies it appropriately for the benefit of the taxpayer.	This study reveals a strong relationship between the respondents' views on the statement: "Tax is very complicated – I do not know how to calculate my own tax liability" and their attitudes towards tax compliance (see



		<p><u>Table 50).</u></p> <p>A higher proportion of the respondents who are less tax compliant disagree with the statement, compared to those who are more tax compliant (see <u>Table 65).</u></p>
The government does not provide enough information on how they use taxpayers' money	A study conducted by Oberholzer (2005:249-275) showed that a significant percentage of the South African respondents believe that the government should be transparent in the utilisation of taxpayers' money.	<p>This study reveals a strong relationship between the respondents' perceptions regarding the statement: "The government does not provide enough information about how they use taxpayers' money" and their attitudes towards tax compliance (see <u>Table 50).</u></p> <p>Although the majority of all the respondents agreed that the government does not provide enough information about how they use taxpayers' money, a higher proportion of respondents who are less compliant, agree with the statement (see <u>Table 66).</u></p>

**Relationship between respondents' perceptions on specific tax evasion statements and their attitudes towards tax compliance**

This section considers findings of the current study in relation to findings of past research and the relationship between the respondents' perceptions on a specific tax evasion statement and their attitudes towards tax compliance (see Table 86).

**Table 86: Findings of the current and findings of past research and the relationship between respondents' perceptions regarding specific tax evasion statements and their attitudes towards tax compliance**

Statement	Past Research	Current Study
Statement 3: "The burden of tax is so heavy that many people are forced to evade it in order to	A possible reason for tax evasion is financial hardship (Dean <i>et al.</i> , 1980:42).	The findings of this study show that there is a strong relationship between the respondents' views on the statement: "The burden of tax is so heavy that many people are

<p>survive” (Third statement in question 20 – see Appendix B)</p>		<p>forced to evade it in order to survive” and their attitudes towards tax compliance (see <a href="#">Table 67</a>).</p> <p>It appears that respondents, who are less tax compliant, agree to a greater extent that the burden of tax is so heavy that many people are forced to evade it in order to survive, than those who are more compliant (see <a href="#">Table 69</a>).</p>
<p>Statement 5: “I work hard for the income I receive so I should be allowed to keep it all for myself” (Fifth statement in question 20 – see Appendix B)</p>	<p>Dean <i>et al.</i> (1980:42) found that greed is a possible cause of tax evasion.</p>	<p>The present study reveals that there is a strong relationship between the respondents’ views on the statement: “I work hard for the income I receive so I should be allowed to keep it all for myself” and their attitudes towards tax compliance (see <a href="#">Table 67</a>).</p> <p>Although the majority of all the respondents disagreed with the statement: “I work hard for the income I receive so I should be allowed to keep it all for myself”, more than half of the respondents who are less tax compliant, agree with the abovementioned statement compared with those who are more tax compliant (see <a href="#">Table 71</a>).</p>
<p>Statement 7: “Wealthy people evade tax more often than poor people” (Seventh statement in question 20 – see Appendix B)</p>	<p>The perceived lack of equity in the opportunity to avoid tax in Lewis’s (1982:172) model of tax evasion relates to the perception that the tax system may appear unfair, in the sense that people with higher incomes are perceived as having greater opportunities to legally avoid paying tax.</p>	<p>Findings of the current study show that there is a strong relationship between the respondents’ views on the statement: “Wealthy people evade tax more often than poor people” and their attitudes towards tax compliance (see <a href="#">Table 67</a>).</p> <p>Although the majority of all the respondents agreed with the statement: “Wealthy people evade tax more often than poor people”, it appears that a larger proportion of the less tax compliant respondents agree with the aforementioned statement (see <a href="#">Table 72</a>).</p>

## **Perceptions of penalties related to tax evasion**

This section highlights findings concerning the current study and findings of past research taking the following into account:

- respondents' perceptions about the appropriateness of penalties regarding tax-related offences;
- the relationship between respondents' perceptions regarding the severity of penalties for tax-related offences and tax evasion and compliance; as well as
- the relationship between respondents' perceptions regarding specific statements that concern penalties for tax evasion and tax compliance.

**Respondents' perceptions regarding the appropriateness of penalties with regard to tax-related offences:** In a Swedish study, Vogel (1974:499-513) requested taxpayers to choose suitable penalties for tax evasion from a set of fixed alternatives. The penalties ranged from no penalty or a fine, to prison sentences of various lengths. It was found that the choice of a prison term appears to be a good indicator of the perceived seriousness of tax offences.

The present study followed a similar approach. This study considered a range of crimes that occur frequently in a South African context (that is, shoplifting, housebreaking, tax evasion, drunken driving, failing to report additional income and hijacking). The respondents were requested to indicate which penalty (that is, no penalty, fine or imprisonment) they considered to be appropriate for each crime. It was found that a relatively high percentage of the respondents are of the opinion that a fine is appropriate for criminals who evade tax and fail to report additional income.

It appears that respondents have stronger views regarding the punishment for crimes such as hijacking, housebreaking and drunken driving than punishment for tax-related offences. The respondents do not perceive tax evasion and failing to report additional income to be as serious as the aforementioned crimes.

**Relationship between respondents’ perceptions regarding the severity of penalties for tax evasion and their attitudes towards tax evasion and tax compliance:** Allingham and Sandmo’s (1972:338) classical model assumes that behaviour is influenced by the penalties for fraud. The classical model predicts that the severity of penalties will affect evasion and it is logical to infer that, if penalties are severe, people will be more compliant.

A person who commits tax evasion in South Africa is guilty of an offence and liable upon conviction to a fine or to imprisonment for a period not exceeding five years (section 104 of the Income Tax Act). The findings from the current study show that only a small proportion of the respondents believe that the penalty for tax evasion is too severe.

The findings of this study show that there is a strong relationship between the views of the respondents regarding the harshness of the penalties for tax evasion and their attitudes towards tax evasion (see [Table 74](#)).

Although the minority of all the respondents in this study believe that the penalty for tax evasion is too severe, a large proportion of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), also believe that the penalties associated with tax evasion are too severe (see [Table 75](#)). This finding contradicts the classical model of Allingham and Sandmo (1972:338) as the present study indicates that South African taxpayers will not be more compliant because they believe the penalties for tax evasion are too severe.

**Relationship between respondents’ perceptions regarding specific statements regarding penalties for tax evasion and their attitudes towards tax evasion and tax compliance:** The findings of this study show that the respondents’ attitudes towards tax only correlated with one of the two statements dealing with the penalties for tax evasion, namely: “People evade tax because the risk that the authorities will find out is low” (Sixth statement in question 20 – see Appendix B).

A study by Dean *et al.* (1980:39-40) found that tax evasion may increase if people believe that they will not be detected. In an experiment by Webley *et al.* (1991:102), strong support was also provided for the proposition that greater opportunity leads to greater tax evasion. In addition, in Slemrod's (1992:6) summary of Kent Smith's (1992:223-250) study, he notes that normative commitment to compliance could be positively reinforced by effective detection, particularly for tax laws not rooted in values based on the relationships among individuals.

The results of the present study reveal that there is a strong relationship between the respondents' views regarding the statement: "People evade tax because the risk that the authorities will find out is low" and their attitudes towards tax compliance (see Table 67). It appears from this study that the less tax compliant respondents believe more strongly that the risk that the authorities will find out is low (see Table 76). Therefore, tax evasion may increase if people believe that they will not be detected.

#### **6.5.9 Results of the open-ended question**

This section discusses the findings from the open-ended question.

In their response to the open-ended question, a number of respondents indicated that they would like to be more informed with regard to taxation by, for example, receiving brochures, pamphlets, and gaining exposure to tax-related issues via other forms of media. It is clear that these respondents are eager to learn more about taxation.

Considering these results, this study suggests that the government should cooperate with SARS in the development of their corporate communication plan for communication with South African citizens. They should focus specifically on the forms of mass media that can be utilised to communicate tax issues in an effective and efficient manner. Forms of mass media that could be successfully utilised include, *inter alia*, the Internet, the press, broadcast media and billboards/mobile media (Steyn & Puth, 2000:87).

In addition, some of the respondents also provided a number of more specific comments relating to tax issues in South Africa. These comments can be divided mainly into two categories. The first category relates to respondents who are positive about the government and taxation in general. Most of the respondents believe that it is good to pay tax in order to create a better country for all South Africans. The second category consists of those respondents who are less positive about the current government and taxes in general. A number of respondents are concerned that the government is wasting the tax money collected. Some respondents suggest that the government should amend its current focus areas of spending and reduce the current tax rates.

#### **6.5.10 Shortcomings of the study**

In reflecting on this study, the following minor shortcomings became apparent:

- Responses related to questions concerning the type of dwelling occupied, the number of visits to state-funded medical facilities and the number of persons living in a household could be indicative of the economic circumstances and possible dependence of respondents on state-funded benefits. However, these results were often contradictory and, therefore, not meaningful. Any correlation identified between these variables and perceptions of taxation were, most likely, coincidental.
- The questions designed to test the respondents' appetite for risk-taking (and a corresponding link to tax avoidance and evasion) did not yield meaningful results.
- The statement: "I do not know why I have to pay tax" proved to be open to two possible interpretations and, therefore, may have influenced the results. The first interpretation was "I do not understand why I have to pay tax" (with the emphasis on "I") while the second interpretation was "I do not understand the reason why it is necessary to pay tax" (with the emphasis on "why").

### **6.5.11 Concluding comment regarding the overall findings of this study**

In the light of the findings from this study it can be concluded that tax compliance may depend upon several factors other than deterrence, and the perceptions of South African taxpayers are likely to be influenced by these factors.

## **6.6 LIMITATIONS TO THE STUDY AND RECOMMENDATIONS FOR FUTURE RESEARCH**

This study focused only on natural persons. Corporate taxpayers were excluded. The research was performed within the Tshwane metropolitan area in Gauteng only and it was not the purpose of the study to generalise the conclusions reached to the whole of the South African population. This study merely highlighted the various perceptions amongst a sample of South African taxpayers.

When answering questions about taxation, respondents might be suspicious and secretive and thus unwilling to respond fully and honestly. In order to create a more trusting relationship, this study, therefore, conducted personal face-to-face interviews in the respondents' choice of language (making use of a standard set of questions to ensure that the same questions were asked to all respondents). This methodology appeared to be more appropriate than a mailed questionnaire or a telephone interview.

Other researchers may extend the findings of this research by testing these findings in other areas, amongst other population groups and using other interrogation methods.

Future research can investigate SARS' current corporate communication strategy and by doing so, develop improved communication strategies that could help to increase the provision of tax information to South African citizens in order, not only to improve their general understanding of taxation but also to emphasise the importance of paying tax. Further

strategies can also be developed to communicate more efficiently and effectively to taxpayers how to calculate their own tax liability.

## 6.7 SUMMARY

The payment of taxes is invariably unpopular, and only an idiosyncratic minority is likely to say that it pays too little tax (Lewis, 1982:41). Authors have argued that avoidance has possibly ceased to be a question of the law and has become one of social responsibility (Accountant, 2007:14; Temkin, 2004:12). The present study supports the view of Alm and Torgler (2006:243) that a sustainable tax system is based on a fair tax system and a responsive government. If taxpayers perceive that their preferences are adequately considered, their identification with the government increases and so does their willingness to pay taxes. A government should aim to create a culture conducive to the payment of taxes (Friedman, 2003a:12).

SARS remains committed to reducing the different manifestations of the tax gap (SARS, 2004c:31). This research revolved around tax compliance (that is, people's willingness to pay tax) as well as the reverse, tax resistance. It attempted to determine South African taxpayers' perceptions with regard to taxation in order to possibly influence government policy regarding taxation.

The results of this study suggest that the improvement of the perceptions of taxpayers requires a multifaceted approach in order to understand and influence the large number of factors that play a role in individual behaviour. It is important for government to build a close relationship between themselves and taxpayers. The South African government should evaluate their corporate communication strategies on a regular basis in order to determine the most effective manner in which to communicate tax issues with its citizens.

The present study supports the view that South African taxpayers' perceptions influence their attitudes towards tax compliance. It is important that SARS should concentrate on changing



taxpayers' perceptions with regard to taxation in order to achieve a more positive attitude towards tax compliance.

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## **LEGISLATION**

Income Tax Act 58 of 1962.

## **COURT CASES**

Inland Revenue Commissioners v The Duke of Westminster, (1936) A.C. 1 at 19 and 20.

Moseneke v The Master of the High Court - 2001(2) SA 18 (CC - Constitutional Court).

## **APPENDIX A**

**- AREAS SURVEYED IN THE TSHWANE METROPOLITAN AREA AND  
NUMBER OF RESPONDENTS IN EACH POPULATION GROUP -**



### Areas surveyed in the Tshwane metropolitan area and number of respondents in each population group

Area	Black/African	White	Indian	Coloured
Pierre van Ryneveld		6		
Lyttleton		8		
Elarduspark		8		
Lynnwood		8		
Phillip Nel Park		5		
Queenswood		8		
Capital Park		8		
Hatfield		5		
Silverton		8		
East Lynn		3		
Montana		8		
Karen Park		5		
Laudium			25	
Lotus Gardens			15	
Eersterus				40
Atteridgeville	10			
Saulsville	8			
SoshanguveBB	2			
SoshanguveF	3			
SoshanguveG	2			
SoshanguveGG	3			
SoshanguveH	3			
SoshanguveK	2			
SoshanguveL	4			
SoshanguveM	2			
SoshanguveP	2			
SoshanguveR	2			
SoshanguveT	2			
SoshanguveX	2			
Mamelodi	35			
Mabopane/Winterveld	8			
Sunnyside	5			
East of Sunnyside	5			
<b>Total</b>	<b>100</b>	<b>80</b>	<b>40</b>	<b>40</b>

## **APPENDIX B**

**- FINAL QUESTIONNAIRE USED TO COLLECT THE DATA FOR THE  
STUDY -**



University of Pretoria  
Pretoria 0002 Republic of South  
Africa  
<http://www.up.ac.za>  
Department of Taxation  
Researcher: Ruanda Oberholzer  
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Tel: 012 420 4590

13 August 2005

Dear respondent

TITLE OF THE STUDY: PERCEPTIONS OF TAXATION IN SOUTH AFRICA

Thank you for your willingness to participate in the survey. The researcher of this project is Ruanda Oberholzer who is a permanent member of staff at the University of Pretoria. The data is collected by MarkData (an independent research company). MarkData specialises in providing strategic research solutions to numerous national and international clients on a variety of issues.

This is an anonymous and confidential survey. Your participation in the research project is voluntary. Your identity will not be revealed and the answers you provide will be used for research purposes only. There are no right or wrong answers.

The survey should not take more than 20 minutes to complete.

The purpose of this survey is to determine your perceptions about tax in order to enable Government to market itself and its services more effectively to the general public. We are only interested in understanding the perceptions about tax amongst all South Africans.

Prof EM Stack  
Promoter of the study

Prof M Stiglingh  
Head of the Department of Taxation (UP)

**For office use**

V1

			1-3
--	--	--	-----

**Mark the applicable answer/s, by circling your choice: O.**

1. Please indicate your age group:

21-29	1
30-39	2
40-49	3
50-59	4
60-69	5
70+	6

V2

	4
--	---

2. Please indicate your gender:

Male	1
Female	2

V3

	5
--	---

3. Please indicate to which population group you belong:

Black/African	1
Coloured	2
Indian	3
White	4
Other, please specify _____	5

V4

	6
--	---

4. Please indicate your home language:

Afrikaans	1
English	2
IsiNdebele	3
IsiXhosa	4
IsiZulu	5
Sepedi	6
Sesotho	7
Setswana	8
SiSwati	9
Tshivenda	10
Xitsonga	11
Other, please specify _____	12

V5

		7-8
--	--	-----

5. Please indicate your type of dwelling:

House or brick structure on a separate stand or yard	1
Traditional dwelling/structure made of traditional materials	2
Flat in a block of flats	3
Town/cluster/semi-detached house (simplex, duplex)	4
House/flat/room in backyard	5
Informal dwelling/shack in backyard	6
Informal dwelling/shack not in backyard	7
Room/flatlet not in backyard but on shared property	8
Caravan or tent	9
Private ship/boat	10
Other, please specify _____	11

V6

9-10

6. Please indicate your educational background:

No schooling	1
Some primary	2
Completed primary	3
Some secondary	4
Grade 12/Standard 10	5
Higher	6

V7

11

7. Please indicate your employment status:

Salaried employee – public sector	1
Salaried employee – private sector	2
Self-employed	3
Unemployed	4
Economically inactive	5

V8

12

8. Please indicate your income **per month** before deductions:

R0 – R1 000	1
R1 001 – R2 917	2
R2 918 – R5 000	3
R5 001 – R10 000	4
R10 001 – R15 000	5
R15 001 – R20 000	6
R20 001 – R30 000	7
R30 001 or more	8

V9

13

9. In addition to the above, do you earn a second/other additional income (for example, income from a second trade, income from renting out premises)?

Yes	1
No	2

V10

14

10. Please indicate the frequency of your visits to state-funded medical facilities (for example, hospital, clinics) per month:

Less than 1 visit a month	1
On average 2 visits a month	2
On average 3 visits a month	3
On average 4 visits a month	4
5 or more visits a month	5
Not applicable	6

V11

15

11. Please indicate the number of persons living within your household:

One	1
Two	2
Three	3
Four	4
Five	5
Six	6
Seven	7
Eight	8
Nine	9
Ten or more	10

V12

16-17

12. Imagine that you inherit or win R10 000. Please indicate how you would invest this sum of money:

Bank/Post Office Savings Account	1
Bank/Post Office Fixed deposit	2
Keep it in a safe place at home	3
On the Johannesburg Stock Exchange	4

V13

18

13. Are you registered as a taxpayer with the South African Revenue Services (SARS)?

Yes	1
No	2

V14

 19

14. Have you consulted with SARS officials in the past?

Yes	1
No	2

**Please continue with question 14**

V15

**Please continue with question 15**

 20

If you answered **yes** to question 14 above, please indicate whether you agree/disagree with the following statements. If you answered **no** continue with question 15.

	Agree	Dis-agree	No opinion
When I consulted with SARS officials I found them to be efficient (i.e., I did not have to wait a long time for assistance)	1	2	3
When I consulted with SARS officials they did not treat me with respect	1	2	3
When I consulted with SARS officials I found their knowledge relating to tax issues to be of a high standard	1	2	3

V16  21

V17  22

V18  23

15. How strongly do you support the current government?

Very strongly	1
Neutral	2
Not at all	3

V19

 24

16. How do you feel about the future of South Africa?

Concerned	1
Neutral	2
Hopeful	3

V20

 25

17. Please indicate your view on income distribution in South Africa:

I think that all income earned should accrue to the Government which should distribute this equally among all South Africans	1
I think that everyone should be entitled to keep the income they earn	2

V21  26

18. Please indicate whether you agree/disagree with the statements below dealing with general issues relating to tax.

	Agree	Dis-agree	No opinion
A large proportion of taxes is used by the government for meaningless purposes	1	2	3
It is unfair to pay tax	1	2	3
Income tax rates must be reduced	1	2	3
The VAT rate must be reduced	1	2	3
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)	1	2	3
I do not know why I have to pay tax	1	2	3
Waste and corruption in government is high	1	2	3
Rich people should pay tax at a higher rate	1	2	3
Tax is very complicated - I do not know how to calculate my own tax liability	1	2	3
The amount of tax I have to pay is reasonable considering the benefits received	1	2	3
The government does not provide enough information about how they use taxpayers' money	1	2	3

V22  27  
V23  28  
V24  29  
V25  30  
V26  31  
V27  32  
V28  33  
V29  34  
V30  35  
V31  36  
V32  37

19. People who open their own business are usually willing to take risks to do this. Would you consider yourself to be the type of person who likes to take a risk?

Yes	1
No	2

V33  38



20. The statements below relate to **tax evasion**. **Tax evasion** refers to illegal activities deliberately undertaken by a taxpayer to free himself/herself from a tax burden, for example, where a taxpayer who is supposed to pay tax does not register for tax purposes or where a taxpayer omits income from his/her annual tax return. Please indicate for tax purposes whether you agree/disagree with the following statements regarding **tax evasion**:

	Agree	Dis-agree	No opinion			
The fiscal authorities (SARS) would notice if I decided to evade tax	1	2	3	V34	<input type="checkbox"/>	39
Government receives enough tax so it does not matter if some people evade tax	1	2	3	V35	<input type="checkbox"/>	40
The burden of tax is so heavy that many people are forced to evade it in order to survive	1	2	3	V36	<input type="checkbox"/>	41
Since so many other people are evading tax, I cannot be blamed for evading tax	1	2	3	V37	<input type="checkbox"/>	42
I work hard for the income I receive so I should be allowed to keep it all for myself	1	2	3	V38	<input type="checkbox"/>	43
People evade tax because the risk that the authorities will find out is low	1	2	3	V39	<input type="checkbox"/>	44
Wealthy people evade tax more often than poor people	1	2	3	V40	<input type="checkbox"/>	45

21. Please indicate which penalty you would consider to be appropriate with regard to committing the following crimes.

	No penalty	Fine	Imprisonment			
Shoplifting	1	2	3	V41	<input type="checkbox"/>	46
Housebreaking	1	2	3	V42	<input type="checkbox"/>	47
Tax evasion	1	2	3	V43	<input type="checkbox"/>	48
Drunken driving	1	2	3	V44	<input type="checkbox"/>	49
Failing to report additional income	1	2	3	V45	<input type="checkbox"/>	50
Hijacking	1	2	3	V46	<input type="checkbox"/>	51

22. A person committing tax evasion is guilty of an **offence** and liable on conviction to a **fine** or to **imprisonment for a period not exceeding five years**. Do you think these penalties are too severe (i.e., high)?

Yes	1	V47	<input type="checkbox"/>	52
No	2			

23. Please answer the following as honestly as possible. Your identity will remain anonymous.

	Yes	No		
Every year I report all of my income to the fiscal authorities (SARS) when I submit my income tax return	1	2	V48	<input type="checkbox"/> 53
I would consider not reporting all of my income to the fiscal authorities (SARS) when I submit my income tax return in future	1	2	V49	<input type="checkbox"/> 54
I have sometimes made higher deductions than was legally permitted when I submitted my income tax return	1	2	V50	<input type="checkbox"/> 55
I would consider making higher deductions than legally permitted when I submit my income tax return in future	1	2	V51	<input type="checkbox"/> 56
I would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should	1	2	V52	<input type="checkbox"/> 57
If a tax advisor advises me not to declare all of my income, I would take his advice	1	2	V53	<input type="checkbox"/> 58
I partake in gambling such as betting on horses, visiting casinos more than four times per month	1	2	V54	<input type="checkbox"/> 59
I partake in the Lotto at least four times per month	1	2	V55	<input type="checkbox"/> 60
I think that the Lotto is good because a portion of the money is allocated for charitable purposes	1	2	V56	<input type="checkbox"/> 61

24. Do you have any further comments with regard to tax in South Africa (for example, would you like to be more informed about tax by receiving brochures, pamphlets, etc)

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If you would like to know the results of the survey you can complete the pre-stamped envelope stating your postal address. The results of the study will then be posted to you.

**Thank you for participating in the survey. We appreciate your assistance.**

## **APPENDIX C**

**- RESPONDENTS' COMMENTS CONCERNING EXPOSURE TO TAX  
INFORMATION IN SOUTH AFRICA ANALYSED USING DIFFERENT  
THEMES -**

Respondents' comments concerning exposure to tax information in South Africa analysed using different themes

Questionnaire	General need for tax education	More information with regard to how tax money is spent	Preferred means to obtain information					
			Media	Internet	Pamphlets	Tv	Radio	Information offices in townships and schools
44	x							
111		x			x			
116						x	x	
117					x			
119							x	
121		x	x					
122					x			
124					x			
130					x			
138				x	x			
139					x	x	x	
141		x						
144		x				x		
145					x			
168						x		
173	x							
189	x							
193								x
194						x	x	
200	x							
201	x							
202	x							
203	x							
209	x		x					
210	x		x			x		
211					x			
214			x					
215	x					x	x	
218	x							
219	x							
222	x							
228	x							
235	x							
254	x							
258	x							
<b>Total</b>	<b>17</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>1</b>

## **APPENDIX D**

**- RESPONDENTS' COMMENTS CONCERNING EXPOSURE TO TAX  
INFORMATION IN SOUTH AFRICA -**

**Respondents' comments concerning exposure to tax information in South Africa (as received)**

Questionnaire	Response
044	People should be educated about tax
111	As a citizen one has a responsibility to pay tax. I would like to know more about how money is spent – pamphlets, etc.
116	TV & radio
117	Pamphlets
119	Radio is beste – programme wat daarop fokus sal help
121	Die media kan meer effektief gebruik word om mense te wys hoe die geld gebruik word
122	Pamflette
124	Pamflette wat suksesvolle regerings – programme uitwys
130	Pamflette
138	Pamphlet with tax return – Web sites will also be interesting
139	Brochures & radio/TV programmes
141	Ons moet beslis meer ingelig word oor goeie aanwending van belasting geld!
144	Meer inligting oor goeie gebruik van belasting sal welkom wees – televisie
145	Pamflette saam met belasting vorms
168	Yes they must inform us even on TV about tax
173	Teach working about tax and what they will benefit
189	Let's hear more info about tax
193	Government should establish information offices in the township and at schools
194	Government should continue to give information on radio/television
200	Yes people must have info about tax
201	Many people like me would like to know more about why tax is paid
202	Yes more information to make people understand
203	Must supply more information
209	The government should use media to popularise and give in depth understanding to people in a simplified way
210	Yes, we do not have enough information we need more through the media/television
211	Government should from time to time sent brochures, pamphlets and any additional information to all South Africans
214	There should be a concerted effort on the part of government to utilise the media to its full potential
215	I would like to get information about SARS – taxation through radio & television
218	I think from time to time the government should make information freely to people

219	I would like to get more information on taxations
222	They must give us enough information about tax
228	I think South African Revenue services is being reasonable about the tax and they should inform or bring information to the up coming business persons
235	I want to know more about tax
254	More people are illiterate and need more information of such things as tax so they understand why its necessary to pay tax
258	More information working people

## **APPENDIX E**

**- SPECIFIC POSITIVE COMMENTS FROM RESPONDENTS REGARDING  
TAXATION IN SOUTH AFRICA -**



**Specific positive comments from respondents regarding taxation in South Africa (as received)**

<b>Questionnaire</b>	<b>Positive Response</b>
001	I think the government is on the right track regarding tax
007	The government need all the tax money to support the poor and needy in the country
012	Only tax money help building our country
015	We need to pay tax to build a strong South Africa
037	The more tax money is, then government will be able to do more for the poor and elderly
039	Yes, we need tax to provide for the need of the poor
091	Hoewel dit moeilik is om altyd die doel van belasting te sien moet mens seker maar betaal
111	As a citizen one has a responsibility to pay tax. I would like to know more about how money is spent – pamphlets, etc.
158	Mens moet jou verantwoordelikheid in verband met belasting nakom en hoop die geld word goed en reg aangewend
227	It is fine to tax South African
228	I think South African Revenue services is being reasonable about the tax and they should inform or bring information to the up coming business persons
230	It good because it helps people
242	It is right to pay tax

## **APPENDIX F**

**- SPECIFIC NEGATIVE COMMENTS FROM RESPONDENTS REGARDING  
TAXATION IN SOUTH AFRICA ANALYSED IN DIFFERENT THEMES -**

Specific negative comments from respondents regarding taxation in South Africa analysed in different themes

Questionnaire	Do not want to pay tax	Not enough benefits for tax money	Want tax rates lowered	Government is misusing tax revenue	Re-allocation of tax revenue	Progressive tax rates	Negative towards government
42	x						
45	x						
82							
83				x			
86				x			
87					Job creation, public works		
89							x
94		x					
95	x						
97							x
99				x			
103				x			
105			x				
107				x			
109				x			
112			x				
150					Hospitals, municipal services		
152					Services		
156					Infrastructure		
157		x					
172					Job creation, welfare		
180					Job creation		
205					Job creation		
207			Flat rate				
234			x				
244						x	
249			x				
<b>Total</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>7</b>	<b>7</b>	<b>1</b>	<b>2</b>

## **APPENDIX G**

### **- SPECIFIC NEGATIVE COMMENTS FROM RESPONDENTS REGARDING TAXATION IN SOUTH AFRICA -**

**Specific negative comments from respondents regarding taxation in South Africa (as received)**

Questionnaire	Negative Response
042	We who are self-employed should not pay any tax
045	Pensioner should not be not paying tax
082	I'd love to see a more responsible government
083	Belasting gelde moet beter aangewend word – minder korrupsie!
086	With this local government election I hope government gets the message that they must spend our rates & tax money more wisely and stop enriching themselves!
087	I'm concerned about unemployment and crime – tax money can be used much better for job creation and public works programmes
089	Ek voel eintlik vere vir hierdie regering – dit doen niks vir my nie
090	Ek werk nie en my man was nog nooit as belasting betaler geregistreer nie
092	Stel nie juis belang om hieroor te praat nie
094	Ons sukkel in hierdie familie – is belasting nie veronderstel om mense te help nie?
095	Ek werk as motorwag en vir privaat sekuriteit – verdien min geld en dink nie ek hoef belasting te betaal nie
097	Hierdie regering gee in elk geval nie om vir wit mense nie – hoekom sal ek sukkel om belasting te betaal?
098	Ek vul nooit belasting vorms in nie – nie gerigestreer daarvoor
099	Belasting verdwyn met hoë salarisse vir politieke amptenare – dit voel nutteloos om soveel geld vir 'n staat te gee wat niks vir mense doen nie
103	Die staat moet geld hê om dienste te lewer – maar ek wonder of die geld wat ons aan belasting betaal behoorlik aangewend word
105	Ek is 'n pensionaris en voel dat belastings op geakkumuleerde pensioen gelde wanneer mans aftree veels te hoog is
107	Ek gee nie om om belasting te betaal nie – maar ek hoop tog dit word goed aangewend en nie net gesteel nie
109	Ek werk vir die regering en sien self soms hoe geld gemors word – dinge kan baie verbeter om belasting geld beter aan te wend
112	Stel net belang daarin dat hulle nie te veel van my geld vat nie
150	Beter hospitale sal 'n goeie begin wees. Munisipale dienste moet verbeter word.
152	Moet beter dienste lewer vir die belasting wat mens betaal!
156	Better upkeep of infrastructure and services would help me feel better about paying tax
157	I think this government tries to make the tax burden lighter – but if you add up all the different kinds of taxes – e.g., on petrol, VAT, personal income, etc. we pay a lot for very little
172	None except that money must be given to poor or create many jobs with that tax money

180	More money made available for job creation
205	More tax money must go towards job creation for the youth
207	I think tax in South Africa should be deducted according to the amount one earns but there should be fixed rate accordingly. It should not be half of the amount of what one earns
234	Must reduce income tax is to high
244	If those who are wealthy they could help those who are poor for paying tax
249	Income tax should be low