

THE INCORPORATING OF BASIC TAX EDUCATION IN THE SECONDARY SCHOOL CURRICULUM

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ABSTRACT

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Taxation has become one of the most important concepts in the everyday lives of millions of taxpayers in South Africa. Not only does SARS require each and every employee to be registered as taxpayer but people are more and more reliant on the money in their pocket for everyday survival. Taxpayers want to know why they pay taxes, how the taxes deducted from their income is calculated and what the government is doing with such taxes deducted from the taxpayers. It would thus be for the benefit of both taxpayer and SARS to provide taxpayers in South Africa with a basic form of tax education to provide them with knowledge regarding how the tax system works. School-going children are the future taxpayers of South Africa and therefore it is deemed the most effective place to educate such future taxpayers about taxation. This will allow South African taxpayers to have a basic knowledge on their tax affairs as well as to make informed decisions about their tax affairs. Increasing the level of the taxpayer's knowledge about taxes will lead to an increase in the attitude of taxpayers about their tax affairs. This will result in an increase in the level of the country's tax compliance rate and ultimately resulting in the overall increase in the income basis of the South African government.

KEYWORDS:

Tax

Tax compliance

Taxpayer

Secondary school

OPSOMMING

DIE INSLUITING VAN BASIESE BELASTING ONDERRIG IN DIE SEKONDÊRE SKOOL KURRIKULUM

deur

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GRAAD: MAGISTER COMMERCII

Belasting is besig om een van die mees belangrikste konsepte in die alledaagse lewe van miljoene belastingpligtiges in Suid-Afrika te word. Nie net alleen vereis die SAID dat ieder en elke werknemer vir belasting geregistreer word nie maar belastingpligtiges raak al hoe meer afhanklik van die geld in hulle sak vir alledaagse oorlewing. Belastingpligtiges wil weet waarom hulle belasting betaal, hoe die belasting wat hulle betaal bereken word en hoe die belasting wat hulle betaal deur die Suid-Afrikaanse regering spandeer word. Dit sal dus vir beide die belastingbetaler sowel as vir die SAID voordelig wees dat belastingpligtiges in Suid-Afrika 'n basiese opleiding in die veld van belasting ontvang ten einde hulle te voorsien van kennis rondom die belastingstelsel van Suid-Afrika. Skoolgaande kinders is die toekomstige belastingpligtiges van die land en dit word geag die mees effektiewe plek te wees om die toekomstige belastingpligtiges te onderrig rakende die onderwerp van belasting. Dit sal alle Suid-Afrikaanse belastingpligtiges toerus met 'n basiese vlak van kennis rakende hulle belastingsake en om hulle in staat te stel om ingeligte besluite te maak rondom hulle belastingsake. Deur dus die vlak van kennis van belastingpligtiges te verhoog, sal dit lei tot 'n verhoging in die algehele gesindheid van die belastingpligtiges rondom hulle belastingsake. Dit sal verder lei tot 'n verhoging in die land se belastingnakomingskoers wat dan uiteindelik sal lei tot 'n verhoging in die inkomste basis van die Suid-Afrikaanse regering.

SLEUTELWOORDE:

Belasting

Belastingnakoming

Belastingpligtige

Sekondêre skool

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THE INCORPORATING OF BASIC TAX EDUCATION IN THE SECONDARY SCHOOL CURRICULUM

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

“They say that in this life you can only count on death and taxes, and since you only die once, taxes are a much more frequent certainty” (Furnham, 2005:711).

All South African citizens, young and old, use infrastructure such as national roads, government services in the form of medical services, the services of the national police and education, as well as government resources, such as electricity and water, on a daily basis. Although being entitled to the use of these services the law also places a liability on citizens to pay for these services. The latter payment is enforced through various taxes. Research has shown that the attitude of a person towards the payment of such services is increased, given the person’s level of understanding of the concept of payment of taxes (Eriksen & Fallan, 1996:398). It is thus crucial to ensure that these citizens, who are in fact liable for ensuring the national income of the country, are provided with adequate and comprehensive education and training to enhance their understanding of the payment of taxes and thereby increasing their willingness to do so.

According to Oberholzer and Nel (2006:108) education is defined as an aspect of socialisation and a lifelong process of learning the attitudes, values and behaviour, appropriate to members of a particular culture that has become a vast and complex social institution that prepares the citizens of the world for the various roles demanded of them by other social institutions. Through education, the younger generation are being prepared to lead a productive and orderly life as adults. They are introduced to the norms, values and sanctions of a larger society. These norms and values could involve abiding to the country’s tax laws as well as paying their taxes respectively. It is therefore important for

students to be taught the basic concepts of tax at an age where it will not only give them some information on why they should pay taxes but for the concept to form part of their norms and beliefs and that an understanding of this inevitable duty, be sharpened into their minds of understanding. As Oberholzer and Nel (2006:105) suggested, since the vast number of school-going students are the taxpayers of the future, implementing tax education at school level should have the best chance of success.

The need for educating taxpayers culminated into a subsequent need for an act to regulate all of the administrative provisions of the various acts dealing with taxes in South Africa. This project was announced by the Minister of Finance in the 2005 Budget Review (SARS, 2012a). On Wednesday 4 July 2012, the Tax Administration Act no 28 of 2011 (TAA), was promulgated into law by the Minister of Finance. The South African Revenue Service (SARS) issued a press release wherein they highlighted that the intention of TAA was to simplify and provide greater coherence in South African tax administration (SARS, 2012a:1). TAA eliminates duplication, it removes redundant requirements and it aligns contrasting requirements that currently exists in different tax acts. TAA creates a single, modern framework for the common administrative provisions of the tax acts. Although TAA deals with both the procedures and requirements that the taxpayer must follow to ensure compliance to tax legislation, it also sets out the rights and obligations of the taxpayer in terms of his own tax affairs to ensure a better environment in which both the taxpayer and the relative tax authority can participate to ensure a win-win situation for both parties involved (Tax Administration Act No 28 of 2011).

Taxpayers will therefore have to become more aware of how the South African tax system works to ensure that the government's number one source of national income is raised and collected in order to provide basic services to the citizens of South Africa. The taxpayers should have a better knowledge of basic tax concepts and principles in order to create a better understanding as to why they pay taxes and how the tax system works. Taxpayers should know their rights, they should be able to calculate their basic tax liability and they should know how their money is spent, once it is paid over to the National Revenue Fund.

1.2 PROBLEM STATEMENT

Previous research by Oberholzer and Nel (2006:105) on the attitudes of taxpayers towards tax compliance suggests that the problem with tax compliance in South Africa is the lack of knowledge and basic tax education of the South African taxpayer. Flescher and Reshco (1986:56) stated that residents, not only lawyers and accountants, could benefit from having the knowledge of basic tax concepts. Such knowledge will assist taxpayers in managing their own tax affairs and creating a better understanding of the national issues pertaining to income tax. According to Oberholzer and Nel (2006:106), knowing about taxes should be regarded as an important life skill.

The question that arises is when and where would it be most efficient to educate taxpayers on basic tax concepts since internet and computer access is limited. Taxpayers that are not familiar with basic tax concepts and the definition and correct application thereof will find it difficult to understand publications and presentations made available by SARS, who makes information regarding tax workshops available to the general public on their website. These workshops will however be of no importance to those taxpayers who do not understand why they need to be educated on their tax affairs and the basic concepts relating thereto.

A practical and executable solution regarding the education of the South African taxpayer needs to be determined in order to ensure that each and every South African is made aware of why he/she needs to pay taxes, what is the administrative procedures relating thereto and ultimately, how to calculate the effect that paying taxes will have on his/her pocket.

1.3 PURPOSE STATEMENT

The purpose of the study is to develop a conceptual framework to be incorporated into the curriculum of South African schools to educate the future taxpayers of South Africa in the basic concepts of taxation. The study will further determine where in the 12 year life cycle of a school-going citizen, it would be most suited for such a subject to be incorporated.

Little research has been done on tax education in South Africa. Available resources are based on tax education in the United States of America (USA) as well as the United Kingdom (UK). The USA has one of the most developed tax education systems in the world. It would therefore be valuable to the South African education system to compare the current available tax education in South Africa with the tax education programs currently presented in the USA. This comparison will highlight the areas lacking in the South African education system and suggest ways of improving the current system.

1.4 RESEARCH OBJECTIVES

The study will be guided by the following research objectives:

- To review tax education at school level in South Africa in comparison with the rest of the world together with the level of implementation and incorporation of tax education into the school curriculum.
- To develop a conceptual framework on the basic tax knowledge that should be taught at school level in order to be the informed taxpayers of the future.
- To identify the appropriate age at which the average school-going pupil is ready to be educated on basic tax concepts.

1.5 DELIMITATIONS

The study will be performed bearing the following delimitations:

- The study will be based on individual taxpayers only as it is the same individuals who also portrays the role of representative taxpayers for companies, close corporations, trusts and any other forms of other legal entities.
- The study will be limited to the curriculum presented in government schools in South Africa.

- The study will not address factors such as gender and socio-economic status in determining the level of knowledge of school students and the most appropriate age to educate school students on the topic of taxation.

1.6 ASSUMPTIONS

The study will be underlined by the following assumptions:

- All school-going students will be registered taxpayers or liable for registration at some stage in their economically active life based on the ruling by the Commissioner for SARS that all employees should be registered for income tax irrespective of their level of income (SARS, 2011(a):1).
- For the purpose of this study it is assumed that only tax practitioners and those individuals fulfilling a leading tax role within an entity, attends the free tax workshops offered by SARS. Furthermore, it is assumed that the average taxpaying individual will not attend such workshop as they do not deem it to be important to do so.

1.7 DEFINITION OF KEY TERMS

The following key terms are being used throughout the study and their definitions are thus provided to enable the reader a clear understanding of these concepts:

The term **tax**, as defined in Section 1 of the Income Tax Act No. 58 of 1962, means any levy, tax leviable under this Act or administrative penalty imposed in terms of Section 75B.

Tax compliance for the purpose of this study includes the reporting of all income and paying all taxes in accordance with the applicable laws, regulations and court decisions (Alm, 1991:577).

In terms of Section 1 of the Income Tax Act No. 58 of 1962 a **taxpayer** is defined as any person chargeable with any tax leviable under this Act and includes every person required by this Act to furnish any return.

Attitude is defined as a relatively enduring organisation of an individual's beliefs about an object that predisposes his or her actions (Eriksen & Fallan, 1996:389). Lewis (1982:71) highlighted the difficulty of defining the term **attitude** by considering the fluid transitions between ideology, values, attitudes, behavioural intentions and action. Although ideology and value based foundations of behaviour can be stable and durable, it does not mean that a person's attitude cannot be influenced by knowledge that results in interpreting the reality from a new and different perspective, even though the taxpayer's values are unchanged.

The term **primary school**, in line with current practice, is the term used to refer to schools offering Grades R to 7 or more or less this range of grades. Importantly, the new curriculum and other policies incorporated into the South African school systems will divide grades into four phases rather than into primary and secondary categories (Department of Basic Education, 2011:7).

The term **Secondary School** is defined in a South African context as "the term used to refer to schools offering Grades 8 – 12 or more or less this range of grades" (Department of Basic Education, 2011:7). **Secondary school** in the context of the USA curriculum is defined, as far as teaching is concerned, as a procedure in which the pupil is capable of learning through study and the use of books but is incapable of systematic personal growth, except under the constant tutorial presence and constraint of the teacher. The procedure is also referred to as high school (Morrison, 2012:7).

The following abbreviations, which are commonly used in the field of taxation and education across the world, will be used throughout the document when referring to specific tax concepts, tax authorities and governmental departments.

Table 1: Abbreviations used in this document

Abbreviation	Meaning
AICPA	American Institute for Certified Professional Accountants (in America)
CAPS	Curriculum and Assessment Policy Statement
DBE	Department of Basic Education

Abbreviation	Meaning
EBW	Ekonomiese en Bestuurswetenskappe
EMS	Economic and Management Science
FET	Further Education and Training
GST	General Sales Tax
IRS	American Internal Revenue Service
ITA	Income Tax Act No 58 of 1962 (as amended)
NCS	National Curriculum Statement
NTA	Japanese National Tax Administration
PAYE	Pay as you Earn
SARS	South African Revenue Service
SAS	Self-Assessing System
TAA	Tax Administration Act No 28 of 2011
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

1.8 RESEARCH DESIGN

The study will be conducted by means of an extensive literature review. Available literature on tax education in various countries of the world will be reviewed and a combination of a comparative and descriptive study will be used in determining the outcome of the research.

1.9 OVERVIEW OF CHAPTERS

Chapter 2 will discuss the literature available in which it is determined that tax education at school level is necessary in order to increase the level of knowledge of South African taxpayers. Chapter 2 further provides an extensive overview on the tax education curriculums available in the USA. The USA is used as a benchmark in the study to determine what a proper tax education curriculum should consist of.

Chapter 3 will deal with the current situation in the South African curriculum whereas Chapter 4 will focus on the development of the conceptual framework to be incorporated into South African schools.

In Chapter 5 the research objectives are addressed together with a summary of the research performed on introducing tax education in the South African school curriculum. Finally, suggestions are made for future research in the field of tax education in South Africa.

CHAPTER 2

TAX EDUCATION ACROSS THE WORLD

2.1 INTRODUCTION

The majority of literature currently available discusses tax education at tertiary level and focuses mainly on programs and courses available in the USA and the UK. As the fundamentals of a proper tax system and the purpose of a tax system is more or less consistent across the world, one can argue that the future research on this topic in South Africa can be performed on the same basis and principles as prior studies in both the USA and UK were performed.

2.2 THE ATTITUDE OF THE TAXPAYER TOWARDS TAXATION IN RELATION TO THE TAXPAYER'S LEVEL OF TAX KNOWLEDGE

A study was conducted by Eriksen and Fallan (1996:387) where they performed an investigation to determine whether an increase in specific tax knowledge influences a person's attitude towards taxation. The study was performed in Norway between two groups of students. The first group, the control group, chose Marketing as a subject in the second year of their BA Education degree. The second group, the experimental group, chose tax legislation. The aim of the study was firstly, to determine whether an increase in a person's knowledge of taxation, increased with the length of the education irrespective of the content of such education, and secondly to determine whether that person's attitude towards taxation improved in relation to the increase in knowledge.

The result of the study performed by Eriksen and Fallan (1996:398) was that knowledge can result in a better argument between how taxpayers understand the tax system and the fairness thereof. Knowledge of the tax system might change the taxpayer's attitude towards taxation and what they previously experienced as unequal treatment by the tax authorities, may be conceived as a means to fund a system of service delivery by the

government. The study drew a parallel between the increase in tax knowledge and the two dimensions of tax attitude namely, tax ethics and the taxpayer's perception of fairness. It is suggested that tax attitudes can be improved through better tax knowledge, and when such attitudes towards taxation improve, an increase in the level of tax compliance and a reduction in the propensity of taxpayers and citizens to evade taxes is experienced.

In their conclusion of whether an increase in tax knowledge changed a taxpayer's attitude towards taxation, Eriksen and Fallan (1996:399) suggested that it would be a step in the right direction to introduce the teaching of tax law and tax knowledge as a compulsory module in social science teaching in schools.

2.3 IMPROVING A COUNTRY'S TAX COMPLIANCE RATE THROUGH EDUCATING THE TAXPAYER

Sarker (2003:1) discussed the inevitable issue of tax compliance as a major concern of many developing countries. According to Sarker (2003:2) studies identified the main weaknesses of the tax system in Bangladesh to be (i) the lack of tax education among the taxpayers and (ii) the poor public relation activities and inadequate penalty provisions for delinquent taxpayers. The latter issue will not be discussed in further detail as the focus of the study is the education of taxpayers. The need to increase training on fundamental tax concepts was also identified by Sarker (2003:2) as an important factor to be met for improved tax administration.

Sarker (2003:3) compared the current tax system in Bangladesh to that of Japan. Although the main purpose of the study was to introduce a self-assessment system (SAS) in Bangladesh based on the current system used in Japan, the author also emphasised the concept and importance of educating the taxpayers as a crucial measure for better tax administration (Sarker, 2003:13). The introduction of a SAS in a country's tax process resulted in the increased involvement of the taxpayers in their own tax affairs. The basic feature of a SAS is that the taxpayer, rather than the tax authority, is responsible for the assessment of the tax liability. One of the objectives of the SAS was to broaden the tax base and to ensure (and in certain instances increase) tax compliance in Bangladesh

(Sarker, 2003:9). The implementation of the SAS had a positive response from the taxpayers and gradually the scheme showed fruitful results.

The Japanese tax administration provides its taxpayers with various services such as guidance, consultation and education. In order to enhance compliance public relation activities are carried out and tax education is provided to school children (Sarker, 2003:14). In 2003 the compliance rate for corporate tax in Japan was published at a rate of 90% which was mainly attributed to the efforts made by the Japanese National Tax Administration (NTA) (Sarker, 2003:20). The SAS implemented in Japan placed the onus on the individual taxpayer to calculate, report and pay their respective tax liability. Tax education is one of the four pillars of tax compliance in Japan, introduced as one of the measures undertaken by the NTA to promote voluntary compliance under taxpayers. The target audience of tax education is primarily school students as they are argued to be the future taxpayers of the country. Students are provided with an understanding of the significance and the role of taxes in financing the government budget. They are made aware of their role and duty as citizens to file accurate returns and to pay their taxes duly. The council for Promotion of Tax Education administers the tax education program by issuing textbooks to students, conducting classes on taxes and sponsoring essay contests on tax topics (Sarker, 2003:1-34).

Sarker (2003:31) concluded his views on tax education by emphasising the importance of educating the young, who are the next generation of taxpayers, on the significance and the role of taxes as a means of enhancing taxpayer consciousness.

Sarker (2003:9) argued that the educational level of taxpayers is crucial in determining whether the SAS will work effectively.

2.4 TAX EDUCATION PROGRAMMES AVAILABLE IN THE USA

According to Nwanna and Richards (2010:61), taxes form such an important role in the lives of Americans that it makes basic tax education an imperative for all Americans. Knowledge is valuable not only to the taxpayer but also to the government imposing such taxes. Nwanna and Richards (2010:61) further stated that the lack of basic understanding

of taxes is unwarranted, long overdue and importantly could be costing the taxpayers hundreds of millions of dollars.

Oberholzer and Nel (2006:105–119) tested the existing level and adequacy of tax education in South African schools by evaluating the current curriculum available in the USA and comparing it to the available education on tax in South Africa.

The USA is used in the study as a benchmark, the reason being that the USA has the highest paying tax compliance rate in the world (Joyner, 2009). The tax education program in the USA is based on a computerised system where school students have access to internet services and where they can easily access the relevant teaching modules. The tax education program will therefore only be used as a benchmark to determine what the basis of the information presented in a South African curriculum of tax education need to be as South African schools does not have the required infrastructure to implement such a evolved tax education program.

The American Internal Revenue Service (IRS) dedicated a section of their website especially for secondary school and other learners on “Understanding Taxes”. The application contains information on the nation’s history of taxation, the preparation of tax returns as well as the economics of taxation. The objectives of the lessons are to enable the students to understand why the government is in need of revenue in the form of taxes. The lessons available on the website allow the students to identify taxes as a crucial and important source of government revenue and how the revenue enables the government to provide the citizens of a country with services. The website is divided into two separate sections namely, the Student site and the Teacher site. Each site then is subsequently subdivided into the How’s of taxes and the Why’s of taxes (IRS, 2012).

Irrespective of the existence of the website, Nwanna and Richards (2010:62) is of the view that the IRS is not particularly geared toward the basic tax education for their citizens, nor are they robust and adequate in addressing the range of issues and topics that the proposed basic tax education calls for. Nwanna and Richards (2010:62) highlights the focus of the IRS’ involvement in tax education to be primarily and largely focused on tax

preparation and filing assistance, tax collection, enforcement and compliance matters rather than a comprehensive, citizen-wide tax education that has the potential for a better and more successful and effective tax administration.

Table 2 provides a detailed summary of the How's of taxes whereas Table 3 summarises the "Why's of taxes" into the various themes in which the information is categorised and the lessons that deals with the various topics in tax.

Table 2: Understanding taxes – A summary of the “How’s of taxes”

Module 1: Payroll Taxes and Federal Income Tax Withholding
Module 2: Wage and Tip Income
Module 3: Interest Income
Module 4: Dependants
Module 5: Filing Status
Module 6: Exemptions
Module 7: Standard Deduction
Module 8: Claiming Child Tax Credit and Additional Child Tax Credit
Module 9: Tax Credit for Child and Dependant Care Expenses
Module 10: Education credits
Module 11: Earned Income Credit
Module 12: Refund, Amount Due and Record Keeping
Module 13: Electronic Tax Return, Preparation and Transmission
Module 14: Self-employment Income and the Self-Employment Tax

Source: IRS, 2012

Each one of the modules offers one or more of the following sub-categories:

- a tutorial on the specified module;
- a printable fact sheet;

- a simulation which instructs the reader on how to complete the relevant forms applicable to the module; and
- an assessment to review the student's understanding of the relevant module.

Each module also contains a section where the student can check his/her skill and understanding of the topic. (IRS, 2012).

Table 3: Understanding taxes – A summary of the “Why’s of taxes”

THEME:	LESSONS:
Your role as a taxpayer	Why pay taxes How taxes evolve The Taxpayers responsibilities
Taxes in US History	Evolution of taxation in the constitution Early tax issues Income tax issues The social Security Act of 1935 The Wealth Tax of 1935 and the Victory Tax of 1942 Tax reform in the 1960's and 1980's
Fairness in Taxes	How to measure fairness Regressive taxes Progressive taxes Proportional taxes How taxes affect us
What is Taxed and Why	Federal/State/Local taxes Taxes in market economy Income Tax facts Direct and Indirect Taxes
Impact of Taxes	How taxes influence behaviour The politics of taxation
Understanding the IRS	The IRS Yesterday and Today Your first job Methods of filing

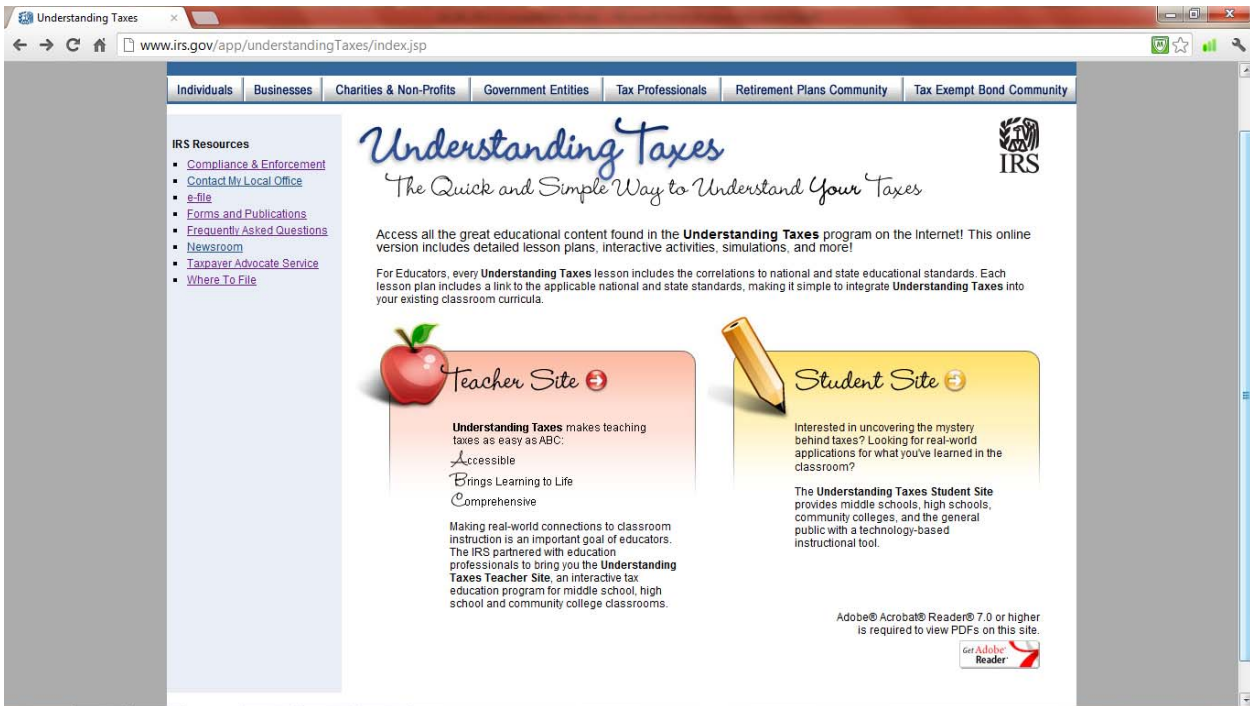
Source: IRS, 2012

The application also contains a separate section for teachers which contain the following categories of information:

- a Custom Resource list where the teacher can customise his/her lessons in understanding taxes according to the specific needs of the classroom
- Lesson plans which offer 38 detailed lesson plans to guide the instructor in the lesson from the introduction of a specific tax topic through to the topic conclusion.
- Education standards which ensures that each lesson is on standard both nationally and locally.
- A section which allows the teacher to download components to assist with the presentation of the various lessons. The section also contains PowerPoint presentations to assist teachers in their lessons. (IRS, 2012)

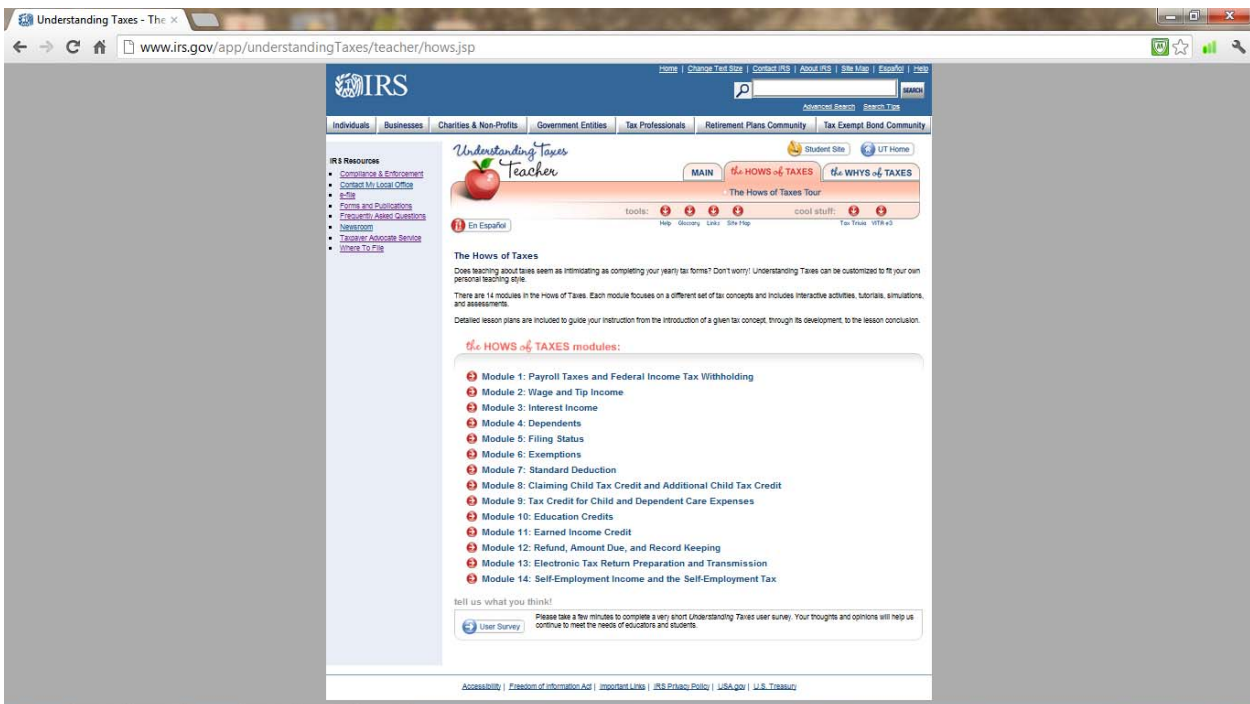
Figure 1 provides an illustration of what can be expected on the website offered by the IRS. Figure 1 shows the main screen which allows the user to choose between the teacher site and the student site. Figures 2 – 3 shows the teacher site for the How's and Why's of taxes. Figure 4 shows the aids available to the teachers in assisting the teachers to teach taxes such as Lesson plans, educational standards and downloadable documents. The student site of understanding taxes is illustrated in Figures 5 - 7.

Figure 1: The IRS website: Understanding taxes



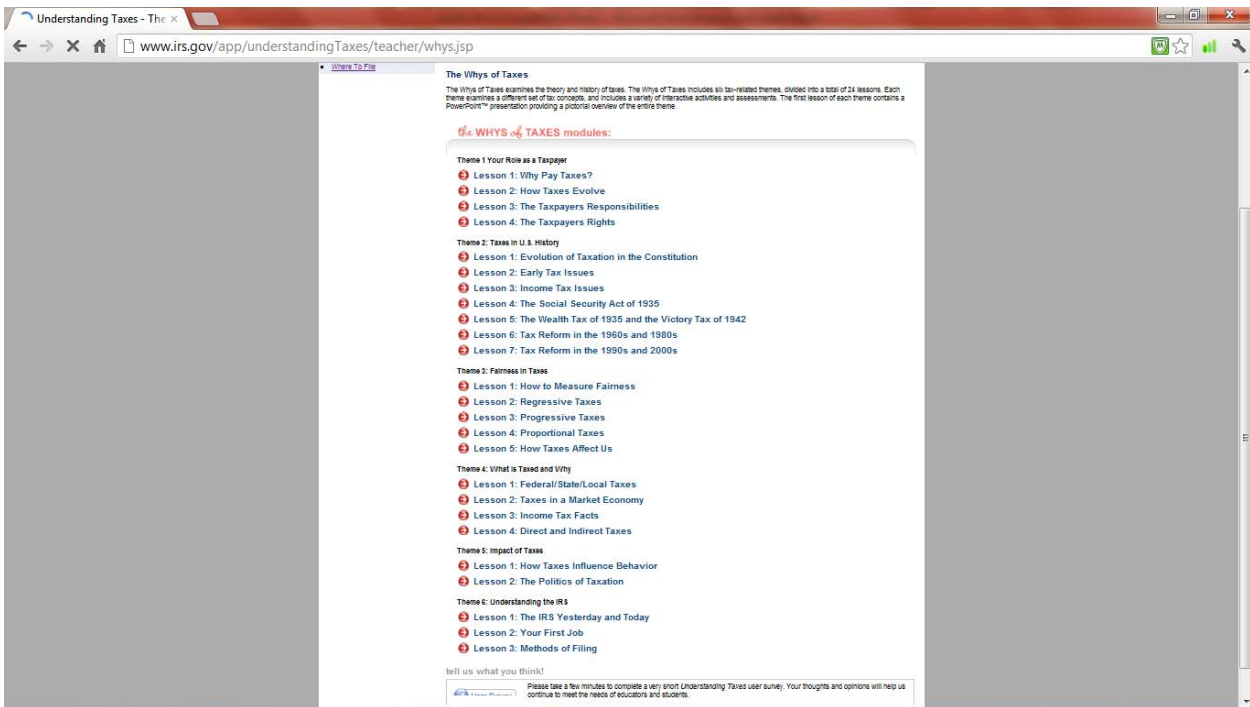
Source: IRS, 2012

Figure 2: The Teacher's site – The how's of taxes



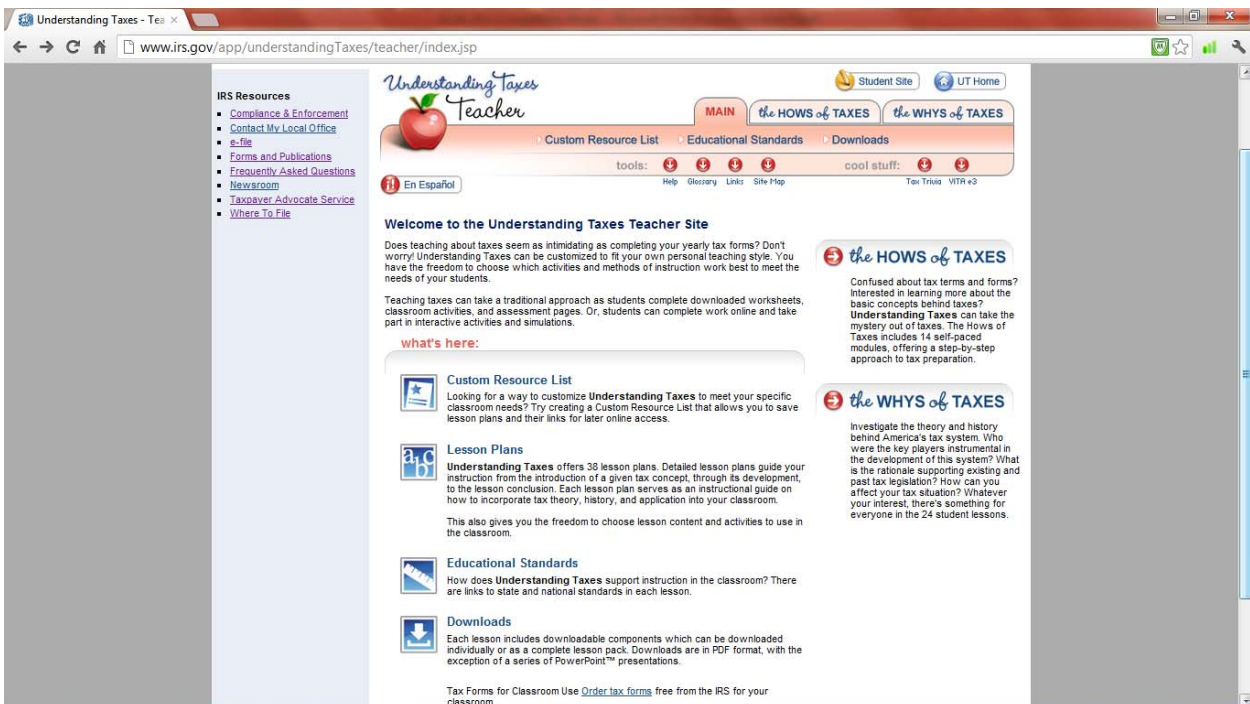
Source: IRS, 2012

Figure 3: The Teacher's site – The why's of taxes



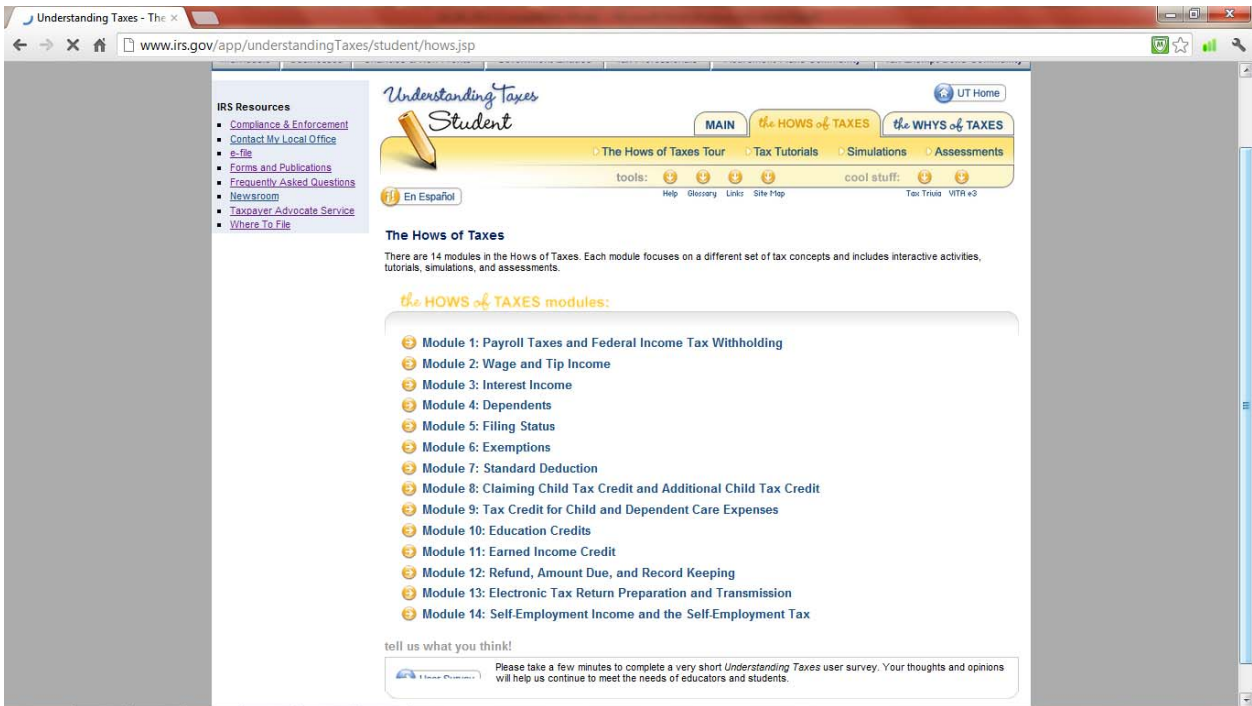
Source: IRS, 2012

Figure 4: The teacher's site – Aids to help the teacher in teaching taxation



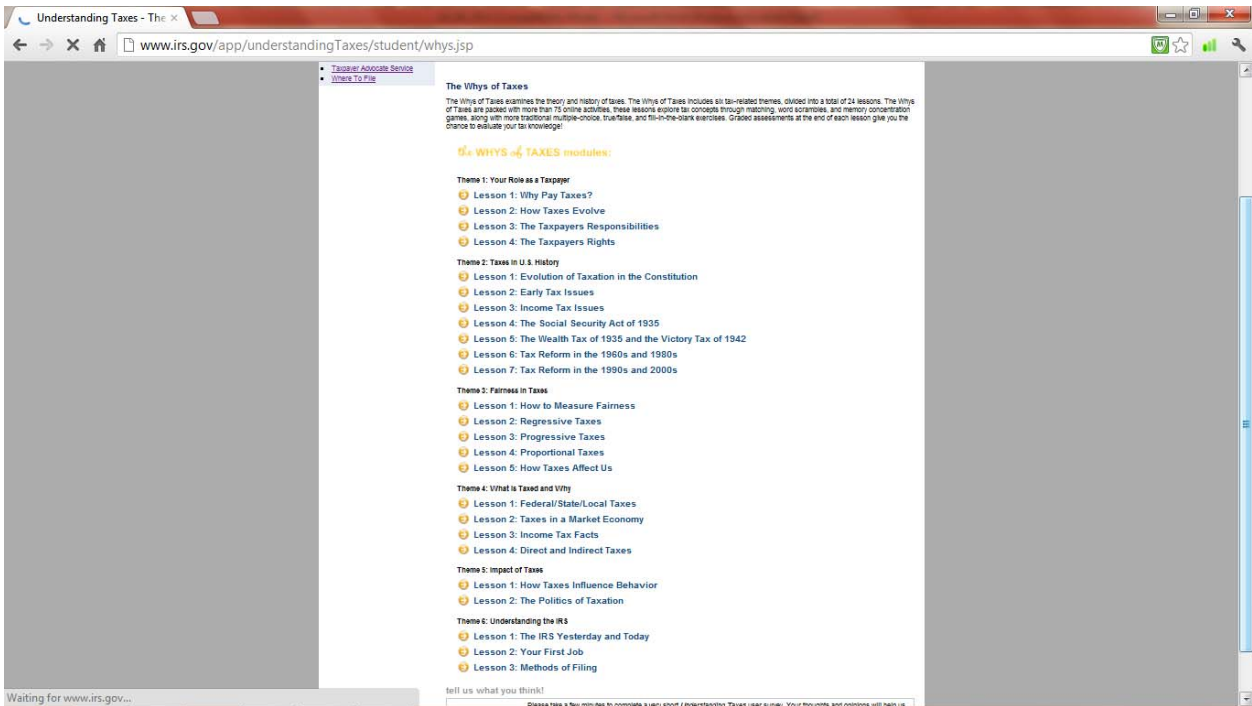
Source: IRS, 2012

Figure 5: The Student site: The How's of Taxes



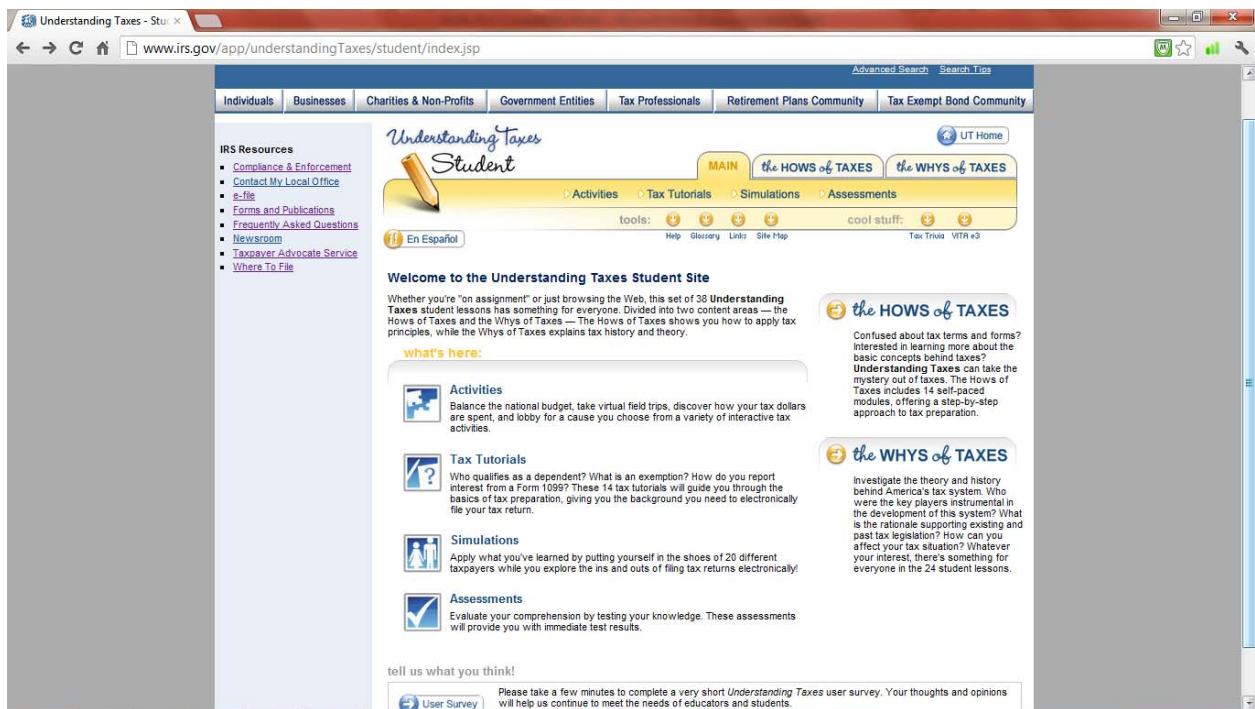
Source: IRS, 2012

Figure 6: The Student Site: The Why's of Taxes



Source: IRS, 2012

Figure 7: The Aids to help Students in the course of Understanding Taxes



Source: IRS, 2012

2.5 THE ROLE OF SCHOOLS IN THE AMERICAN TAX EDUCATION SYSTEM

Traditionally, schools have served as “avenues for the dissemination of knowledge and/or other information and they can be utilized meaningfully to provide formal tax education/information to the public” (Nwana & Richards, 2010:63). Curriculums and lesson plans on taxes that is well structured and age appropriate, initiated or adopted at school level will be useful. Such basic tax education should be incorporated at all levels, elementary school to college, from private to public schools and from community to local schools. The curriculum for taxes should bear the same weight as a curriculum for the American History or Civic Education would bear. The benefits will be life long and it would be a win-win situation for all the relevant parties involved. Students will gain a better understanding of their constitutional obligations towards paying their taxes. Presenting tax education at a school level will give the students the opportunity to grow their understanding about the role of taxes in their country, they will understand why it is necessary for governments to levy and collect taxes and as to the services provided to

them by the government. Tax enlightened students will become better taxpayers and engage in better tax planning (Nwanna & Richards, 2010:63).

2.6 CONCLUSION

From Chapter 2 it is clear that the IRS deems tax education in USA schools an important part in ensuring that their taxpayers understand why and how they should pay their taxes. Their involvement in educating their taxpayers at school level entail the availability of a section on their website where any person can log on to, can gain important information relating to their tax system and citizens can gain a basic knowledge of the USA tax system. The problem however with the existence of the IRS website, where model lesson plans are provided for, is that visitors to the IRS website are generally unaware of its existence and/or they might experience difficulties in using it (Nwanna & Richards, 2010:62). By disseminating the lesson plans and the other relevant tax information on their website, the IRS assumes that taxpayers own computers and have access to the internet. It is therefore that Nwanna and Richards (2010:63) emphasised the importance of incorporating basic tax education into the American school curriculum. Basic tax education should be treated as equally imported as teaching students about history and similar subjects at school level. According to Nwanna and Richards (2010:65) the lack of knowledge is one of the main reasons why taxpayers are non-compliant with their tax obligations and it is therefore one of the biggest reasons why tax education for all citizens is urgent, necessary and a sound investment.

In Chapter 3 tax education in the South African school curriculum at present will be studied in order to determine how it compares to the tax education presented in the USA, and more specifically in American schools.

CHAPTER 3

TAX EDUCATION IN SOUTH AFRICAN SCHOOLS

3.1 INTRODUCING TAX EDUCATION

“Since the vast number of scholars will be the taxpayers of the future, implementing tax education at school level should greatly enhance the success of the tax system” (Oberholzer & Nel, 2006:105).

Oberholzer and Nel (2006:105) argued that introducing a tax curriculum at school level will give the majority of South Africans the opportunity to obtain a basic understanding of tax. School students will receive information on what is expected of them as taxpayers and what are their rights as taxpayers. The study by Oberholzer and Nel (2006:105) investigated the current level and adequacy of tax education in South African schools and identified the shortcomings of current systems implemented in such curriculums. Oberholzer and Nel (2006:105) suggested that the Department of Education together with SARS should improve the current curriculum. The aim of the suggestion, was to potentially increase the number of responsible taxpayers that understand their obligation of contributing to the revenue funds of South Africa and to improve the compliance culture within the country, the latter being one of the main visions of SARS.

The purpose of raising taxes by the South African government as explained by Oberholzer and Nel (2006:105) is to enable the South African government to deliver a number of services to the citizens. It is therefore important for the relevant tax authority to administer the source of such revenue to be actively involved in ensuring that the majority of South Africans comply with the duty of paying their taxes at which some stage of their economically active life, they became liable for.

During September 2010, the Commissioner of SARS, Mr Oupa Magashula, announced that all individuals in formal employment, irrespective of their income, have to register for Income Tax. This statement, together with the promulgation of the Tax Administration Act

in July 2012, places a large amount of responsibility on taxpayers to understand the income tax process and to be aware of both their rights and obligations as the taxpayers of South Africa.

The result of a survey undertaken by Oberholzer (2005:249-275) on the perceptions held by previously disadvantaged South Africans on taxation, was that there is a need for improved knowledge regarding the tax systems and the implementation thereof. They wanted to know how such revenue in the form of taxes are being used by our national and provincial governments. This is an opportunity for the government to empower South African citizens by informing them about taxes in South Africa. Oberholzer and Nel (2006:107) suggested that the starting point would be the introduction of tax education program in schools, as the school-going students of today are the taxpayers of the future.

3.2 WHERE IS SOUTH AFRICA IN TERMS OF TAX EDUCATION

Until recently, a compulsory module namely, Economic and Management Sciences (EMS) were available to students in South African schools. This module dealt with the nature, processes and production of goods and services. One of the four learning outcomes of this module is called "*the economic cycle*". This particular learning outcome, on a grade 9 level, aims to enable the student with the ability to discuss the effect of the national budget on the economy. This includes taxation and expenditure on education, social welfare, healthcare and security. According to Weirich (in Oberholzer and Nel, 2006:114) the assessment standard relating to the national budget at her specific school, included information on direct and indirect taxes. This was however, only covered in a 40 minute class period session and no specific guidelines were provided by the EMS learning area statement.

Oberholzer and Nel (2005:114) took an overview of the basic tax concepts relating to both direct and indirect taxes contained in the section of the textbook used in the EMS learning area to teach on taxes. This textbook, authored by Bounds, Maila, Rall and Tonetti (2001) served as a basis for developing the 40 minute lesson plan relating to the national budget on the economy. Oberholzer and Nel (2006:114-115) commented on each of the learning

outcomes of the study as well as to certain tax concepts which were discussed as part of the learning plan. These outcomes and concepts, together with the comments made by Oberholzer and Nel (2006:114-116) are included as Table 4 in this document.

Table 4 provides the reader with an overview of the information relating to taxes students were educated on in the subject of EMS. Oberholzer and Nel (2006:114-116) extracted the basic concepts and provided commentary on whether the concepts used are correct and where improvement is needed. Table 4 further serves as basis for developing the conceptual framework to be incorporated in the South African school curriculum.

Table 4: Discussion and comments on the direct taxes section of the EMS textbook.

<p>The objective learning for the learners is to understand why tax is important and to identify direct taxes.</p> <p>Comment: No comments</p>
<p>A brief historic discussion explains why it is necessary to pay taxes.</p> <p>Comment: No comments.</p>
<p>The learners have to indicate by using a flow chart how tax money flows from the consumer to the government and back to the consumer.</p> <p>Comment: Firstly, to obtain the best tax knowledge learners should be exposed to the correct tax terminology. This terminology determines the basis for understanding concepts in a certain context. In the direct taxes section learners are asked to create a flow chart to indicate how tax money is flowing form the <i>consumer</i> to the government and back to the <i>consumer</i> (Bounds, Maila, Rall & Tonetti, 2001:56). Direct taxes, however, are raised on <i>persons</i> (Huxham & Haupt, 2005:1). Indirect taxes refers to tax raised on transactions rather than on persons and an example of such an indirect tax is consumption tax which usually takes the form of a general sales tax (GST) or a Value Added Tax (VAT) (Huxham & Haupt, 2005:1). South Africa used GST before 1991. Under this system, sales to the end consumer were subject to tax which was a percentage of the sales price. (Huxham & Haupt, 2005:5). VAT is an indirect system of tax introduced on 29 September 1991, replacing the GST system. Therefore, in the context of direct taxes, <i>persons</i> – defined as natural persons, trusts, deceased estates and legal entities (Arendse, Jordaan, Kolitz & Steyn, 2001:3) – is the correct term and not <i>consumer</i>, defined by the Collins Paperback Thesaurus 2nd edition (in Oberholzer, 2006:115) as a buyer or user of commodities or one who consumes.</p>

This activity can be difficult for learners. An example of a flow chart should rather be provided. The learners then have to research the definitions of tax, tax evasion, tax avoidance, a tax haven, tax deductible, SITE and PAYE, using any form of reference.

Comment: A dictionary is mentioned as the main source that should be used by learners. The Act is not mentioned as a source that could be used.

The Act is the primary source of tax legislation and should be used by learners.

Direct taxes are defined as taxes which are raised at the source where the income is earned. Examples of this type of tax are income tax and company tax.

Comment: Company tax has no stipulated definition in the Act, it is merely income tax on companies and the way in which the term is used in the prescribed literature is incorrect.

Income tax is then defined as tax that is raised on money earned by all the employees in the formal sector.

Comment: Income tax or normal tax is the most common form of tax and normal tax is calculated according to a taxpayer's taxable income (Huxham & Haupt, 2005:5). The Income Tax Act does not mention that tax is raised from people working only in the formal sector, but all persons could be subjected to tax. This definition is a misrepresentation of who is obliged to pay tax. Also, there is no indication of when income is subject to tax.

Furthermore, the prescribed text states that a part of employees' salary is deducted and paid to the state.

Comment: The amount that is deducted is not defined as tax and could be confused with the unemployment insurance contribution or skills development levy.

An illustration of the tax tables is then used to demonstrate the calculation of the deduction.

Comment: The tax table that is used is not representative of the current tax rates. Learners are also not taught on the relevance of the concepts, for example, employees' tax deducted forms a prepayment of taxes.

In this section it is also mentioned that taxpayers receive rebates for certain expenses.

Comment: Taxable income is calculated by deducting certain expenses from gross income (Section 1 of the Act); therefore, in order to determine a taxpayer's taxable income, certain expenses may be deducted. However, Bounds, Maila, Rall & Tonette (2001:57) state that taxpayers receive rebates for certain expenses, which implies that the rebates influence the taxable income. This is incorrect, since rebates only occur after tax has been calculated, and do

<p>not lessen the taxable income as stated.</p> <p>The progressive tax system of South Africa is discussed in manner implying that the more you earn the more you pay.</p> <p>Comment: No comments.</p>
<p>It is suggested that people working in the informal sector do not declare their income and therefore they do not pay tax.</p> <p>Comment: This is an unsubstantiated statement since all the income should be declared and is subject to tax. The only time that a person will not have a tax liability will be if the taxable income does not exceed the tax threshold.</p>
<p>Learners should then ask an adult how to complete tax returns.</p> <p>Comment: The adult who is asked may also have limited knowledge and learners may receive incorrect or no information, which is not beneficial to the learning process.</p>

Source: Oberholzer & Nel (2006: 114-116)

Table 5 provides an overview of the Indirect taxes section of the textbook used in the EMS subject to provide students with education on Indirect taxes, more specifically VAT. Once again the activity is described as it is provided for in the textbooks with commentary raised by Oberholzer and Nel (2006:114 – 116).

Table 5: Discussion and comments on the indirect tax section of The EMS textbook

Activities	Comments
Indirect taxes are defined as taxes, which are raised on <i>expenses</i> and Value Added Tax (VAT), Customs duty and Excise duty are three types of indirect taxes that are briefly discussed in the text.	Indirect taxes are tax raised on transactions. An example of such indirect tax is tax on consumption (Huxham & Haupt, 2005:1)
VAT is discussed using as an example the process of manufacturing furniture. The text shows how value is added in different cycles of the process. In each link of the production chain, tax is collected for the government and	This calculation could be difficult for the learners. No indication is given of whether amounts are inclusive or exclusive. The amount due to SARS is stated as an amount to be paid and not as output tax. The amount claimable

part of it can be claimed back. Learners are then asked to determine the amount of tax due to SARS in this example, as well as the claims that should be deducted from the tax paid.	should also rather be defined as input tax.
Learners are expected to know the current VAT percentage and at least four products that are exempt from VAT and why they are exempted.	There is no definition or explanation of why certain items are exempt of VAT.
A brief discussion about Customs Duty follows and learners are asked to name four products that are imported and four that are exported.	This type of tax is interesting, but one might argue that it is not as relevant to learners' everyday life as income tax and VAT. Time is therefore allocated to customs duty which is not immediately relevant for learners
Learners should then evaluate the effect of Customs Duty on imported products.	As above
In the text, Excise Duty is defined as a tax that is raised on luxury goods rather than on necessary products.	As above
Learners are expected to debate the following subject: Excise duty is the best way to reduce spending on harmful products.	As above

Source: Oberholzer & Nel (2006: 114-116)

Based on the comments from Table 5 it is evident that the current source, from which the learning plan and learning outcomes are formulated, is not sufficient for educating students on the correct terminology and concepts of taxation. It is therefore of great importance to evaluate the current level of tax education in South African schools in the same manner as done by Oberholzer and Nel (2006:114) and to formulate a curriculum best suited to produce well informed, compliant taxpayers. The textbook, Dynamic Economic and Management Science (2001) still contains the same information as presented by Oberholzer and Nel (2006:114-116). It can thus be argued that the information communicated to the students are outdated and does not conform to the recent changes in the tax legislation.

Oberholzer and Nel (2006:117) concluded their study on the implementation of tax education in South African schools by stating that although the current curriculum is compulsory for students, a major shortcoming of the module is, that it includes only one assessment standard in the senior phase of the EMS learning area that deals with tax education. They noted that tax educators do not receive adequate training with regard to such topics and that no assistance is available from SARS. They proposed that the level of knowledge, should be applicable to grade 9 students and the proposed curriculum should convey basic tax knowledge at an appropriate level to students.

3.3 WHAT ABOUT THE FUTURE?

The curriculum presented to students of South African public schools is based on the National Curriculum Statement (NCS) which is a document stipulating the curriculum and assessment policy to be implemented in the South African schooling system. The NCS came into effect on 1 January 2012 and forms part of the action plan formulated by the Minister of Basic Education. The NCS contains a curriculum and assessment policy statement (CAPS) for each approved school subject. The NCS is applicable for Grades R to 12 and is divided into 4 phases namely:

- The Foundation phase (Grades 1 – 3)
- The Intermediary phase (Grades 4 – 6)
- The Senior phase (Grades 7 – 9)
- The Further Education and Training (FET) phase (Grades 10 – 12).

(Department of Education, 2012a-h: 3).

3.3.1 Economic and management science: INTERMEDIARY PHASE

Under the current curriculum, primary school students are first introduced to the field of EMS during Grade 4 when they enter the intermediary phase of their school curriculum. During Grade 4 the concept of tax is introduced to students by means of a vague definition thereof. The term is defined as the money that people pay to the government for services they provide (Department of Education Western Cape, 2005a).

Grade 4

A local school from the Pretoria area makes use of a printed guide named EBW Studiehandleiding (Laerskool Menlopark, 2011). Module one deals with the economic cycle where the topic of tax is dealt with. Tax is defined as the monies paid by the people of the country to the government. According to the study guide, everyone pays taxes including visitors to South Africa. Students are taught that the government of South Africa provides the people of the country with services to meet their basic needs. In order for the government to do so, they require money. The money used by the government to provide these services is called tax and it is collected from individuals and businesses. VAT is defined as a large source of income for the South African government. Certain basic items such as bread, milk and maize are not taxed with VAT, the reason being that the government of South Africa aims to supply South Africans with necessary products to fulfil their basic needs. All non-necessary items are taxed. Students are required to bring a cash receipt to school and they need to answer various questions relating to VAT based on the information on that cash receipt. Students are required to:

- indicate whether any items are not levied with VAT and why;
- write down the amount of VAT charged on the receipt;
- define what the term VAT stands for and why businesses should pay VAT; and
- calculate the percentage of VAT charged as per the cash receipt.

Direct taxes are dealt with by means of a table indicating the differences between direct taxes and indirect taxes.

Direct taxes are described as:

- Most people that work pay taxes.
- It is called direct tax because it is deducted from their income or their salaries.
- A person with a small salary does not pay tax.

Indirect tax is described as:

- People pay tax on both their income as well as on the goods we buy.
- The tax on goods is called indirect tax.

- Everyone pays indirect tax.

Students are provided with the following examples of indirect tax:

- toll fees;
- airport taxes;
- customs and excise duty;
- VAT; and
- Advalorum.

Students are required to understand why we pay taxes and in the process to create such an understanding they are given the reasons of service delivery such as medical services, police and education. Taxes are also used in paying for the salaries of those people engaged in the service of the government and the pensions of retired government officials. Taxes controls spending, motivates South Africans to only buy locally produced goods and it redistribute wealth (Laerskool Menlopark, 2011).

Grade 5

The teacher's guide on EMS for Grade 5 (Department of Education Western Cape, 2005b) deals more extensively with the concept of tax than that of grade 4 where the concept of direct tax is explained to the students as the percentage of monthly income that is paid over to the government at the end of each month. Students are required to develop a case study in which they must write a short summary on direct tax.

In the week that follows, students are introduced to the concept of indirect tax. Students are given examples of indirect taxes raised in South Africa such as Fuel Tax, Excise Tax, Import Tax, Licenses, Transport tax and VAT. The educator is then required to explain to the students which items are non-taxable such as milk and bread, as well as to give students the opportunity to do simple calculations on VAT. Students are once again required to develop a case study in which they must write a short summary on indirect tax. The third and final lesson on tax in the grade 5 curriculum allows the educator to provide the students with examples of cash receipts which gives them the opportunity to get

practical experience in the field of indirect tax. Students are given a structured questionnaire with various questions relating to VAT. Students are also given various pictures and/or sentences which needs to be classified as either direct or indirect tax (Department of Education Western Cape, 2005b).

Grade 6

During Grade 6, revision is done on what the students learned in Grade 5 about tax. Students gain some exposure to the concept of tax in the budget speech delivered by the Minister of Finance annually and they are shown how taxes influence consumers and businesses:

The influence of direct tax on consumers: Income tax – The more you earn the higher is the percentage you pay for tax.

The influence of direct tax on businesses: Higher profits mean higher tax.

The influence of indirect tax on both consumers and businesses:

- An increase in the tax rate leads to an increase in the cost of goods and services.
- Consumers have less money to spend on goods and services to fulfil their basic needs.
- Businesses need to increase the price of their goods and services to maintain and ensure their profit margins.
- Consumers are forced to buy local produced goods and services.
- Consumers are encouraged to cultivate healthy lifestyles. (Department of Education Western Cape, 2005c:6)

Assessments consist of extracting information from the budget speech and giving students the opportunity to identify the changes relating to both direct and indirect taxes such as the increases in taxes on fuel, alcohol and cigarettes. Students are then required to discuss the influence of the above changes on the income of consumers and businesses such as productivity, employment, profits, income, standards of living and savings by way of a presentation (Department of Education Western Cape, 2005c:7).

Evidently from the above, certain requirements regarding the system of VAT in South Africa is omitted from what is included in the curriculum for the intermediate phase. Important information such as when to register, who should register for VAT and what the procedures for registration are, is not included in the curriculum and therefore South African students entering the business market, still does not have the necessary information to comply to South African legislation pertaining to VAT.

From the above it can also be noted that the education relating to direct taxes are not sufficient enough to create well educated and informed taxpayers for the future. Students are only introduced to the concept of direct taxation.

One of the key changes with the introduction of CAPS for the intermediary phase is that the number of non-language subjects will be reduced from seven to four. This will be implemented from 2013 and the four non-language subject to be presented in grades 4 – 6 under the CAPS will be (Department of Basic Education, 2012a):

- Life Skills;
- Mathematics;
- Natural Sciences and Technology; and
- Social Sciences.

Thus from 2013, students will only be exposed to EMS once they enter the senior phase of their school curriculum (Department of Basic Education, 2011).

3.3.2 Economic and management science: SENIOR PHASE

The current curriculum presented to students in South African schools provide for the following exposure to the concept of tax:

Grade 7

The grade 7 curriculum provides the student with the opportunity to learn about the relationship between the government and a business. The business pays tax to the

government on the profits they realise so that the government can provide basic services to the business, such as electricity (Department of Education Western Cape, 2005d:8).

As part of a lesson on administrative management, students once again touch on the subject of income tax as money paid to the government on income received. Students are introduced to SARS as the government office that collects tax from individuals and businesses.

No further exposure is given to students on tax in the grade 7 curriculum.

Grade 8

During grade 8, students are educated on the National Budget process of South Africa which explains how the government collects its revenue in the form of taxes and how the revenue of the country is spent by the government i.e. the expenses. The influence of the National Budget on economic growth is discussed in terms of tax concessions and infrastructure expenditure. The majority of time available in the grade 8 curriculum for EMS is allocated to Accounting and the processing of accounting records (Department of Education Western Cape, 2005d:8).

Grade 9

The curriculum for grade 9 once again focuses on the National Budget and the impact thereof on the economy of South Africa. There is however no further exposure to the concept of tax in the Grade 9 curriculum (Department of Education Western Cape, 2005d:8).

Introducing CAPS for Senior Phase into the curriculum

Currently, students learn about EMS from grade 4 where they start learning about the business environment and what it involves. As from 2013, EMS in the Intermediary phase

falls away and students will only start learning about economic and management sciences from Grade 7 onwards.

According to the CAPS for Grades 7 – 9, EMS deals with the efficient and effective use of different types of private, public or collective resources to satisfy people’s needs and wants. The subject reflects critically on the impact of resource exploitation on the environment and on people. The subject also deals with the effective management of scarce resources in order to maximise profits. EMS is a practical subject that equips learners with real-life skills for personal development and the development of the community. The subject is divided into 3 sub-categories namely: The economy, financial literacy and entrepreneurship.

Table 6 provides a summary of the topics covered under each of the three sub-categories with the year in which the topic is covered in brackets (Department of Basic Education, 2012c:8-9).

Table 6: Economic and Management Science Topics

Sub-category	Topic
The Economy	History of money (Grade 7) Need and wants (Grade 7) Goods and services (Grade 7) Inequality and poverty (Grade 7) The production process (Grade 7) Government (Grade 8) The National Budget (Grade 8) Standard of living (Grade 8) Markets (Grade 8) Economic systems (Grade 9) The circular flow (Grade 9) Price theory (Grade 9) Trade unions (Grade 9)

Financial literacy	Savings (Grade 7) Budgets (Grade 7) Income and expenditure (Grade 7) Accounting concepts (Grade 7 / 8) Accounting cycle (Grade 8) Source documents (Grade 8) Financial management and keeping of records (Grade 8 / 9)
Entrepreneurship	Entrepreneurial skills and knowledge (Grade 7) Businesses (Grade 7) Factors of production (Grade 8) Forms of ownership (Grade 8) Sectors of the economy (Grade 9) Levels and functions of management (Grade 8) Functions of a business (Grade 9) Business plan (Grade 9)

Source: Department of Basic Education; 2012c:8-9

The National Budget of South Africa is dealt with in a 2 hour session during weeks 4 and 5 of the first term of Grade 8. The topic covers both direct and indirect tax together with government expenditure on services such as education, health, housing, social grants, transport, security, etc. The influence of the National Budget on growth and redressing of economic inequalities are also dealt with during this session.

3.3.3 Economic and management science: FET PHASE

As from Grade 10, students are allowed the opportunity to choose their elective subjects. Students are presented with a list of available subjects and need to choose a minimum of six subjects of which their first and second language subjects are compulsory. The three subjects that previously made up the subject of EMS is now included in the FET phase as three separate subjects namely Accounting, Business Studies and Economics. Each of the three subjects will be discussed separately on how tax is incorporated.

Accounting

According to the CAPS statement for Accounting in Grades 10 – 12, the main purpose of the subject is to be able to (Department of Basic Education, 2012d:9):

- record, analyse and interpret financial and other relevant data in order to make informed decisions;
- present and/or communicate financial information effectively by using generally accepted accounting practice in line with current developments and legislation;
- develop and demonstrate an understanding of fundamental concepts;
- relate skills, knowledge and values to real-world situations in order to ensure the balance between theory and practice, to enter the world and/or to move to higher education, and to encourage self-development;
- organise and manage own finances and activities responsibly and effectively;
- apply principles to solve problems ... in familiar and unfamiliar situations;
- develop critical, logical and analytical abilities and thought processes to enable learners to apply skills to current and new situations; and
- deal confidently with the demands of an accounting occupation manually and/or electronically.

Table 7 shows the different topics dealt with in the Accounting subject during grades 10 – 12 (Department of Basic Education, 2012e:8):

Table 7: Topics covered in the accounting curriculum for grades 10 – 12

Curriculum	Topic
Financial Accounting	1. Accounting concepts 2. GAAP / IFRS Principles 3. Bookkeeping 4. Accounting equation 5. Financial accounts and financial statements 6. Salaries and Wages 7. Value-Added Tax 8. Reconciliations
Managerial Accounting	9. Cost accounting 10. Budgeting

Curriculum	Topic
Managing Resources	11. Indigenous bookkeeping systems 12. Fixed assets 13. Inventory 14. Ethics 15. Internal control

Source: Department of Basic Education, 2012e:8

During the second term of Grade 10, the concept of VAT is dealt with. The annual teaching plan as part of the CAPS for the FET phase contains the following guidelines to be considered when dealing with the concept of VAT at grade 10 level. The allocated time for VAT in grade 10 is 1 week in which the following concepts on which students have to be educated on. The educator should provide the students with a basic explanation of the following basic concepts of VAT (Department of Basic Education, 2012e:15):

- the need for VAT;
- the purpose of VAT;
- the principles of VAT;
- the concept of zero-rated items;
- VAT-exempt items;
- VAT-able items; and
- the current VAT rate.

During grade 11, students are given a more in-depth overview of the concept of VAT and a 2 week allocation to this topic. Students are required to perform the following VAT calculations (Department of Basic Education, 2012e:28):

- to use the current VAT rate;
- to add VAT to the cost price plus mark-up amount;
- to calculate VAT from a VAT inclusive amount; and
- to identify the VAT amount on a cash receipt and/or invoice.

Students are further required to (Department of Basic Education, 2012e:28):

- understand the effect of bad debts, discounts and goods returned on VAT;
- integrate ethics relating to VAT such as VAT fraud; and

- integrate internal audit controls and processes to VAT such as the collection of VAT from customers as well as the payment of VAT to SARS.

Educators are required to make use of textbooks, accounting stationery and newspaper articles in preparing for the lectures on the topic of VAT for grade 11 (Department of Basic Education, 2012e:28).

One week during the second term of the grade 12 curriculum students are once again introduced to the concept of VAT and during this week allocated students need to master the following relating to VAT (Department of Basic Education, 2012:35):

- they should be able to calculate the amount payable or receivable for VAT from SARS;
- they should be able to complete the VAT control ledger account from given information;
- they should be able to integrate the ethical issues relating to VAT; and
- they should be able to integrate the internal control processes relating to VAT.

Educators are required to make use of textbooks, accounting stationery, SARS brochures and VAT return forms as well as newspaper articles (Department of Basic Education, 2012e:35).

Business Studies

The purpose of the subject Business Studies is to ensure that learners acquire business knowledge, skills and principles to assist them to productively and profitably conduct a business. The concept of tax is built into the curriculum for grades 10 – 12 as part of the annual teaching plan for business studies and is dealt with under the following topics (Department of Basic Education, 2012f:13-43):

- During grade 10 as part of a lesson on “Business Location Decisions” in which students are required to form a debate on the factors that will have an impact on the decision as to where a business owner will locate his/her business.
- During grade 11 as part of the lesson on the “Benefits of a company over other forms of ownership” where the benefits and challenges of establishing a company versus

other forms of ownership is discussed among the students. Students need to know the different tax rates relevant to the various forms of business ownerships in order to partake in a discussion like this.

- During the fourth term of grade 11, students are introduced to Human Resources and as part of this topic; students are taught how to determine a salary which includes concepts such as personal tax.
- Grade 12 students are educated on the topic of ethics and professionalism during a one week time allocation in the first term of their grade 12 year. Taxation is discussed as one of the issues that can challenge the ethical and professional business behaviour as part of the student's reflection on the business environment and ways and/or strategies that could be implemented in the business environment to address such issues.
- Once again during grade 12 students deal with the concept of business ownership under which the topic of taxation once again being one of the factors playing a role in determining which form of ownership would be most suited for which type of business.

Economics

The subject Economics during grades 10 -12 mainly deals with the concept of the economic cycle of South Africa and the different role players involved in the economy of South Africa (Department of Basic Education, 2012g:8).

The first topic during the grade 10 curriculum that deals with the concept of tax is that of the public sector in which the effects of the public sector's involvement and intervention in the market is presented to the students. One of the methods of involvement discussed is indirect taxes. Resources used in the presentation of this topic are cartoons on the government, taxes, prices and production. The next topic in the curriculum for grade 10 students deals with growth, development and the concept of globalisation. The government and the regulation of the markets are discussed by means of taxation and the mobilisation of finance for investment in infrastructure (Department of Basic Education, 2012g: 14 - 24).

Only again in the fourth term of grade 11, is the concept of tax dealt with. Again, as part of the topic of the public sector where the role of the public sector in the economy is evaluated with reference to the socio-economic responsibility in a South African context. No formal guidance is provided regarding the extent to which the concept of taxation should form part of the lessons (Department of Basic Education, 2012g:31).

No further exposure is given to students regarding tax in the subject of Economics.

3.4 WHERE DOES SOUTH AFRICA STAND IN RELATION TO THE REST OF THE WORLD

Comparing the SAS of Japan to the current system of e-filing in South Africa, the main focus of introducing a system as such, is to increase the involvement of South African taxpayers in their own tax affairs. E-filing was introduced in 2007/2008 to transform the income tax process from a manual, paper based system to an automated system. The system of e-filing allows for taxpayers to complete and submit their tax returns from the comfort of their own homes or offices. Upon submission of the income tax return by an individual, whether by himself or by means of a tax practitioner or a qualified accountant, the IT34 or more commonly known, the assessment is issued based on the IRP5's submitted by the employers together with the information submitted by the taxpayer. Only in certain instances does SARS deem it necessary to request the taxpayer to submit the supporting documents pertaining to the tax return submitted.

Arguably from the information above, the system of e-filing can be classified as a form of SAS where the taxpayer is required to have some form of knowledge on the concept of taxation in order to submit his/her tax return. The fact however, still remains that the majority of SA taxpayers make use of the services of a tax practitioner to submit their tax returns and to adhere to general tax compliance, mainly due to a lack of education and knowledge. The use of tax practitioners imposes additional costs to taxpayers and for most tax practitioners it is not at all cost effective to take on individual taxpayers with a basic tax calculation as clients.

Furthermore, when making use of a tax practitioner to handle his/her tax affairs the taxpayer ultimately remains responsible for the final information and documents submitted to SARS. Although in most instances the taxpayer signs an affidavit, all responsibility reverts back to the taxpayer once the information is submitted. It would therefore be beneficial to the taxpayer to be educated and have the necessary knowledge to know and understand what is being submitted to SARS in respect of his/her taxes, on their behalf.

3.5 CONCLUSION

From the research it is shown that the current level of education presented to students in South Africa is not adequate enough as students only get a broad overview of the concept of indirect taxation. Students are also just briefly introduced to the concept of direct taxation such as income tax, provisional tax and Pay as you earn (PAYE). It is thus evident that, based on the required level of involvement in his/her personal taxes by SARS and the local government, a taxpayer should have a basic knowledge of the tax concepts relevant to his/her taxes. Chapter 4 will deal in depth with the proposed curriculum to be incorporated as part of the secondary school curriculum to provide students i.e. the future taxpayers of South Africa with knowledge and practical examples relating to their tax affairs.

CHAPTER 4

TAX EDUCATION: BUILDING A CURRICULUM

4.1 INTRODUCTION

From Chapter 3, it was emphasised that the current level of education, relating to taxes, being presented in the South African schools is not adequate and in-depth enough to create well-informed, educated taxpayers. Chapter 4 sets out a conceptual framework that is suggested to form the basis of a tax curriculum to be incorporated into the current education system of South Africa. The chapter will discuss the appropriate age at which students would be most acceptable to receive and implement such information together with the relevant topics to be covered during the curriculum. Chapter 4 also provides basic detail which should form part of the curriculum to consider this subject as comprehensive yet basic.

4.2 APPROPRIATE AGE FOR TAX EDUCATION

In order to develop a conceptual framework for a tax education curriculum, it should firstly be determined at what age it would be most appropriate to teach a concept such as tax to students and when students would be most receptive to information relating to a concept as intricate as tax. Students should be able to gain a proper knowledge of the concept and on how to apply the concept of tax in their everyday life. Prior research has been done to determine student's knowledge about taxes at certain ages. The results of the studies were as follow:

In a study performed by Furnham (2005:703), a short test of four questions was handed to students of ages ranging from 10 to 15 to test their knowledge of taxation. Furnham (2005:703) studied the results of various students, of different age groups, origin and nationality, interviewed about what the result would be if taxes were abolished and thus demonstrating their respective knowledge of how taxation works and what the purpose of

levying and collecting taxes are. The outcome of the study was that adolescents of the ages 14/15 years do not fully comprehend the nature and the purpose of taxation.

In a study performed by Lyck (in Furnham 2005:704), the researcher concluded that 86% of 14 year old, Danish students understand the concept of taxation. The students, who showed a positive result of possessing knowledge in tax, understood that, should the government reduce tax rates, there would be less goods and services available to the public.

Furnham (2005:705) quoted the results of research performed by Kirchler and Praher where students of Australia were interviewed to determine their knowledge of tax. The results of the study showed that students 14 years and older were aware of the purpose of taxes and they thought that abolishing taxes was not a good idea. The conclusion of the study was that at the age of 14, students have a reasonable understanding of the concept of taxation.

The interviews performed by Harrah and Friedman (in Furnham, 2005:705) on a pilot group established that almost none of the students at the age of eight years were able to provide a correct answer to the question of what the different types of taxes were that a employed citizen must pay, when one should start paying taxes and at what rate should one's tax liability be calculated. The results of the aforementioned interview by Harrah and Friedman (in Furnham, 2005: 705) furthermore showed that only in the late teenage years do students start to understand and appreciate the tax system of their respective countries. This understanding of the tax system included differentiating between the various tax types, who are in charge of setting tax rates, introducing and abolishing taxes, as well as who is liable for tax and who is not.

In summary of the above, the question that arises is at what age are students able to adequately understand the concepts and principles of taxation. The studies performed as part of prior research on tax education showed that already by the age of 14 a child can understand the concept of taxation if properly educated on the concept. It can thus be

argued that the concept of taxation could successfully be incorporated from as early as Grade 8 into the curriculum for South African schools.

One of the main factors to consider when determining the appropriate age level to educate students on tax is the policy relating to education in South Africa which states that school is only compulsory between the ages of 7 and 15. The average school attending child turns 15 years of age during their grade 9 year. This means that once a student passed the national assessment written at the end of Grade 9, he/she is not obliged to finish grades 10 – 12 of the national curriculum. Students are then allowed to enter the employment phase of their economic active live. Currently the FET sector (Grades 10 -12) carries 220 000 students in public colleges and 100 000 in private colleges. According to statistics published by the Department of Basic Education during February 2012, the number of students attending school in South Africa by the end of 2010 amounted to 12 260 099 (Department of Basic Education, 2012g:10). It is thus of very little value to incorporate basic tax education in the FET stage of the curriculum which is only attended by 20.1% of the South African population at the end of 2010 (Department of Basic Education, 2012g:11). It is therefore suggested that basic tax education be presented in Grade 8 – 9 with a more detailed revision of the work done during the FET phase of the curriculum.

4.3 THE BUILDING BLOCKS OF A PROPER TAX EDUCATION CURRICULUM

According to Bonner (1999) the choice of teaching methods should be based on the type of learning objectives to be presented. It was argued by Flescher and Rescho (1986:55) that the method of conducting a basic tax course requires students to memorise rules and methods of calculations. Such learning methods, according to these authors, would be more effective if the tax concepts along with the tax rules and regulations are embodied in the tax course. Schadewald (in Hite and Hasseldine, 2001:6) suggested that tax educators should recognize the growing importance of international tax issues and they should introduce such basic principles to students. In an article on tax education in the USA, the authors quoted Jones and Duncan (in Hite and Hasseldine, 2001:7) on the issue of tax skills versus the detailed tax rules and facts. They suggested that specific tax skills and

procedural knowledge should be the basis of a tax education program and once the ground has been laid, then one should introduce the detail relating to the basic rules. They suggested that such procedural knowledge be implemented in four steps namely:

- To introduce the specific tax skill.
- To complete a task analysis for each skill.
- To provide examples on each skill and allow for the student to practice such example.
- To allow students to practice the skills acquired by working through holistic, real world problems.

The system of tax education which is used as a basis for comparison in tax education is that of the USA which is described by Hite and Hasseldine (2001:11) as “a melting pot of ideas, developed over years of sharing research and experiences among a community of learners.” The USA curriculum on tax education is based on the American Institute of Certified Professional Accountants (AICPA) Core Competencies which emphasize a skill-based curriculum over a content-based one.

The purpose of proposing the implementation of a tax education curriculum in secondary schools in South Africa is not to create tax experts and professionals, but to provide the taxpayer on the street, with a basic tax knowledge relating to the tax liability he or she incurs monthly when receiving their pay check.

Meade (2002:130) discusses the factors that drive change in the field of education. She emphasises the tools being employed by tax educators to create an active learning environment for students. This environment focuses on skills such as intellectual, communication and interpersonal. These changes are based on the seven principles of good practice of the American Association of Higher Education (in Meade, 2002:130). Although these principles are formulated for undergraduate education, it can be beneficial to implement these practices into the proposed curriculum for tax education in secondary schools.

The seven principles implemented in the education module presented by the American Association of Higher Education (in Meade, 2002:130) are:

- To encourage contact between the students and their respective instructors
- To develop reciprocity and cooperation among students
- To use active learning techniques
- To teach students to give prompt feedback
- To emphasize the time on the task
- To communicate high expectations
- To respect diversity in different talents and ways of learning

(Meade, 2002:130).

Apart from the seven principles of good practice in education, Meade (2002:131-133) demonstrates the different forms of education that can be used in building a tax curriculum such as case studies, presenting a mock tax court and promoting student participation in such events, debates, concept maps and iterative exercises. According to Meade (2002:131) many tax educators use learning teams to achieve results in which students are able to integrate concepts from different courses. The students are assigned to teams at the beginning of the course based on criteria such as personality profiles, value line questions and academic aptitude. Students are given assignments to complete and course material to review. Such assignments generally range from completing simple tax returns to preparing complex tax planning proposals. Upon completion of the various assignments, review sessions are held to demonstrate to the students how tax professionals might approach the relevant matter at hand. Students will be able to view their understanding from alternative perspectives (Meade, 2002:131-134).

Tax courses should combine multiple forms of learning formats with different measures of assessment. The purpose of combining the learning formats available and the various forms of assessment is the creation of a learning environment for tax education that is interactive, cooperative and reflective (Meade, 2002:134).

4.4 ELECTIVE VERSUS COMPULSORY

One of the main issues arising from the introduction of tax as a subject in the Senior and FET phase of the South African school curriculum is to decide firstly, whether it should be presented as a subject on its own or whether it should be incorporated as a single module in the business subjects currently being presented to students in both these phases. Students currently have the option of choosing between subjects such as Business studies, Accounting and Economics in the FET phase of the NCS.

The announcement by the Commissioner of SARS (SARS, 2011a:2) during August 2010 that all individuals in formal employment, regardless of their income should be registered for income tax is the decisive factor in determining whether the subject of taxation should be a compulsory module presented in secondary schools. Not only should students who wish to engage in a career in accounting, tax or any other business field be educated on this subject but any person who will receive income in South Africa.

4.5 PAYING TAXES: A SCIENCE OR AN IMPORTANT LIFE SKILL?

CAPS (Department of Basic Education, 2012a) classifies the subjects presented in the senior phase of the curriculum into the following main sections:

- Languages; and
- Non-languages

The non-languages section is subdivided into the following categories:

- Creative arts;
- Economic and Management Sciences;
- Life Orientation;
- Mathematics;
- Social Sciences; and
- Technology.

The question that arises is where the subject of tax should be included. Should it be included as a separate subject to enhance the importance of the subject as part of the curriculum or should it be included in one of the sub-sections already sub-categorised in the CAPS for the senior phase? Should it be included in the subject of Economic and Management Sciences merely because it is a business related concept?

CAPS introduced the subject of “Life Skills” as a compulsory module from as early on as Grade R and remain compulsory until Grade 12. The subject is defined in the CAPS as:

“Life skills deal with the holistic development of the learner throughout childhood. It equips learners with knowledge, skills and values that assist them to achieve their full physical, intellectual, personal, emotional and social potential. The subject encourages learners to acquire and practise life skills that will assist them to become independent and effective in responding to life’s challenges and to play an active and responsible role in society. The subject aims to develop learners through three different, but interrelated study areas that is; Personal and Social Well-being, Physical Education and Creative Arts.”

(Department of Basic Education, 2012b:8)

Paying taxes is a social responsibility placed on the shoulders of each and every South African citizen as it is those citizens who require the government to provide them with basic services. Incorporating tax education into the subject of “Life Skills” under the sub-category of “Personal and Social well-being” will give students the opportunity to be:

- equipped with knowledge, skills and values that will assist them to achieve their social potential;
- encouraged to acquire and practice life skills that will assist them to become independent;
- effective in responding to life’s challenges; and
- active and responsible role-players in the society as taxpayers.

As determined earlier, students are most receptive for information relating to taxation from the age of 14. It is thus suggested that tax education be incorporated in the “Life Skills”

subject from Grade 8 and remains part of the curriculum until Grade 12, with the foundation being laid in the senior phase (Grade 8 – 9) of the curriculum.

4.6 THE CONCEPTUAL FRAMEWORK

The main purpose of the subject of taxation to be incorporated into the secondary school curriculum of South Africa should be to enable students to (Amended from Department of Basic Education, 2012d:8-9):

- Gather relevant information pertaining to his/her personal income tax in order to make informed decisions;
- To develop and demonstrate an understanding of the fundamental concepts of taxation;
- To organise and manage own finances and activities responsibly and effectively;
- To relate the skills, knowledge and practical examples to real life situations in order to ensure that there is balance between theory and practice;
- To develop critical, logical and analytical abilities and thought processes to enable learners to apply skills to current and new situations;
- To develop the following characteristics relating to tax:
 - ethical behaviour;
 - sound judgement;
 - thoroughness;
 - orderliness;
 - accuracy; and
 - neatness.
- To allow students to enter the world of work and or move to higher education; and
- To encourage self-development.

4.6.1 Requirements to offer taxation as a subject

Each learner should have a textbook, stationery and a calculator.

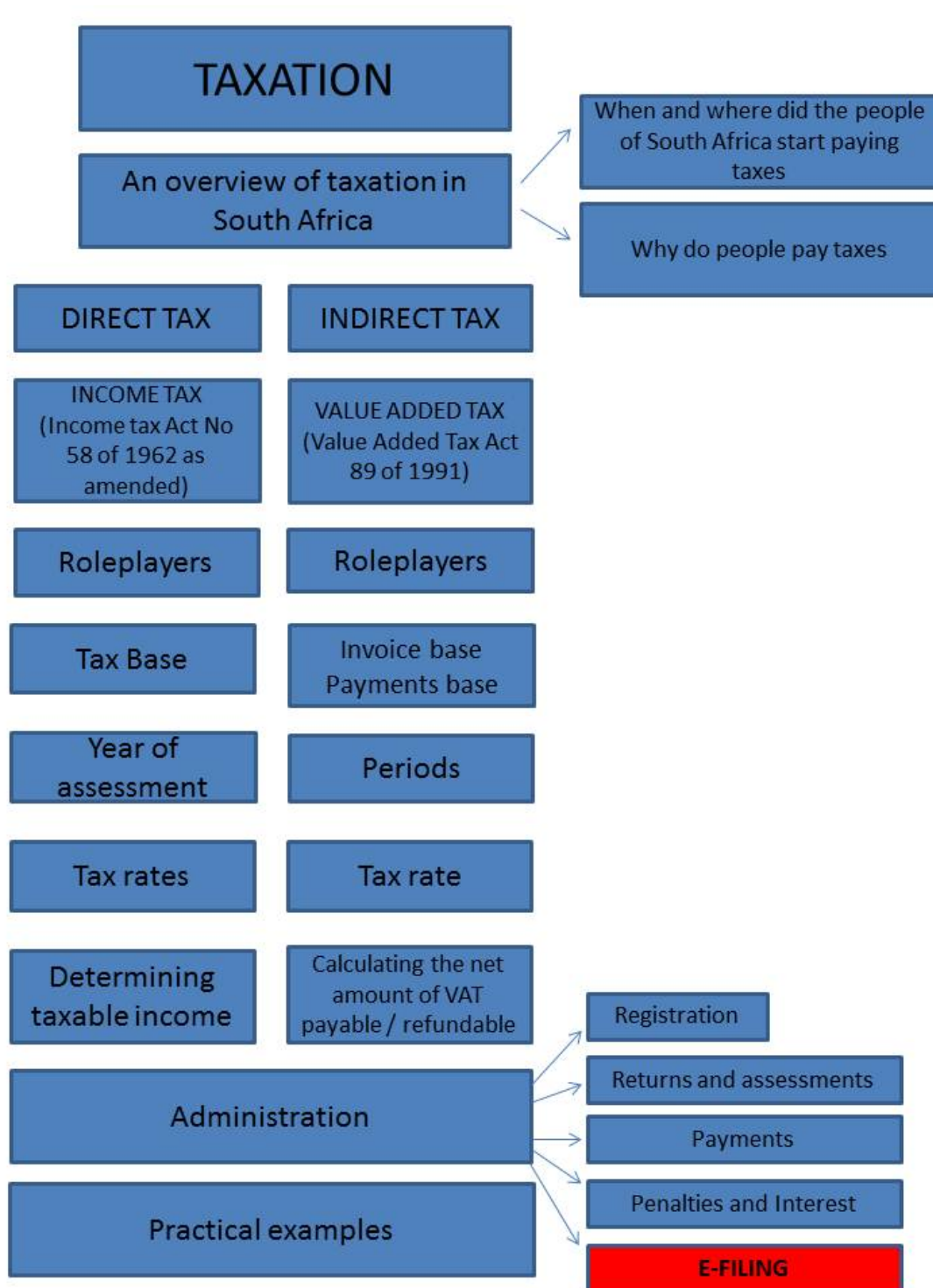
Teachers should have:

- a variety of textbooks as reference;
- relevant legislation such as the Income Tax Act and The Value Added Tax Act;
- SARS Brochures; and
- access to a computer and the internet.

4.6.2 Topics

Figure 8 provides an overview of the conceptual framework to be incorporated into the senior phase of the secondary school curriculum (Grade 8 -9). Students should first get an overview of the history of taxation, not to such an extent that it bores them but to lay the foundation to create an understanding of why it is necessary to pay tax and to gain a proper understanding of where we are today as to where we were when the concept of tax was originally introduced in South Africa. Once the students have the knowledge of where taxes come from, the next step will be to introduce them to the two categories of taxes namely direct and indirect taxes. Under each of these categories the curriculum should focus on the taxes mostly dealt with on a day to day basis i.e. Income tax and VAT.

Figure 8: An overview of the Conceptual Framework to be incorporated in the senior phase of the secondary school curriculum



Importantly students should first understand the basic concepts applicable to each of the taxes. Students should be able to differentiate between which concept is relevant to which tax and why. It is suggested from prior research that students should not only be able to provide a definition for each of the concepts, but they should rather be able to classify the concept under each of the different taxes based on their understanding of the relevant concept and their ability to apply it to a practical example. The process under each of the two forms of taxes will now be discussed in detail.

Direct tax

The first section of the curriculum will deal with direct taxes in which students will be given the opportunity to learn about the taxes they pay on the income they will earn once they enter the work sector. The subject will focus on the basic concepts that students should know in order to maintain their own tax affairs to a large extent.

The subject will deal with income tax in its total form as well as with provisional taxes and PAYE. The left side of the framework in Figure 8 sets out the process to follow relating to direct taxes. Table 8 provides detail on each of the topics covered in the overview as part of the various topics that is considered to be fundamental in building a tax curriculum. The main topics categorised in the left column while the detail relating to that specific topic is set out in the right column. These topics are considered to build the foundation in respect of direct taxes for students in Grades 8 – 12. The framework is based on the information presented on the website used by the IRS for tax education in American schools (IRS, 2012).

Table 8: The conceptual framework to be incorporated into the curriculum for secondary schools in South Africa relating to Direct Taxes

Topic to be covered	Detail relating to the specified topic
An overview of the history of tax in South Africa	<ul style="list-style-type: none"> • When and where did people start paying dues in the form of taxes • Why do people pay taxes

<p>What is direct tax</p>	<p>Provide students with an overview of the difference between direct and indirect taxes.</p> <p><u>Direct taxes:</u></p> <p><i>Direct Taxes are tax that is directly assessed by SARS.</i></p> <p>Direct taxes include: Normal tax (commonly referred to as income tax)</p> <ul style="list-style-type: none"> • Employees tax – deducted from the remuneration payable to employees • Provisional tax – paid by taxpayers who fall within the definition of provisional taxpayer in par 1 4th Schedule. <p>Dividends tax Donations tax Withholding tax – collection of normal tax in respect of non-residents Turnover tax</p>
<p>Role-players</p>	<p><u>The Taxpayer</u></p> <p>Normal tax is imposed upon persons, irrespective of whether they are natural persons, companies, close corporations or other taxable entities.</p> <p><u>The South African Revenue Service (SARS):</u></p> <p>SARS was established by legislation to collect revenue and ensure compliance with tax law. Its vision is to be 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. The service is an administratively autonomous organ of the state; its outside the public service, but within the public administration.</p> <p>The main function of SARS is to:</p> <ul style="list-style-type: none"> • collect and administer all national taxes, duties and levies; • collect revenue that may be imposed under any other legislation, as agreed on between SARS and an organ of state or institution entitled to the revenue; • provide protection against the illegal importation and exportation of goods; • facilitate trade; and • advise the Minister of Finance on all revenue matters. <p><u>Source:</u> http://www.sars.gov.za/home.asp?pid=200)</p>

Tax Base	<p>On what is taxes raised in South Africa i.e. what is taxed:</p> <p>Income tax: Income tax is payable on the taxable income of a taxpayer for a year of assessment.</p>
Year of assessment	<p>The year of assessment for both individuals and trusts always ends on the last day of February except in the case of companies when it ends on the last of the financial year of the company ending during the calendar year in question.</p>
Who pays the tax	<p>Income tax: The taxpayer pays tax on the amount of income earned by him/her during the financial year. The tax is deducted on a monthly basis in the form of PAYE or paid over on an annual basis at the time of assessment of the taxpayer's income tax return.</p>
Tax rates	<p>Different types of tax rates</p> <ul style="list-style-type: none"> • Fixed rate • Progressive rate • Regressive rate <p>Tax rates in South Africa</p> <ul style="list-style-type: none"> • Individuals: Tax tables (Progressive) • Company tax rate: 28% (Fixed) • Trusts: 40% (Fixed)
Determination of taxable income and normal tax	<ul style="list-style-type: none"> • Students should understand what is taxed • Students should understand what is the difference between deductions, taxes levies, rebates and how each of these concepts fit into the process of determining the taxable income of an individual. Figure 9 provides a layout of the process to follow in determining the taxable income of an individual.

<p>Administrative tax issues (based on the provisions of the Tax Administration Act No 28 of 2011)</p>	<p><u>When should a person register for:</u></p> <ul style="list-style-type: none"> • Income tax • Value added tax • Pay as you earn (PAYE) <p><u>When should tax be paid</u></p> <ul style="list-style-type: none"> • Income tax – annually as indicated by the Minister of Finance in the annual Budget speech • PAYE – Monthly deducted from salary <p><u>The returns to be submitted when declaring an amount of tax to SARS:</u></p> <ul style="list-style-type: none"> • ITR12 – Income tax: Individual taxpayer • IT14 – Income tax: Companies / Closed Corporations • IT12TR – Income tax: Trusts • EMP201 – Monthly PAYE declaration submitted by employers on the PAYE deducted from their employees. <ul style="list-style-type: none"> ○ EMP501 – Bi-annual declaration submitted by employers reconciling the six month's EMP201 returns submitted to SARS with the IRP5's issued to the employees.
<p>E-filing</p>	<ul style="list-style-type: none"> • Students should know what e-filing is and what its role and purpose is as part of the South African tax system • Students should know how to Login on e-filing and be able to use the basic functionality of the e-filing website. • Students should be able to navigate around the website and they should be able to find the relevant documents required to administer and maintain their tax profile.

<p>Practical examples</p>	<p><u>Calculation of tax payable:</u></p> <ul style="list-style-type: none"> • Provide students with practical examples such as payslips / IRP 5's to calculate the income tax (PAYE) to be deducted. • Provide students with real-life examples of income tax scenarios in which they need to differentiate between the taxes levied <p><u>Entrepreneurial days</u></p> <ul style="list-style-type: none"> • Host entrepreneurial days and apply the basic requirements of both direct and indirect taxes to the products sold by the students. Students should be able to calculate the profit they made and apply the tax rate applicable to individuals to calculate the tax that they should pay over to the governing body. (Fictional tables can be used to illustrate to students how the progressive tax tables for individuals work) • Students can also be required to determine the selling price of the goods they are selling and then increase the price thereof with VAT at the rate of 14%. Students can then be required to calculate their output VAT and their input VAT (paid on the purchase price of the goods they purchased to re-sell during the entrepreneurial day) and subsequently calculate the net amount payable to the school. <p><u>Brainstorm – What to do with the tax collected:</u></p> <ul style="list-style-type: none"> • Once the taxes (both direct and indirect) is paid over to the teacher, the students can, by means of a class discussion, make suggestions on what they as a class, should do with the “taxes” collected. The taxes should be applied to the advantage of the whole class. The purpose of the exercise should be to illustrate to the students why they pay taxes and what the government does with the taxes. • Students can set up a budget for the next entrepreneurial day to be hosted and determine what they want to do with the taxes collected. They can then plan accordingly as to how much tax they need to raise
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Source: Stiglingh, Koekemoer, Schalkwyk, Wilcocks and de Swardt. 2012.

Figure 9 illustrates the steps used in determining taxable income and subsequently calculated taxable income. This framework is useful in guiding the individual taxpayer to follow a logical approach in which his/her taxable income can be determined.

Figure 9: Determination of taxable income and normal tax

Determination of taxable income and normal tax	
Gross Income (s1)	Rxxx
Less: Exempt income (ss 10 and 10A)	<u>(Rxxx)</u>
Income	Rxxx
Less: Deductions and allowances	(Rxxx)
Less: Assessed loss (ss 20-20B)	<u>(Rxxx)</u>
	Rxxx
Add: Taxable Capital Gain	Rxxx
Add: Amounts included in taxable income (s8(1)(a))	<u>Rxxx</u>
	Rxxx
Less: Deductions in terms of ss 18 and 18A	<u>(Rxxx)</u>
TAXABLE INCOME	<u>Rxxx</u>
Normal tax liability	Rxxx
Less: SITE, PAYE, Provisional tax	<u>(Rxxx)</u>
Normal tax due by or to taxpayer	<u>Rxxx</u>

Indirect tax

The most common form of indirect tax dealt with in South Africa is VAT. Every person using goods or services in South Africa will at some stage in their life fall within the definition of a consumer and will pay VAT when paying for the goods or service used. It is therefore important for students to have an understanding of what VAT is, why they pay it and how it differs from other forms of taxes such as income tax.

The curriculum for VAT should cover the basic concepts and should enable students to do a basic calculation on VAT.

Based on statistics released by the Adcorp employment index during September 2011, economic activity in the informal sector is rising while official employment is under pressure. According to Adcorp labour market analyst, Loane Sharp, the size of the informal job sector has peaked at almost half that of officially recorded employment in

South Africa. In September 2011 alone, this sector grew at an annual rate of 7.7%. Sharp goes on to say that with the informal labour sector currently representing 32.8% of South Africa's potential workforce, for some 6.2 million people, informal work has become the second-largest part of the labour market (Adcorp Employment Index, 2011, 2).

Taking into consideration the up rise in the informal employment sector, more South Africans are starting their own businesses – some of which will be successful and some not. This would call for businesses with a turnover in excess of R1 000 000 to register for VAT. Businesses with a turnover of less than R 1 000 000 may register voluntarily. More large business owners request their smaller suppliers to be VAT registered (whether they are required by law to do so or not) before they are willing to do business with them as this will influence their ability to claim VAT on the purchases they make. Small business owners aren't always aware of the how's and where's of taxes and as reported by SARS in their strategic plan for 2013 – 2016, the largest percentage of South Africans not compliant to South African tax laws are those in the construction industry. As part of their compliance programs, SARS aims to conduct compliance checks focusing on the individuals and entities working in the construction industry with the focus on contractors as well as the various level of sub-contractors involved in basic construction services such as paving, decorating, plumbing etc. SARS further indicated that VAT under-declaration in the construction industry is of serious concern, where almost 70% of audit cases reveals incorrect disclosures. SARS's research reveals that 36% of VAT returns are not filed on time and over half of the payments for VAT are made late. Finally, SARS's research revealed that the rates for non-compliance are substantially higher among self-employed individuals (SARS, 2012b:9,14).

Most business owners are reluctant when it comes to their finances and having to pay taxes. People are either ignorant to the matter or they simply don't have the knowledge to know when they need to register for various taxes and what the administrative requirements are for doing so. The promulgation of the TAA also brought about a large number of penalties which will be enforced on taxpayers on offences relating to tax administration. Incorporating VAT into the secondary school curriculum will equip business owners with the necessary information for them to become and stay compliant to tax

legislation and to save them respectable amounts of money in terms of 1) penalties and interest for non-compliance, and 2) services by a tax professional to perform basic administrative tax functions such as registration and basic compliance.

Table 9 provides the framework to serve as basis for incorporating VAT into the secondary school curriculum. It provides both educators and students with a layout of what they will teach and what they will be taught respectively.

Table 9: The conceptual framework to be incorporated into the curriculum for secondary schools in South Africa relating to Indirect Taxes

Topic to be covered	Detail relating to the specified topic
An overview of the history of indirect tax (VAT) in South Africa	<ul style="list-style-type: none"> • When and where was VAT introduced in the tax system of South Africa • Why do people pay VAT
Indirect Tax	<p>To provide students with an overview what indirect tax is and how it differs from direct tax:</p> <p><u>Indirect tax:</u></p> <p><i>Indirect tax is tax which is not assessed directly by SARS, but indirectly through the taxation of transactions.</i></p> <p>Indirect taxes include: Value Added Tax Customs and Excise duty Ad Valorem Tax</p> <p>The form of indirect tax that will be focused on during the curriculum is VAT.</p> <p>Value added tax is levied in terms of the Value-Added Tax Act 89 of 1991.</p> <p>VAT is a tax on the consumption of goods and services in South Africa.</p>

Role-players	<p><u>Consumer:</u></p> <p>The consumer pays the tax at the time when he/she pays for the goods or services purchased. The supplier / VAT vendor merely acts as an agent between the consumer and the government to pay over the taxes.</p> <p><u>Vendor:</u></p> <p>VAT is levied on the selling price of taxable supplies by a vendor. A vendor is any person who is, or who is required to be, registered under the VAT Act.</p> <p><u>The South African Revenue Service (SARS):</u></p> <p>The SARS was established by legislation to collect revenue and ensure compliance with tax law. Its vision is to be 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. The service is an administratively autonomous organ of the state; its outside the public service, but within the public administration.</p> <p>The main function of the SARS is to:</p> <ul style="list-style-type: none">• collect and administer all national taxes, duties and levies;• collect revenue that may be imposed under any other legislation, as agreed on between SARS and an organ of state or institution entitled to the revenue;• provide protection against the illegal importation and exportation of goods;• facilitate trade; and• advise the Minister of Finance on all revenue matters. <p><u>Source:</u> http://www.sars.gov.za/home.asp?pid=200)</p>
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<p>Tax Base</p> <p>Accounting Basis</p>	<p>VAT is levied on the sales price of goods and services delivered to the consumers.</p> <p>The timing of VAT payable by or refundable to an enterprise depends on the specific VAT accounting basis of that vendor.</p> <p>VAT can either be accounted for on the Invoice basis i.e. when the Invoice is issued to the client or on the Payments basis i.e. when the money is received in the vendor's bank account. The vendor must comply with the rules set out in the VAT Act in order to be allowed to account for VAT on the payments basis.</p> <p>The accounting basis determines the time of supply for VAT purposes.</p>
<p>VAT Periods</p>	<p>Income tax is calculated with reference to a year of assessment which usually refers to a period of 12 consecutive months.</p> <p>VAT is calculated and paid in respect of a specified tax period. Upon registration for VAT, a vendor is registered for a specific tax period also referred to as a VAT assessment period.</p>
<p>Who pays the tax</p>	<p>Value Added Tax: The consumer pays the tax at the time when he/she pays for the goods or services purchased. The supplier / VAT vendor merely acts as an agent between the consumer and the government to pay over the taxes.</p>
<p>Tax rates</p>	<p>VAT was initially introduced in South Africa at a rate of 10 % but was increased to the current rate of 14% on 7 September 1993.</p>
<p>Calculation of VAT payable or VAT refundable</p>	<div style="text-align: center;"> <div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; margin: 5px;">Output tax</div> <div style="margin: 0 10px;"><i>less</i></div> <div style="border: 1px solid black; padding: 5px; margin: 5px;">Input tax</div> </div> <div style="margin: 10px 0;"><i>Add/less</i></div> <div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 100px;">Adjustments</div> <div style="margin: 10px 0;"><i>Equals</i></div> <div style="border: 1px solid black; padding: 5px; margin: 5px auto; width: 200px;">Tax payable / refundable</div> </div>

<p>Administrative tax issues (based on the provisions of the Tax Administration Act No 28 of 2011)</p>	<p><u>When should a person register for VAT:</u></p> <ul style="list-style-type: none"> • Voluntary registration (Turnover > R1 000 000) • Compulsory registration (Turnover > R20 000 but < R 1 000 000) <p><u>When should VAT be paid</u></p> <ul style="list-style-type: none"> • VAT should be paid on the 25th day of the month following the end of the VAT assessment period if submission of the VAT return is done manually • VAT should be paid on the last working day of the month following the end of the VAT assessment period <p><u>The returns to be submitted when declaring an amount of tax to SARS:</u></p> <ul style="list-style-type: none"> • VAT201 – Periodic declaration for Value Added Tax
<p>E-filing</p>	<ul style="list-style-type: none"> • Students should know what e-filing is and what its role and purpose is as part of the South African tax system • Students should know how to Login on e-filing and be able to use the basic functionality of the e-filing website. • Students should be able to navigate around the website and they should be able to find the relevant documents required to administer and maintain their tax profile.

Source: Stiglingh *et al.* 2012.

Tax Administration

Students should be aware of the administrative regulations to which they should adhere in relation to each of the two forms of taxes discussed. The enactment of TAA places a large amount of responsibility on the taxpayer to comply with the administrative rulings as per the various tax acts. Failing to comply with such administrative provisions could result in significant amounts of penalties (up to 200% of the amount of tax in question) as well as in some cases, imprisonment. It is therefore of great importance that students not only be educated on the how's and why's of taxes but on the administration thereof as well.

Practical examples

At the end of each of the respective modules, it is of utmost importance that students should be given the opportunity to apply the principles and concepts they learned, to practical examples in their everyday lives. Practical examples can include the following:

- Calculation of tax payable:

Provide students with real-life examples of tax scenarios in which they are required to differentiate between the taxes levied.

Direct tax:

Students can be given case studies which contains documents such as IRP 5's, Interest certificates (IT 3B's), Medical certificates, Income tax certificates relating to pension fund and retirement annuity fund contributions. Students then need to calculate the amount of taxable income of the taxpayer and determine the amount of taxes the taxpayer have to pay to SARS or should the taxpayer be entitled to a refund, the amount of such refund. Students can then complete the relevant tax return to be submitted to SARS.

Indirect tax:

Students will be required to differentiate between taxable supplies and those supplies exempt from VAT. As the various provisions of the VAT act can become quite difficult and extensive, exempt supplies will be limited to local supplies. Students can also be introduced to the concept of zero rated supplies on products such as fuel.

The practical examples relating to VAT should include:

- calculating the VAT on taxable supplies (from the vendor / supplier's perspective);
- determining the amount of VAT that is allowed to be claimed against the output tax as input tax;
- calculating the net VAT payable to / receivable from SARS; and
- completing the VAT201 return to be submitted to SARS.

These examples should be basic examples and should not be too difficult as the knowledge of the students is limited. The level of difficulty can increase as students get older and as their knowledge about taxes increase.

- Entrepreneurial days:

Host entrepreneurial days and apply the basic requirements of both direct and indirect taxes to the products sold by the students. Students should be able to calculate the profit they made and apply the tax rate applicable to individuals to calculate the tax that they should pay over to the governing body. (Fictional tables can be used to illustrate to students how the progressive tax tables for individuals work).

Further, students can be required to determine the selling price of the goods they are selling and then increase the price thereof with VAT at the rate of 14%. Students can then be required to calculate their output VAT and their input VAT (paid on the purchase price of the goods they purchased to re-sell during the entrepreneurial day) and subsequently calculate the net amount payable to the school.

- Brainstorm – What to do with the tax collected:

Once the taxes (both direct and indirect) is paid over to the teacher, the students can, by means of a class discussion, make suggestions on what they as a class, should do with the “taxes” collected. The taxes should be applied to the advantage of the whole class. The purpose of the exercise should be to illustrate to the students why they pay taxes and what the government does with the taxes. Students can set up a budget for the next entrepreneurial day to be hosted and determine what they want to do with the taxes collected. They can then plan accordingly as to how much tax they need to raise.

What should be assessed?

Some of the learning outcomes identified through the study to form part of the curriculum are:

- Students should have a clear understanding of the difference between income tax and value added tax.
- Students should understand the concept that tax is levied on taxable income. They should be informed of what is taxed and what expenses is allowed as a deduction against their annual income and what expenses they are not allowed to deduct.
- Once the amount of tax payable is determined, each taxpayer is entitled to an annual rebate depending on the taxpayer's age.
- After deducting the rebate, the PAYE already paid (if any) is deducted against the taxpayer's annual tax payable.
- Students should be made aware of the concept that only if PAYE was deducted from the taxpayer's salary in excess of what they were liable for based on their taxable income at the time the return was submitted, they will be refunded an amount by SARS.

4.7 CONCLUSION

In Chapter 4 the conceptual framework was developed on the basic tax knowledge that should be educated on in order to be the "informed" taxpayers of the future.

From prior research it was determined that the time which students are most receptive to receive information relating to taxes would be from the age 14 onwards, thus suggesting that tax education should be incorporated into the South African school curriculum from Grade 8. It was further suggested by the present study that due to the fact that the majority of students in South African leave their school careers after finishing grade 9, that the foundation for tax be laid during the senior phase (Grade 7 – 9) of the new curriculum introduced in South African schools.

The two main areas of tax students should be educated on was determined to be Income tax and VAT as these are the taxes to which South Africans is mostly exposed to during their day-to-day activities. Figure 8 showed the systematic workflow and order in which the subject should be presented in order to provide students with not only knowledge about tax but also with the understanding of the processes involved in determining 1) the taxable income and tax payable/receivable and 2) the net amount of VAT owing to/by SARS. Students are furthermore provided with an overview of the administrative provisions relating to the two types of taxes as well as practical examples to support the theoretical information they were provided with.

CHAPTER 5

CONCLUSION & FINAL RECOMMENDATIONS

5.1 INTRODUCTION

“The youth are the future taxpayers whose knowledge of taxations represents the level of tax knowledge in the future and their special awareness to honestly pay tax will also greatly influence tax compliance in the future. Therefore it is essential to educate the youth the awareness to pay tax honestly in this critical period when their value system is being shaped.” (Li & Gong, 2010:1).

The literature used throughout the study has shown that the majority of taxpayers around the world have a negative attitude towards taxation as they do not have sufficient knowledge about the specific concept. Irrespective of their negative attitudes about taxes, taxpayers expects the government to provide basic services to the citizens of their respective countries. The taxpayers don't necessarily make the connection between the services the government provide and the money needed to enable them to do so. Eriksen and Fallan (1996:399) concluded that an increase in tax knowledge will change a taxpayer's attitude towards taxation,

The first question that arises is when and where it would be most suitable to educate taxpayers on the concept of taxation. Eriksen and Fallan (1996:399) suggested that it would be a step in the right direction to introduce the teaching of tax law and tax knowledge as a compulsory module in the social science teaching in schools and as the vast number of school-going students are the taxpayers of the future, implementing tax education at school level should have the best chance of success (Oberholzer and Nel (2006:105).

5.2 ADDRESSING THE RESEARCH OBJECTIVES

Tax education in both South Africa and the USA were reviewed in order to determine what students are currently being educated on. In the context of the USA tax system it was evident that tax education was presented to students in an electronic form which was made available by the IRS on their website. South African students are currently exposed to tax education as part of a subject called EMS although the exposure to tax concepts and the implementation thereof is both limited and insufficient.

The study determined that students are most acceptable for information relating to concepts such as taxation at the early ages of 14 – 16. Based on the current research together with prior research conducted, it was determined that tax education should be incorporated into the secondary school curriculum, or more recently known as the Senior phase of the South African curriculum from Grade 8 through to Grade 12.

The conceptual framework was designed based on the two main areas in which it was deemed necessary for students to be educated on namely Income tax and VAT. Tables 8 and 9 set out the various topics to be covered during the course of the curriculum and a brief description of each of the topics. Once again emphasis is placed thereon that students are provided with a basic understanding of taxation rather than an in-depth course. The main aim is to create informed taxpayers rather than tax professionals.

5.3 FINAL CONCLUSION

In order to improve tax compliance in South Africa it is deemed necessary to improve the level of knowledge of the South African taxpayer. As the Hungarian proverb says.... bend a tree while it is still young, this research has confirmed that the most effective and efficient place and time to educate taxpayers is while they are still in school. This would give all South African citizens the opportunity to gain a basic knowledge about their tax affairs instead of only business and finance students to learn about taxes. The curriculum should be basic and not too challenging for school children. The aim is to develop informed, educated taxpayers rather than tax experts.

5.4 RECOMMENDATIONS

From this research it is suggested that tax education be incorporated into the senior phase (Grade 8 – 9) of the curriculum for South African schools. Students should be taught the basic concepts relating to tax in order to provide them with a basic understanding of their rights and obligations as taxpayers. Chapter 4 sets out the conceptual framework developed to provide students with the basic yet comprehensive education to create well informed, well-educated taxpayers to comply with the applicable tax legislation in South Africa.

5.5 FUTURE RESEARCH

Further research in the field of tax education is encouraged especially with regard to the use of computerised systems (as used by the IRS) in the incorporation of tax education in the South African school curriculum.

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