

AN OVERVIEW OF THE NEW TAX RETURN FORM AND TAX SYSTEM

by

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SUMMARY

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During May 2007 it was announced that individual taxpayers would receive simplified tax return forms, will not need to do any more calculations and will no longer need to attach supporting documentation for the 2007 year of assessment.

It was also announced that the tax system would be changed, making the turn around times for the assessment of tax returns faster.

The primary objective of this research was to determine what effect the new tax return form, as well as the new tax system, would have on the tax practitioner submitting their client's return.

It was considered impractical to compare this study to other studies done. It was therefore decided that a questionnaire would be sent out.

After considering all the research performed, it could be concluded that the new tax return form, as well as the new tax filing system, was welcomed by the taxpayer and the tax practitioner, and was a definite improvement, although some implementation problems were encountered.

Key words: tax return form, tax return, tax form, tax system, tax process, tax practitioner, tax evasion, scanning technology, IT12S, IT12C, taxpayer.

OPSOMMING

AN OVERVIEW OF THE NEW TAX RETURN FORM AND TAX SYSTEM

deur

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Daar is gedurende Mei 2007 aangekondig dat individuele belastingpligtiges vereenvoudigde belastingopgawes sal kry, dat die belastingpligtige nie meer nodig het om berekeninge te doen nie en ook nie nodig het om stawende dokumentasie in te dien vir die 2007 jaar van aanslag nie.

Dit was ook aangekondig dat die belastingstelsel sal verander, wat die tydperk van aanslag van belasting sal verkort.

Die primêre doelwit van die studie was om vas te stel wat die effek van die nuwe belastingopgawe, asook die nuwe belastingstelsel, sal wees op die belastingpraktisyns wat hul kliënte se belastingopgawes indien.

Dit was onprakties om die studie te vergelyk met ander studies wat alreeds gedoen is. Daar was dus besluit om 'n vraelys uit te stuur.

Na alle navorsing in ag geneem is, is die gevolgtrekking gemaak dat die nuwe belastingopgawes, asook die nuwe belastingstelsel, verwelkom is deur die belastingpligtige asook die belastingpraktisyn, en ook dat dit 'n definitiewe verbetering is, alhoewel daar sekere implementeringsprobleme ervaar is.

Sleutelwoorde: belastingopgawe, belastingvorm, belastingstelsel, belastingstelsel, belastingpraktisyn, belasting ontduiking, skandeertegnologie, IT12S, IT12C, belastingbetaler.

TABLE OF CONTENTS

1	INTRODUCTION AND RESEARCH PROPOSAL	1
1.1	INTRODUCTION	1
1.1.1	Background	1
1.1.2	Need for the study/Research problem/problem statement	4
1.1.3	Research objectives	5
1.2	LITERATURE REVIEW	6
1.2.1	Importance of the question being asked.....	6
1.2.2	Current status of the topic	6
1.2.3	Relationship between the literature and the problem statement.....	7
1.2.4	Summary/conclusion	8
1.3	METHODOLOGY	8
1.3.1	Research design	8
1.3.2	Sampling	9
	• Target population	9
	• Sampling method	9
	• Sample size.....	9
1.3.3	Data collection.....	10
	• Survey method	10
	• Measurement	10
	• Pre-testing	11
1.3.4	Data analysis.....	11
1.4	NATURE AND FORM OF RESULTS	11
1.5	BUDGET & PROJECT TIMELINE	12
1.5.1	Project timeline.....	12
1.5.2	Project budget	12
2	PROCESS OF FILING THE NEW TAX RETURN	14
2.1	INTRODUCTION	14
2.2	ELECTRONIC ONLINE FILING (E-FILING)	15
2.3	ELECTRONIC BASED FORM (MANUAL FILING).....	17
2.4	MANUAL FILING	18
2.5	CONCLUSION.....	19
3	RESULTS OF THE QUESTIONNAIRE	21
3.1	INTRODUCTION	21
3.2	PROCESS FOLLOWED.....	21
3.3	ANALYSING OF THE RESULTS	22
3.3.1	Impact on the tax practitioner	23
3.3.2	Taxpayers completing their own returns.....	24
3.3.3	Tax evasion opportunities.....	25
3.3.4	Number of mistakes made by SARS	27

3.3.5	The taxation process and the new tax return form	27
3.4	CONCLUSION.....	28
4	PROBLEMS ENCOUNTERED REGARDING THE NEW TAX RETURN AND TAX SYSTEM.....	30
4.1	INTRODUCTION.....	30
4.2	NEW TAX FORM DESIGN	30
4.2.1	IT12C return versus IT2S return.....	31
4.2.2	Other income.....	32
4.2.3	Donations tax	33
4.2.4	Capital gains tax exclusions	33
4.3	E-FILING (ELECTRONIC SUBMISSION OF RETURNS)	35
4.3.1	Benefits of using e-filing	35
4.3.2	Hardware required.....	35
4.3.3	Possible improvements	36
4.4	SIGNING OF DECLARATION AND OTHER LEGAL ISSUES	37
4.5	CONCLUSION.....	38
5	CONCLUSION.....	39
6	REFERENCES	42

LIST OF FIGURES – APPENDIX A

Figure 1: The new two page tax return (page one)	46
Figure 2: The new two page tax return (page two)	47

QUESTIONNAIRE – APPENDIX B

Questionnaire.....	48
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1 INTRODUCTION AND RESEARCH PROPOSAL

1.1 INTRODUCTION

1.1.1 Background

On Wednesday the 9th of May 2007 Mr Trevor Manuel, Minister of Finance, announced that individual taxpayers will receive simplified tax return forms, will not need to do any more calculations and will no longer need to attach supporting documentation for the 2007 year of assessment (SAPA, 2007).

It was also announced that the tax system would be changed, making the turn around times for the assessment of tax returns faster.

This was primarily done as the number of individual taxpayers has grown at an average of between 8% and 12% from 1994. It is expected that the 2,7 million registered taxpayers in 1998 will increase to 10,5 million in 2010 (Fisher-French, 2007).

The original 10-page tax return form will be cut down to the new simplified two-page tax return form. Taxpayers will not even need a manual to complete their annual tax return forms. Mr Manuel even joked that he might not need a tax consultant to complete the tax return (702 Talk radio, 2007).

The new simplified two page tax return form will lead to an easier form to fill in for both the individual who fill in the form themselves, as well as the tax practitioners. If the tax practitioners can retain their clients, it will lead to faster filling in of forms, which will lead to a more effective tax practitioner.

Whilst the new system will not require taxpayers to attach supporting documentation, the taxpayers will still have to declare/ furnish information if required by the South African Revenue Services (SARS).

SARS will not only collect information from the individual, but also from other resources. This cross checking system will help find people who do not register for tax, as well as identify whether people are telling the truth about their income (Cameron, 2007a).

It seems that the South African Revenue Service is moving towards a Sweden tax system, where their tax authorities sends them a completed tax return and the individual either has to agree or disagree with the tax return (Fisher-French, 2007).

There will be two tax returns for individuals, the IT12S (for standard or simple) and the IT12C (for complex). The IT12S will be completed by most taxpayers, while the IT12C will be completed by taxpayers who have income such as rental income, foreign income, business income, farming income and capital gains/losses (SARS, 2007).

Taxpayers will be able to download the new IT12 form, which contains a 2D barcode, in Adobe Acrobat Reader 8 format. The 2D barcode will allow for fast and accurate reading of the tax return form into the SARS database. An intelligent character recognition system will be used to scan in the forms filled in by hand, which will remove the human factor. This IT12 form may also be e-mailed or posted to SARS. The form can also be filled in via e-filing which means that SARS will have the return in electronic format (Engelbrecht, 2007).

Engelbrecht (2007) also stated that Mr Manuel said that SARS had a back office in place and that the system will not crash on the day it is switched on. As SARS is moving towards a paperless environment (e-filing), the reliability of the systems they use will become more and more important.

The new tax system will allow the SARS staff to concentrate on taxpayers who are not keen on paying their taxes. Algorithms are being developed to identify individuals who are evading taxes. SARS will also increase the use of third party data to verify tax returns (Engelbrecht, 2007).

It is debated whether the new tax system will lead to an increase in fraud, as people will not need to hand in their supporting documentation. This is however countered by the fact that SARS will use a cross checking system as stated above.

There is definitely some truth in Mr Manual's comment that he might not need a tax consultant anymore as the changes in the tax form might leave some tax practitioners unemployed.

This is due to the fact that SARS will be encouraging the individual taxpayer to complete his form and in doing so will be promoting the fact that it is easy to complete the form. This can already be noticed from television advertisements and brochures added in newspapers.

The question also arises whether the tax practitioners/consultants will lose some clients because of the new tax forms, as the taxpayers will be more likely to complete the tax return on their own.

According to Anderson Whittle CC it is advisable to run your affairs by a reputable tax consultant to save yourself fines and embarrassment. They are also of the opinion that although SARS have a friendly public (media) image, they have in actual fact been increasingly and comprehensively more aggressive in their dealings towards taxpayers (Anderson Whittle, 2007).

According to Jones (2007a), the only difference will be that instead of taking 30 minutes to complete a tax return form, one will only now take 10 minutes to complete the tax return form. A simpler form does not mean simpler tax or reduce the complexity of the underlying Income Tax Act.

If Jones (2007a) is in actual fact correct, the impact the new tax form will have on the tax practitioner will be minimal.

1.1.2 Need for the study/Research problem/problem statement

It is a well-known fact that new systems generally create new problems. Some of the problems that may arise from the new system (including the new tax form) may include

- As individuals will no longer be responsible to do their own calculations, mistakes made by SARS when calculating the individual's taxable income may go unnoticed. This may have a financial loss for either SARS or the taxpayer.
- As no supporting documentation is required, the individual will have greater opportunity to be dishonest when completing their tax return forms. This may increase the opportunity for tax evasion.
- It is also currently unclear what the effect of the new tax return forms will have on the business of the tax practitioner. The tax practitioner may either lose some of their clients as the clients will feel that they are able to fill in the tax return themselves or it will improve the turnover time for the practitioner to fill in the forms and may therefore create more opportunities for the tax practitioner.
- As SARS is making greater use of technology, the systems in place have to be adequate and backed up as any loss of information will have a serious impact on SARS's business.
- Although the tax return forms are definitely shorter and easier to fill in, the underlying Tax Act will remain unchanged. It is therefore asked whether the new tax forms will make the filing of tax easier.
- Another factor that should be considered is whether the shorter tax return will indeed be practical.
- The unintentional non declaration of income, which the taxpayer thinks is non-taxable, may lead to legal action against the taxpayer. It should be kept in mind that the onus of proof of innocence is on the taxpayer, should there be legal action taken against the taxpayer.

1.1.3 Research objectives

The primary objective of this research will be to determine what effect the new tax return form, as well as the new tax system, will have on the tax practitioner submitting their client's return.

The opinion of the tax practitioner will be considered, such as whether the practitioner thinks the changes are for the better, as the tax practitioner deals daily with the filing of individual tax returns (IT12S and IT12C).

Special consideration will also be given to the practicality of the new two-page tax return form.

In order to achieve the above-mentioned primary objectives, the following issues will have to be considered:

- What impact will the new tax return form have on the tax practitioner?
 - Please refer to questions 1 to 5 of the questionnaire (Appendix B).
- Whether the tax practitioner thinks the new tax return form will lead to more mistakes due to individuals filling in their own returns without having the relevant taxation knowledge.
 - Please refer to questions 6 to 7 of the questionnaire (Appendix B).
- Does the tax practitioner think that the new tax system will increase or decrease the tax evasion opportunities?
 - Please refer to questions 8 to 10 as well as question 12 of the questionnaire (Appendix B).
- What impact the new tax system (barcode scanning system) will have on the number of mistakes made by SARS on assessment?
 - Please refer to question 11 of the questionnaire (Appendix B).
- Whether the tax practitioner thinks that the new tax return forms will ease the taxation process and if the new shortened form is practical.
 - Please refer to questions 13 to 16 of the questionnaire (Appendix B).

1.2 LITERATURE REVIEW

1.2.1 Importance of the question being asked

As SARS is continuously trying to improve their systems and public image, it is important to determine whether SARS is in actual fact succeeding to do so.

The individual taxpayer will be able to use this dissertation in determining whether they will still need to employ a tax practitioner.

By obtaining the opinion of the tax practitioners, the study will be able to determine whether SARS is indeed succeeding with their attempt to ease the taxation process.

SARS will be able to use this dissertation to determine whether they are succeeding in their aforementioned goals.

Tax practitioners will be able to use this dissertation in determining the advantages and disadvantages of the new tax return form and new scanning technology.

The University of Pretoria could use this study as reference document for other students and/or researchers.

1.2.2 Current status of the topic

It is important to note that the study was performed from May 2007 to March 2008. All information and changes after the end of March 2008 was not taken into account in the study. Chapter one was written during May 2007, while the other chapters were written between June 2007 and March 2008.

SARS has announced that they will be sending out the new tax forms as of 1st of July 2007. The new tax return forms may be handed in at the local SARS offices from the 1st of August 2007.

People who would rather choose to use e-filing will be able to complete their tax returns online at www.sars.gov.za from 1st of August 2007.

SARS has indicated that they will not give extensions to individuals anymore and that the tax return deadline will move to 31st October 2007, which is more or less 4 months later than usual. The deadline for e-filing will be 31st January 2008.

SARS is currently busy promoting the new tax returns on television advertisements, radio advertisements and brochures in newspapers.

For now, most people just wait in anticipation for the new tax returns (IT12) as the earliest individuals will receive the tax returns will be in July 2007.

1.2.3 Relationship between the literature and the problem statement

As the new tax return form was only announced in May 2007, the only related literature that could be reviewed was information found on web sites. The problem statement above was also noticed on most of the websites.

Some of the titles of websites also reflected the problem stated: *“simpler form, not simpler tax”* and *“the new tax forms – simpler, better, faster?”*

Mr Manuel’s joke about the tax practitioner being unemployed is very relevant, although he only might have meant it as a joke.

Questionnaires were sent out to the selected sample. The results of the questionnaires were then used to make a conclusion. It should also be noted that a literature review was also performed during 2008, as there were more information available regarding the new tax system at that time.

1.2.4 Summary/conclusion

SARS is trying to improve their taxation system and it is important to determine whether the new system will in actual fact be an improvement or not.

As can be seen by the preliminary literature review, the new tax return form leaves a lot of questions to be answered, with the most important being the effect that the new taxation system will have on the tax practitioner and whether the form will in fact be easier to complete and more effective.

The impact that the new tax return form will have on the tax practitioner will have to be seen in the years to come. Until such time, this study will determine the impact that the new tax return form is likely to have on the tax practitioner.

Only once people have seen the new tax return and started to fill them in, will it be established whether the new tax form is indeed easier and practical.

An example of the new two-page tax return has been included in Appendix A.

1.3 METHODOLOGY

1.3.1 Research design

As this is the first time that the tax return has been shortened so dramatically in recent history, and as this decision was only taken in the past month, it would be impractical to compare this study to other studies done, as it is highly unlikely that such studies exist.

As can be seen from above, an alternative to literature review should be used. It was decided that a questionnaire will be sent out to tax practitioners as well as to employees of auditing firms.

A literature review will be done once most of the taxpayers have submitted their returns and other literature is therefore available to review, including what the general view of the public is regarding the new tax form and tax system.

1.3.2 Sampling

- **Target population**

As the proposed study will require individuals with a taxation experience, it was decided to send the questionnaire to tax practitioners and employees of auditing firms.

It was decided that tax practitioners and audit firm employees would be used as these individuals receive continuous training and would therefore be up to date with all the latest changes in legislation and will also be involved in the submitting of tax returns.

- **Sampling method**

The questionnaires will be sent to the individual tax practitioners, whom attend regular tax practitioner's meetings, who will then hand in the completed questionnaires at a tax practitioners meeting.

The questionnaires will be e-mailed to the employees of the auditing firms who will e-mail their response back.

- **Sample size**

As discussed and justified above, questionnaires will be send to tax practitioners and audit personnel. As these individuals usually have time constraints, it was decided that between 10 and 20 questionnaires will be sent out.

As the number of questionnaires sent out is quite low, we will expect to receive at least 75% of them back.

The advantage of making the sampling population 10 - 20 items is that the return rate is likely to be higher, as the researcher will have time to follow up the outstanding items. A further advantage is that the people participating in the survey will be highly skilled individuals.

The disadvantage of the sample size is that the answers obtained may not be representative of the total population of tax practitioners, but rather the tax practitioners in a certain area. This is known as sampling risk and is true to any sample.

1.3.3 Data collection

- **Survey method**

As motivated above, questionnaires will be sent out. These will be sent, via e-mail, to the specific individuals. E-mail was chosen as this a cost effective survey method. As indicated above, some questionnaires will also be handed over to tax practitioners at a tax practitioner meeting.

The individuals will then be required to mail the completed questionnaires back to the researcher, or personally hand them in at a tax practitioners meeting.

Great care will be taken in designing the questionnaire to prevent misinterpretation errors.

- **Measurement**

5 measurement scales will be used in the questionnaire, being:

- 1: strongly agree
- 2: agree
- 3: impartial
- 4: disagree
- 5: strongly disagree

- **Pre-testing**

Five questionnaires will be sent out as part of the pre-testing phase. These people will include the study leader, course leader and three other individuals with taxation knowledge in an auditing firm.

Five participants were deemed to be adequate as they are knowledgeable in the taxation field of study.

The questionnaire will be appropriately modified based on the response of the pre-testing performed.

Please refer to Appendix B for the final questionnaire that was sent out to the participating individuals, after the abovementioned pre-testing was done.

1.3.4 Data analysis

The results obtained from the consultants (excluding the five questionnaires that were sent out as part of our pre-testing phase, as these questionnaires were modified after the pre-testing phase) will be summarised in Microsoft Excel. An average for each question will be determined. The opinions of the individuals will also be noted.

With all of the above information obtained, it will be concluded whether the new tax return form is in actual fact better.

1.4 NATURE AND FORM OF RESULTS

The results of the final research study can be used by a number of individuals and/or institutions. The institution/individual, as well as the purpose for which they could possibly use the research, include:

- SARS will be able to use this dissertation to determine whether they are succeeding in their goals of creating a faster and more effective taxation system.

- Tax practitioners will be able to use this dissertation in determining the advantages and disadvantages of the new tax return form.
- The individual taxpayer will be able to use this dissertation in determining whether they will still need to employ a tax practitioner.
- The University of Pretoria could use this study as reference document for other students and/or researchers.

The proposed chapter outline is as follows:

- Chapter 1: Introduction and research proposal
- Chapter 2: Process of filing the new tax return
- Chapter 3: Results of the questionnaire
- Chapter 4: Problems encountered regarding the new tax return and tax system
- Chapter 5: Conclusion
- Chapter 6: References

1.5 BUDGET & PROJECT TIMELINE

1.5.1 Project timeline

The final dissertation will be handed in for review at my study leader by no later than 31st March 2008.

1.5.2 Project budget

The different costs for the project may include:

- Internet facilities
- E-mail facilities
- Phone call costs
- Printing and binding

The researcher has free access to most of the above facilities. The cost of the other facilities, to which the researcher does not have free access, will be minimal. The researcher will also perform the typing himself.

2 PROCESS OF FILING THE NEW TAX RETURN

2.1 INTRODUCTION

It is important to distinguish between the new tax return and the new tax system.

The new tax return relates to the physical tax form, the shortened IT12S and IT12C. This form is completely new and significantly shortened. The IT12S and IT12C both relate to personal income tax of individuals.

The new tax system relates to the 2D barcode scanning system, which will allow for fast and accurate reading of the tax return forms into the SARS database. An intelligent character recognition system will be used to scan in the forms filled in by hand, which will remove the human factor (Engelbrecht, 2007).

The tax returns can now be filled in electronically, online or on paper. Irrespective of which method is chosen, the form that has to be filled in is still identical (Du Preez, 2008).

Irrespective of which method is used (e-filing, manual filing or filled in electronically), the paper proof of information submitted (IRP5's, RA Income Tax certificates, s18A certificates etc.) must be kept for five years (Anderson Whittle, 2007).

SARS would prefer for individuals to submit their tax forms electronically (via e-filing) as this means that the information is received by SARS in an electronic format. This is also evident from the fact that the deadline for electronic submission (e-filing) is 31st January 2008, whereas the deadline for manual filing is 31st October 2007.

2.2 ELECTRONIC ONLINE FILING (E-FILING)

E-filing is the electronic filing system used by SARS. Returns can be filled in electronically (online) by taxpayers and submitted online. E-filing is not a new concept and has been used in prior years.

This service is offered by SARS for secure electronic tax return completion and submission. The goal of this system is to remove the risks and hassles of manual tax returns. E-filing is used for submission of tax returns as well as to make payments online. The individual's return is captured electronically on the web. Multiple returns can also be submitted which makes it perfect for tax practitioners (SARS e-filing, Not dated).

E-filing has grown significantly in South Africa since its launch in June 2003 and has been delivering real business benefits to both the taxpayer as well as to SARS. It is important to note that the e-filing service is available to the user at no extra charge. This service is, according to SARS, on par with similar services deployed in the US, Australia, Singapore, Ireland, Chile and France which is used in these countries with great success, delivering benefits to revenue agencies and taxpayers alike. Both domestic and business use of the internet has soared in South Africa and it is therefore expected that the use of e-filing will be adopted by most individuals (SARS e-filing, Not dated).

SARS introduced e-filing last year (2006) for individual tax returns, but only on a test basis, and for the first time allowed certain individuals, who are registered for e-filing, to submit returns without any supporting documents (Du Preez, 2008).

After testing the e-filing system for individual tax returns in the prior year, SARS decided to grant access to all individuals who wish to file their returns using e-filing, and subsequently not to supply supporting documents (Du Preez, 2008).

As stated above, these supporting documents need to be kept for a period of five years and do not have to be submitted to SARS, unless SARS asks for these documents within the five year period. The supporting documentation therefore still needs to be retained although it does not have to be submitted (Du Preez, 2008).

It should also be noted that this electronic form can be filled in over a period of time, saving different versions and only submitting the final version to SARS once the taxpayer hits the “submit” button on the webpage (Du Preez, 2008).

A user should register to use the e-filing function. As stated above, the use of this facility is free to the user. Once the user has registered, he/ she will receive a login number and a password.

SARS has improved the registration process for e-filing significantly. In the past one had to print out a form from the website, fill it in and then fax it back to SARS to register for e-filing. After this was done, the taxpayer had to wait up to 48 hours to receive his username from SARS. The consequence of this was that individuals could not wait until the last moment to file their tax returns (Du Preez, 2008).

As from this year the taxpayer can register immediately for e-filing, provided that he has his tax reference number and identity number on hand and his contact details remained unchanged from the prior year. If the taxpayer’s contact details have changed, the taxpayer will still be able to fill in the return, but SARS may need to contact the taxpayer to verify the details before processing the return (Du Preez, 2008).

In the case where the individual has not been registered for tax in the past, an identity document may need to be faxed to SARS in order for SARS to register the individual for income tax before the individual can register for e-filing (Du Preez, 2008).

An impressive feature of the new e-filing system is that the taxpayer can run through a number of questions in order to determine whether the complex IT12C or the simple IT12S should be filled in. The questions are posed to the individual once he logs in to the e-filing system on SARS’s website. If an IT12C needs to be filled in, extra schedules could be added to the return by clicking the specific button. Some of these extra schedules that the taxpayer might need to fill in could be because an extra IRP5/IT3a certificate, where travel allowance was received and more than two vehicles were driven or if the taxpayer had an additional business (Du Preez, 2008).

2.3 ELECTRONIC BASED FORM (MANUAL FILING)

The difference between the electronic based form and e-filing is that the electronic based form needs to be printed out, after electronic completion thereof, and physically be submitted at a SARS office. Although the form that is completed is exactly the same as the form that is filled in via SARS's e-filing, the difference is that the e-filing form is submitted when the taxpayer hits the "submit" button. It can clearly be seen that no handing in of supporting documents are required under the new tax system (Du Preez, 2008).

This year's innovation from SARS comes in the shape of the electronic form. This form is filled in electronically on any computer that has the Adobe Acrobat Reader 8 program. This software program can be downloaded from SARS's website. It should also be noted that this electronic form can be filled in over a period of time, saving different versions and only printing the final version once the taxpayer decides the tax return is ready for submission to SARS (Du Preez, 2008).

The main feature of the electronic form is the barcode on the form that records, in a new barcode pattern, the information entered on the form by the taxpayer. Once the taxpayer has completed the electronic tax form, he can print the new tax form which will have the new barcode pattern on it. This form is then subsequently dropped off at any SARS office (Du Preez, 2008).

Once SARS has received the printed version of the taxpayer's electronic form, it scans the barcode and receives all the information on the form electronically on its system. This process means that the system quickly and accurately receives the information on the return which entails that SARS will process the return faster as the details do not need to be verified, as is the case with hand written forms (Du Preez, 2008).

It can therefore clearly be seen from the above discussions that the only difference between the e-filing system and the electronic form system is the manner in which the forms are submitted.

If the individual, while filling in his Adobe Acrobat Reader electronic form, decides to make use of e-filing, there is an "eFile" button which can be hit, which will take the taxpayer to

SARS's e-filing website. All the information on the electronic form will be loaded on SARS's computer system and all that remains for the taxpayer is to register for e-filing. This will have the result that the taxpayer is now using the online (e-filing) method and not the electronic form method (Du Preez, 2008).

The same questions mentioned above, where it is determined whether an IT12C or an IT12S needs to be completed, can also be accessed by individuals who use the electronic form or manual form method. These questions can be accessed on the SARS's e-filing website (Du Preez, 2008).

Some of these questions that are on SARS's e-filing website and user manuals include:

- Did you let or sublet a property or other asset and earned rental income in the process?
- Did you sell any fixed assets, properties or shares that are subject to Capital Gains Taxation?
- Did you receive any other type of foreign income or allowances?
- Did you receive any other income that can not be declared on the IT12S return?
- Did you operate a farming operation that earned you revenue?
- Did you operate any business as a sole proprietor that earned you revenue?
- Were you involved in a farming partnership during this period?

2.4 MANUAL FILING

Manual handwritten forms are also scanned by SARS, using specialised programs that decipher the handwritten information on the tax return. The information captured in this way still leads to longer processing times as SARS officials need to check the scanned information (Du Preez, 2008).

2.5 CONCLUSION

It can therefore be concluded from the above discussions that by registering for e-filing, or by filling in the electronic form, the taxpayer definitely speeds up his/ her assessment process.

Cameron (2007b) also lists the following advantages of registering for e-filing:

- The process is an electronic one which is faster than a manual process. The consequence of this is that the taxpayer may receive his refund, if due to him and provided that there is no problem with the return, within days of submission.
- The deadline for manual submissions (both the electronic form and the handwritten form) is 31st October 2007, whereas the deadline for e-filing is the 31st January 2008.
- Provided that the taxpayer is not a provisional taxpayer, he has until the 29th February 2008 to pay any additional income tax due on the assessment outstanding, interest-free.
- Objections or correction alerts can be raised electronically.
- A full electronic record of your dealings with SARS is available on SARS's website, without any paperwork.
- A tax return with all your demographic information completed is received.
- Although the return must be submitted online, the taxpayer is able to complete his return online or offline.
- SARS will send reminders via email or SMS.
- The total e-filing system is free to use, at no direct cost to the taxpayer levied by SARS.
- Personal information captured online is safe as SARS has numerous controls in place to prevent unauthorised access. This is evident from the security button on the bottom left-hand side of the screen which if broken, will prevent the user from doing anything on the website.

Practitioners and taxpayers welcomed the changes with open arms as is evident from independent market research undertaken. The research showed that 71% of the taxpayers rated the new simpler income tax return between 8 and 10 out of 10 with the average rating being 8.1 out of 10. 73% of practitioners believed the new return was an

improvement, and according to 68% of the practitioners the new process of no submitting of supporting documentation made submission easier (SARS practitioners unit, 2008).

According to SARS practitioner unit (2008) 75% of the 3,000,000 income tax returns submitted to date of the article have been processed through a number of stages, with more than 50% completely assessed and, where applicable, refunded. The average time from e-filed submissions to assessment is at an average of a mere 72 hours, provided that the data according to SARS matches the information submitted.

Another amazing statistic as at article publishing date is that more than 1,100,000 taxpayers have registered for e-filing, of which more than 400,000 have submitted returns via e-filing, which is more than ten times the prior year's number. This is a more than a significant increase if one considers that only 50,000 taxpayers were registered for e-filing a year ago (SARS practitioners unit, 2008).

At a presentation held by the SARS practitioners unit for the tax practitioners, entitled: "Practitioners, Looking back at 2007, Briefing presentation for practitioners" the method of filing of tax returns was summed up as follows, showing the latest available data:

As at 31 January 2008:

New scanner:	1,190,000
Captured in branches:	507,000
Captured in assessment centres:	710,000
E-filing channel:	<u>700,000</u>
Total:	3,107,000

As can be seen from the above figures, the tax practitioner has used the new tax system to its full advantage. Whether the tax practitioner found the new tax form easier to complete, will only be seen in the following chapters.

3 RESULTS OF THE QUESTIONNAIRE

3.1 INTRODUCTION

The questionnaire was sent out to a selected sample as indicated above. The results indicated what the effect of the new tax returns would be in their personal opinion. The results were obtained, analysed and a conclusion was made.

The next chapter, chapter 4, will discuss the actual problems encountered with the new tax return and the new tax system.

3.2 PROCESS FOLLOWED

The questionnaire was sent to individuals with a taxation background, being tax practitioners and employees of auditing firms. These individuals were selected as they receive continuous training and would therefore be up to date with all the latest changes in legislation.

All the tax practitioners who answered the questionnaire are part of the Pretoria regional tax practitioners and are also all members of SAICA (South African Institute for Chartered Accountants). All the audit firm employees are part of audit firms who deal with taxation of their clients.

A total of 19 questionnaires were received back, which is more than the minimum acceptable percentage of 75% of 10 to 20 questionnaires. It should be kept in mind that these individuals are highly skilled individuals in their field, being taxation.

The sampling risk, which is true to any sample, is that the sample is representative of tax practitioners in a certain area.

3.3 ANALYSING OF THE RESULTS

The research objective stated the following questions have to be considered in order for the main research objective to be answered:

- What impact will the new tax return form have on the tax practitioner (refer 3.3.1)?
- Whether the tax practitioner thinks the new tax return form will lead to more mistakes due to individuals filling in their own returns without having the relevant taxation knowledge (refer 3.3.2).
- Does the tax practitioner think that the new tax system will increase or decrease the tax evasion opportunities (refer 3.3.3)?
- What impact the new tax system (barcode scanning system) will have on the number of mistakes made by SARS (refer 3.3.4)?
- Whether the tax practitioner thinks that the new tax return forms will ease the taxation process and if the new shortened form is practical (refer 3.3.5).

The analysis of the results is based on a point system. The average per question was then calculated. The points are allocated as follows:

- 1: strongly agree
- 2: agree
- 3: impartial
- 4: disagree
- 5: strongly disagree

Therefore, the higher the number, the greater the agreement with the statement made on the questionnaire.

Please refer to the sub-sections below for a detailed analysis of each of the statements/questions made or asked above.

3.3.1 Impact on the tax practitioner

The impact the new tax return form and the new filing system will have on the tax practitioner was assessed with question 1 to question 5 of the questionnaire. The questions on the questionnaire, as well as their results, were as follows:

- 1. The taxpayer will expect the tax practitioner to maintain his supporting documentation on his behalf.*

The average obtained for this question was 3.9. This means that there was an overwhelming agreement that the tax practitioner will be expected to maintain his client's supporting documentation. This could also be due to the fact that SARS may at any time request the taxpayer to provide supporting documentation. If SARS requests the documentation, it would be faster and easier for the tax practitioner to supply the supporting documentation if it is kept with him. A further reason is probably that practitioners have indicated that correspondence should be addressed to them. If the tax practitioner needs to maintain his client's supporting documentation, the next logical question to be asked would be whether the tax practitioner's liability will increase due to the fact that he has to maintain his client's supporting documentation. It should also be noted that section 73A and 73B of the Income Tax Act 58 of 1962 indicates that supporting documentation needs to be maintained for a period of five years. This relates to supporting documentation for both income tax purposes as well as capital gains tax purposes.

- 2. The tax practitioner's liability will increase due to the fact that he has to keep the client's supporting documentation on his behalf.*

The majority of the participants felt that the practitioner's liability will increase, with an average of 4.1. This means that the practitioners is more than likely to charge their client's extra for maintaining the supporting documentation, and for accepting extra responsibility.

- 3. The deadline given by SARS, without allowing extension, allows too short a period of time for tax practitioners to file their client's tax returns.*

Most of the practitioners felt that the deadline given by SARS was too short a period of time. The average rating was 3.9. This could be attributed to the learning curve as the returns would have taken a long time to complete initially but then would have been completed faster at later stages as the practitioner got more familiar with the new return. It should however be noted that SARS subsequently has given extra extension to tax practitioners who meet certain criteria (Jones, 2008b).

4. Do you as tax practitioner; agree that more taxpayers will complete their own returns due to the simplified nature thereof.

Question 4 and question 5 deal with one of the biggest concerns of the tax practitioners, or any other businessman, their income. It was interesting to note that there was a definite split. The average for question 4 was 2.9, which is closest to the impartial option, but only 16% of the participants chose impartial as their answer. 42% of the participants felt that taxpayers will fill in their own returns, and the other 42% felt that the taxpayers will not fill in their own return. It is therefore clear that, in the opinion of the tax practitioner, not a significant amount of people will attempt to fill in their own returns. We therefore need to determine what effect it would have on the work opportunities of tax practitioners if taxpayers were to fill in their own returns.

5. Due to the fact that more people will complete their own returns, the work opportunities for tax practitioners will decrease.

As question 4 obtained an average of 2.9, it is expected that question 5 will correlate with question 4. This was the case as the average obtained for question 5 was 3.2, with the majority of the participants being impartial. This means that the new tax return form and the new filing system will not have a significant effect on the work opportunities of the tax practitioner.

3.3.2 Taxpayers completing their own returns

As SARS has been promoting the new and simplified tax return form in the media, it is expected that more taxpayers will try to complete the tax returns without the assistance of

a tax practitioner. As discussed earlier, a change in the tax form does not change the complexity of the Income Tax Act. Question 6 and question 7 dealt with the taxpayer completing his own tax return form:

6. The shortened return will lead to more mistakes as the taxpayer will attempt to complete his own return without having the underlying knowledge of the Tax Act.

The participants strongly agreed that the taxpayers will make mistakes when completing their own return. The average was 4.1 with not one participant disagreeing with this statement. Besides from filling in the form, question 7 also asked how many of the taxpayers would know which form to fill in.

7. The taxpayer will not have the knowledge as to whether an IT12S or an IT12C return should be completed.

Not one participant was in disagreement with this fact. With an average of 4.5 for this question, it seems that the practitioners feel that most taxpayers will not know which tax return form to complete.

3.3.3 Tax evasion opportunities

A shorter form means that less information has to be provided. This could lead to individuals not providing information that they were suppose to provide. This could then subsequently lead to tax evasion. However, some of the non-disclosure could be because of a lack of opportunity for the taxpayer to disclose income. This could then seem like tax evasion, while it is in actual effect the result of a poorly designed form. The following questions deals with tax evasion and a lack of opportunity for the taxpayer to disclose certain amounts.

8. The new return does not provide the opportunity to declare other income earned by the taxpayer. This will lead to the non-declaration of taxable earnings.

As could be expected, all the participants in the questionnaire agreed that new return does not provide the opportunity to declare other income earned. The average of the question was 4.5. This could have serious effects as the taxpayer is not disclosing all the amounts earned by him, and this is not due to tax evasion, but rather due to a lack of opportunity given by SARS to disclose all amounts.

9. The new return gives no indication as to whether donations were made by the taxpayer. This will lead to non-declaration of donations tax.

None of the participants disagreed with the abovementioned statement. The average of the question was 4.1 with 21% being impartial. Although a separate return has to be completed for donations tax, the income tax return could have been used to check whether donations tax was paid by the donor.

10. The new return gives no indication as to whether assets of a capital nature were disposed of by the taxpayer. This will lead to non-declaration of capital gains tax.

If a taxpayer disposes of an asset of a capital nature during the year, he needs to pay capital gains tax and an IT12C needs to be completed. As discussed earlier, the tax practitioners are of the opinion that the taxpayer will not know which form to complete. This will mean that an individual who has disposed of a capital asset may fill in an IT12S and never declare his capital gain as there is no provision for the declaration of a capital gain on an IT12S. All the participants agreed with the statement at a high average of 4.7.

12. The new return will increase the opportunity for tax evasion.

A surprising result was the fact that none of the tax practitioners disagreed that the new form will increase the opportunity for tax evasion. All the participants either agreed, or were impartial as to whether the new tax return will increase the opportunities for tax evasion. The average of the question was 4.0.

3.3.4 Number of mistakes made by SARS

As SARS will be using the new barcode scanning system, in co-operation with Adobe Acrobat Reader 8, the question needs to be asked whether the new system will lead to more or less mistakes made by SARS personnel. The question, question 11, per the questionnaire read as follows:

11. The new scanning technology used by SARS will decrease the number of mistakes made by SARS.

The majority (53%) of the participants were impartial on this topic. 31% of the participants disagreed that the number of mistakes made by SARS will decrease, while the remaining 16% were of the opinion that the scanning technology used by SARS will decrease the number of mistakes made by SARS.

3.3.5 The taxation process and the new tax return form

The new tax return form was introduced to improve the current tax return form and subsequently the taxation process. The following questions, questions 13 to 16, dealt with the overall improvement of the taxation process:

13. The new return will ease the filing process.

It seems that SARS has succeeded in easing the filing process as all of the participants agreed that the filing process has been eased with the introduction of the new tax return form. The average obtained for the question was 4.5, which indicates that the practitioners strongly believe that the new tax return form has improved the taxation process.

14. The new return will speed up the assessment process.

All but one of participants agreed that new return, and filing system, will speed up the assessment process. The average of the question was 4.4. During the current filing

season it was noted that there was a definite improvement in the turnaround times of the assessment process, especially via e-filing.

15. The new filing process and return is an improvement on the old system.

Another encouraging factor for SARS is the fact that 79% of the participants felt that the new filing process and return was an improvement from the old system. With an average of 3.8 it seems that SARS are meeting their goals.

16. The accompanying brochure provides sufficient information for the calculation of the taxpayer's tax liability.

There is however always room for improvement. SARS did not provide the usual calculation table for the taxpayer to work out his own taxation payable. When asked whether SARS has provided enough information for the taxpayer to calculate his own tax liability, the majority (74%) felt that SARS did not provide enough information for the taxpayer to calculate his own tax liability.

3.4 CONCLUSION

It could therefore be said that, out of the tax practitioner's point of view, the only major effect the new tax form and tax system would have on the tax practitioner, is the safekeeping of supporting documentation on behalf of the client. This is due to the fact that the tax practitioners do not expect the change in the tax process and tax returns to have a major impact on their client base.

It is also clear that the participants of the questionnaire are of the opinion that most taxpayers will not have sufficient knowledge to choose the correct tax form or complete their own tax return form.

It is also important to note that SARS will have to be on the lookout for possible tax evasion by the taxpayers as the participants of the questionnaire are of the opinion that the opportunity for tax evasion has increased. It is also very clear that the new tax return form

is very far from perfect. There are still a lot of issues regarding the design of the form. One could almost say that SARS has to be careful of making the new tax return form too short.

The new scanning technology will, in the opinion of the participants of this questionnaire, not decrease the number of mistakes made by SARS. Most of the participants are of the opinion that the new scanning technology used by SARS will have no effect on the number of mistakes made by SARS.

It seems that SARS is definitely meeting their goals of making the taxation process, with the help of the new tax form, easier for the taxpayer. The only criticism with regards to the process itself is the fact that not enough information is provided for the taxpayer to calculate his own tax liability payable. In the past SARS has given a calculation table where the taxpayer could calculate his own taxation payable.

4 PROBLEMS ENCOUNTERED REGARDING THE NEW TAX RETURN AND TAX SYSTEM

4.1 INTRODUCTION

It is important to understand the procedure that was followed regarding this study. The questionnaires were sent out and received back. Certain conclusions were then made with the information obtained from the questionnaires. Subsequent to this, during 2008, a literature review was performed as more information became available regarding the new taxation process. We were therefore able to base the rest of the study on both the questionnaires and further literature review.

As can be expected from the implementation of any new system, certain problems will more than likely be encountered with the implementation of the new system. The question that needs to be asked is how severe the problems are and what effect it will have on the greater public.

Certain problems could be foreseen due to the design of the form. Other problems resulted due to the e-filing process, while some problems were encountered due to legal issues.

The different types of problems encountered with the new tax system and the new tax form will be discussed in detail in this chapter.

4.2 NEW TAX FORM DESIGN

The following sub headings relate to problems identified which closely relates to the new tax form design. As discussed earlier in this document, the taxpayer who files his return electronically will have to answer certain questions in order to determine whether an IT12S or an IT12C return needs to be filled in.

4.2.1 IT12C return versus IT2S return

As indicated above the taxpayer who files his return electronically will have to answer certain questions to determine whether an IT12S or an IT12C needs to be completed. The problem arises when a taxpayer receives his return through the post, completes it manually and returns it to SARS without even ever considering whether an IT12S or an IT12C needs to be completed.

SARS has however, as a remediation control, put these same questions on their website, in order for the taxpayer to determine which of the two returns he should complete. A brochure given by SARS to the taxpayers indicated the following guidelines to which return should be completed (SARS, Not dated):

An IT12S return will have to be completed by the following individuals:

- Employees earning a salary, excluding allowances, from a local employer with no more than three IRP5/IT3(a) certificates.
- Employees earning a salary with allowances.
- Individuals who earned local interest income.
- An individual that only had SITE income during the tax year and who wants to claim certain permitted expenses (medical expenses, retirement annuity contributions and/or income protection contributions) that was not taken into account by his employer.

An IT12C return will have to be completed by the following individuals:

- Taxpayers earning business, farming or professional income or commission.
- Independent contractors and labour brokers.
- Members of close corporations and directors of companies.
- Taxpayers who earned foreign investment income, for example foreign interest and foreign dividends.
- Taxpayers who earned rental income during the year.
- Where a foreign subsistence allowance was received by the taxpayer.
- Individuals whom had income subject to capital gains tax.

Although most of the criteria mentioned above are straightforward, the question arises whether the taxpayer will know what capital gains tax is. If the taxpayer does not declare his income, even if it is not done willingly, it will be in contravention of the Income Tax Act and legal action could be taken against the taxpayer.

The completion of the incorrect form may therefore have serious consequences for the taxpayer.

4.2.2 Other income

In the brochure given by SARS regarding which return should be completed, no information was given about other income received or accrued, whether taxable or not. Therefore, if an individual has to complete an IT12S return, and receives other income, there will be no space for him to declare this other income.

Furthermore, it should be noted that no space is provided for the taxpayer on either of the IT12C or the IT12S to declare income which the taxpayer thinks is not taxable. This is a serious “mistake” by SARS as more people will be completing their own simplified tax returns, without having the applicable taxation knowledge.

There is also no space provided for the taxpayer to indicate whether he has inherited any assets during the year. If an individual is a member of a close corporation or a director of a company, an IT12C needs to be completed with a statement of assets and liabilities. There may therefore be confusion as to why a taxpayer’s assets increased significantly, when it is actually part of his inheritance or exempt income, but was never indicated on a tax form.

It should again be noted that the non-declaration of income, even if the taxpayer thinks it is not taxable, will be in contravention of the Income Tax Act and may have serious consequences for the taxpayer. Section 75(c) of the Income Tax Act 58 of 1962 states that if an individual does not declare gross income on his return he will be guilty of misconduct which is may lead to penalties or imprisonment. Section 76 of the Income Tax Act 58 of 1962 further states that penalties may be payable if the taxpayer does not disclose all the required information.

4.2.3 Donations tax

The new tax form does not give the taxpayer the opportunity to declare whether the taxpayer made any donations during the year, excluding s18A donations.

The old return asked the question whether the taxpayer made any donations during the year. The new return does not give the taxpayer the opportunity to declare whether any donations were made to individuals other than s18A companies.

It should be understood that when a donation is made, an IT144 should be completed by the donor. This donations tax is then paid separately from income tax. Although the donations tax does not form part of the normal income tax the individual has to pay, this question gave SARS the opportunity to let the taxpayer know that donations tax has to be paid. It is clear that the new system will place more reliance on the taxpayer where the items concerned can not be verified from third parties. More taxpayers may complete their own return because of the simplified tax return. These taxpayers may not have the sufficient knowledge of the Income Tax Act and may therefore omit to declare any donations made.

4.2.4 Capital gains tax exclusions

If a taxpayer has disposed of assets of a capital nature during the year, tax on the capital gain may need to be paid. Furthermore, if such a disposal was made during the year, an IT12C needs to be completed. The fact is that the return itself does not make provision for the taxpayer to indicate whether this capital gain is from the sale of a primary residence, a small business on retirement or a normal capital gain (Jones, 2007b).

Jones (2007b) also stated that the reason why a distinction between these disposals needs to be made is due to the fact that there are specific exclusions for certain disposals:

- If the property sold is your “primary residence” (residence in which you mainly reside, provided that certain conditions are met) as defined in terms of the Eighth Schedule of

the Income Tax Act, the first R1,5 million of any gains (profit) made on the disposal of the property is excluded from capital gains tax.

- The first R750,000 of gains arising from the disposal a small business may also be excluded, provided you are the owner of the business, dispose of the business as a consequence of retirement and other criteria are met.

There is also no provision made for the taxpayer to utilise his annual exclusions, being the first R12,500 of any capital gain (profit) in any year, as well as the R60,000 exclusion where a taxpayer dies during the year of assessment (Jones, 2007b).

Jones (2007b) did however indicate that SARS has dealt with the exemptions on page 6 of their brochure, "How to fill in your IT12C":

- The taxpayer needs to do the calculations himself for every capital asset disposed of. This calculation will be performed on an asset by asset basis, by taking the proceeds and subtracting the base cost and all exclusions. The primary residence exemption of R1,5 million will therefore need to be deducted from the proceeds of the disposal of the primary residence by the taxpayer as SARS will not.
- The basic general annual exemption of R12,500 as indicated above, will be taken into account by SARS when performing their calculations.

The question therefore arises whether the form was in actual fact designed poorly? The answer to the question is whether the return will be completed manually or via e-filing. This is due to the fact that the brochure is at hand to help one when completing the return manually. If the return was to be completed via e-filing, one would not have known what amount should be included, as there is no specific indication whether the amounts included are before or after the exemptions, while completing the return online. The consequences of not deducting the R1,5 million exemption is quite substantial as this could lead to an overpayment of up to R300,000 ($R1,500,000 \times 50\% \text{ inclusion rate} \times 40\% \text{ marginal rate}$) (Jones, 2007b).

The main problem with the layout of the new tax return, regarding capital gains tax (in specific the calculations required to be done by the taxpayer), is that the ordinary

taxpayers should now have a detailed knowledge of the legislative provisions regarding the capital gains tax exclusions. SARS is therefore assuming that the ordinary taxpayer will have this knowledge, while also encouraging the taxpayers to complete their own tax returns. This again highlights the fact that the new simple form is not as simple in all areas (Jones, 2007b).

This will therefore mean that the tax practitioners will be approached by taxpayers to help them fill their returns.

4.3 E-FILING (ELECTRONIC SUBMISSION OF RETURNS)

4.3.1 Benefits of using e-filing

Although there may be some implementation errors with the new electronic filing, the benefits of e-filing will definitely outweigh the frustration that comes with any new system. One of these benefits is the fact that the taxpayer could be assessed within days of completing his/ her electronic form, provided that there is no problem with his/ her return. This is due to the fact that returns that are completed electronically are processed faster than manual returns.

If the taxpayer used the e-filing process and owes SARS monies, the taxpayer has until 28 February 2009 to pay his dues (Du Preez, 2008).

As stated earlier, the taxpayer has until 31st January 2008 to submit his return if he uses e-filing, whereas the manual returns have to be submitted by 31st October 2007. The prior year's return can always be looked up electronically which will help a great deal with certain details, such as the prior year's odometer reading (Du Preez, 2008).

4.3.2 Hardware required

One of the drawbacks of the new electronic return is the fact that the taxpayer needs Adobe Acrobat 8 on his computer. Although there is nothing wrong with program and it can

be downloaded for free, the problem is the high computer hardware requirements to run Adobe Acrobat 8 (Jones, 2007c).

Jones (2007c) further stated that the software program will not install if the operating system is Windows 95 or Windows 98. The taxpayer also needs, at the least, a Pentium III with 256 MB of RAM.

It should also be considered that all people in South Africa do not have access to computers or the internet. The line speed of some of the internet connections are also very slow which will make electronic filing of the form difficult.

Although this is a drawback, it is not a major one, as the taxpayer can complete the return elsewhere. Or, if he does not feel comfortable disclosing his personal details on another computer, he could always fill in the form manually (Jones, 2007c).

4.3.3 Possible improvements

The navigation around the online and electronic returns can be tricky at some times. A specific section can also not be skipped and only completed later, which means that if one wants to complete a separate section, dummy text needs to be entered in order for the incomplete return to be saved, which could lead to the taxpayer submitting incorrect amounts (Du Preez, 2008).

Certain links can be provided by SARS while filling in your return electronically, which will make the completion of the return easier. One of these possible links is an online help function. Even though the brochure on how to fill in your return is available on SARS's website, a link to help the taxpayer complete a specific section of the return would have been very useful. An example of this is the fact that the taxpayer needs the brochure to look up the code for his main source of income. It would have been easier if there was a link on the return to the possible source codes (Du Preez, 2008).

Du Preez (2008) also stated that another "nice to have" would have been a pop-up screen in certain areas. One such area would have been where taxpayers who are married in

community of property are filling in their interest income, dividends and capital gains. The amount that needs to be filled in is the aggregate amount. It would have been nice if SARS had a pop menu stating that SARS will divide the amount by two.

The pop-up menu mentioned above could then also be applied to the exclusions for capital gains as discussed earlier.

4.4 SIGNING OF DECLARATION AND OTHER LEGAL ISSUES

As in the past, the taxpayer has to sign a declaration. One of the things mentioned in the declaration on the tax return form is: "I disclosed in full the gross amounts of all income accrued to or received by me during the period covered by this return". This means that the full gross amount should be disclosed to SARS, before deducting any exemptions or other deductions (Jones, 2007b).

As discussed earlier, the amount disclosed for capital gain purposes is the amount net of exemptions. It was also discussed that income which in the opinion of the taxpayer is non-taxable, is not disclosed on the new tax return form as there is no provision for such income. It would therefore, in theory, be impossible to complete the tax return form and sign the declaration as one is making a false declaration when signing the form after deducting the exempt amounts or not disclosing all income (Jones, 2007b).

Jones (2007b) further mentioned that the honest taxpayer is actually in a dilemma. If the declaration is not signed, SARS will reject the return, but if the declaration is signed, it is a false declaration as all gross amounts were not disclosed. All gross amounts are not disclosed as the exemptions for capital gains is deducted and as income is omitted as the form does not make provision for the taxpayer to declare income which he thinks is not taxable.

As discussed earlier, SARS verifies the information supplied by the taxpayer against information received from third parties. Since SARS has begun with the assessment process, there have been various mismatches (where the information supplied by the taxpayer does not correlate to the information supplied by the third parties). SARS has

since send out letters to taxpayers where there has been a mismatch. These letters stated that the taxpayer should either resubmit his tax return form or submit the supporting documentation to SARS (Jones, 2008a).

If the taxpayer made an error previously, he will need to resubmit his tax return form. If the taxpayer is certain that the correct information was provided to SARS first time round, he will need to submit his supporting documentation to SARS. The supporting documentation can be submitted manually or electronically (Jones, 2008a).

There is no problem with the process as described above (although it does defeat one of the stated purposes that supporting documentation does not need to be submitted). But, the fact that SARS refuses to tell the taxpayer, or tax practitioner, what the mismatch is, is causing frustration under the taxpayers and tax practitioners as the return is in fact rejected. This in effect means that the taxpayer, who needs to submit supporting documentation to SARS, will still have a mismatch as none of the information on the tax return itself has changed (Jones, 2008a).

Jones (2008a) also commented that the burden of proof is on the taxpayer who claims that any amount is exempt from income tax, or that a deduction, abatement or set-off is allowed for income tax purposes. The same applies for purposes of capital gains tax. However, nothing in the specific section in the Income Tax Act requires the taxpayer to submit proof, until SARS has made a query to the taxpayer. In the case where SARS has a query, SARS has to provide evidence to substantiate the query. The evidence in this case would be the information that causes the mismatch.

4.5 CONCLUSION

It is clear from the problem areas identified that certain items might be omitted. One of the questions on the questionnaire also asks the question whether the new tax form will increase the opportunity for tax evasion. It will be difficult to determine whether the above omissions are due to taxpayers evading tax or due to taxpayers filling in a badly, incomplete designed form.

5 CONCLUSION

It seems that SARS has made an improvement, not only with regards to the improved tax return form, but also with regards to the taxation administration process as a whole.

As per the questionnaires that were sent out, the following conclusions could be made:

- The tax practitioner will probably be responsible for the safekeeping of his client's supporting documentation.
- The tax practitioners do not expect the change in the tax process and tax returns to have a major impact on their client base.
- Participants of the questionnaire are of the opinion that most taxpayers will not have sufficient knowledge to choose the correct tax form or complete their own tax return form.
- The opportunity for tax evasion is likely to increase.
- There are still a lot of issues regarding the design of the new tax return form; SARS has to be careful of making the new tax return form to short.
- Most of the participants of the questionnaire are of the opinion that the new scanning technology used by SARS will have no effect on the number of mistakes made by SARS.
- Not enough information is provided for the taxpayer to calculate his own tax liability payable. In the past SARS has provided a calculation table were the taxpayer could calculate his own taxation payable.
- It seems that SARS is definitely meeting their goals of making the taxation process, with the help of the new tax form, easier for the taxpayer.

A further literature review resulted in the following problem areas with regards to the new tax return form and tax system:

- It is asked whether the taxpayer, who does not make use of a tax practitioner, will know whether an IT12C or IT12S should be completed.
- No provision is made on the tax form for the taxpayer to disclose any donations made during the year.

- It is expected of the taxpayer to be able to calculate his own taxable capital gains.
- Up to date computer hardware is required to submit the tax return form via e-filing.
- SARS can make certain improvements in the navigation of the online return, for example by adding certain quick links.
- There are some legal issues regarding the signing of the declaration and the process of mismatches.

In his budget speech for 2008, Mr. Trevor manual commented that SARS will continue to ease the tax filing process, modernise tax administration and encouraging tax compliance. He also added that 750,000 taxpayers submitted their returns electronically and that the number of returns submitted by the deadline was a new record (Department of foreign affairs, 2008).

It is encouraging to notice that SARS is also doing their part to help the taxpayer comply with the requirements set by SARS. The following are just two examples of how SARS has helped the taxpayer:

- As discussed earlier, certain assessments were rejected. One of the reasons noticed by SARS for the rejections is the fact that the taxpayers entered a 361 code on the tax return form. No such code exists, but a common code used is 3601. SARS has reviewed the automated rules of the reader and now substitutes the 361 for a 3601 code. Although the assumption will not always be correct, as the source code could have been 3612, the majority of the taxpayers will benefit from such an assumption (SARS, 2008).
- SARS has also granted extension for the submission of personal income tax returns. The extension is only for taxpayers whose returns are submitted by a tax practitioner. The tax practitioner has to comply with certain criteria for the taxpayer to receive the extension (Jones, 2008b).

The South African Government Information (2008) published the following information on their website on 23 January 2008, 8 days before the deadline for e-filing:

- More than 3 million returns have been received.

- 75% of the returns are in various stages of the assessment process.
- 50% of the returns have been processed and refunds paid where applicable.
- SARS expect that 880,000 returns that are currently being processed will be finalised by the end of March.

Reasons were also given why some assessments may be delayed (South African Government Information, 2008):

- Incomplete returns.
- Data verification mismatches.
- Outstanding or incorrect banking details (which was a new requirement).
- Returns that are subject to further audit, based on SARS's risk rules used.

The new returns were returned as incomplete where information that was not previously required were omitted – fax numbers etc.

After considering all the research performed, it can be concluded that the new tax return form, as well as the new tax filing system, was welcomed by the taxpayer and the tax practitioner, and was a definite improvement.

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APPENDIX A

FIGURES

APPENDIX B
QUESTIONNAIRE

Department of Taxation



23 July 2007

Dear Tax practitioner

I am a graduate student at the University of Pretoria and am appealing to you for help. All that I require is a few minutes of your time.

I am busy writing my dissertation on the new tax returns, which will be used for the 2007 tax year. It is my aim with this study to determine whether the new tax returns are indeed an improvement on the old tax returns.

My dissertation will focus on the IT12S. I would appreciate it if I could get the tax practitioner's point of view regarding the new IT12S tax return.

I would therefore truly appreciate it if you could take a moment in completing the enclosed questionnaire.

The questionnaire is set out for you to agree or disagree with the statements made in the questions. Please refer below for the rating system used in answering the questions:

1. Strongly Agree
2. Agree
3. Impartial
4. Disagree
5. Strongly Disagree

Please note that you will remain anonymous when answering this questionnaire.

Very sincerely yours

PH Ferreira

NEW TAX FORM QUESTIONNAIRE (1/2)



SA A I D SD
1 2 3 4 5

- 1 The taxpayer will expect the tax practitioner to maintain his supporting documentation on his behalf.

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If you strongly disagree or disagree to question 1, please skip to question 3.

- 2 The tax practitioner's liability will increase due to the fact that he has to keep the client's supporting documentation on his behalf.

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- 3 The deadline given by SARS, without allowing extension, allows too short a period of time for tax practitioners to file their client's tax returns.

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- 4 Do you as tax practitioner, agree that more taxpayers will complete their own returns due to the simplified nature thereof.

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If you strongly disagree or disagree to question 4, please skip to question 8.

- 5 Due to the fact that more people will complete their own returns, the work opportunities for tax practitioners will decrease.

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- 6 The shortened return will lead to more mistakes as the taxpayer will attempt to complete his own return without having the underlying knowledge of the Tax Act.

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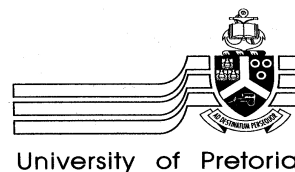
- 7 The taxpayer will not have the knowledge as to whether an IT12S or an IT12C return should be completed.

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- 8 The new return does not provide the opportunity to declare other income earned by the taxpayer. This will lead to the non-declaration of taxable earnings.

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NEW TAX FORM QUESTIONNAIRE (2/2)



	SA 1	A 2	I 3	D 4	SD 5
9 The new return gives no indication as to whether donations were made by the taxpayer. This will lead to non-declaration of donations tax.					
10 The new return gives no indication as to whether assets of a capital nature were disposed of by the taxpayer. This will lead to non-declaration of capital gains tax.					
11 The new scanning technology used by SARS will decrease the number of mistakes made by SARS.					
12 The new return will increase the opportunity for tax evasion.					
13 The new return will ease the filing process.					
14 The new return will speed up the assessment process.					
15 The new filing process and return is an improvement on the old system.					
16 The accompanying brochure provides sufficient information for the calculation of the taxpayer's tax liability.					

Thank you for your participation in this questionnaire.