

THE EFFECTS OF TAX MORALE ON TAX COMPLIANCE IN THE MINING INDUSTRY

by

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ABSTRACT

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Many tax authorities across the globe, including South Africa, continuously develop new methods to maximise tax collection and rely on taxpayers' voluntary tax compliance. Prior tax compliance studies confirm that taxpayers' tax morale is influenced by various economic, non-economic and social factors. However, limited research has been conducted on the effects of tax morale on tax compliance in the mining industry in South Africa.

The objective of this study is to determine the factors that influence tax morale in the mining industry, and to determine the perceived effects of tax morale on tax compliance in the mining industry.

The current study reports the results of a survey conducted amongst South African taxpayers in the mining industry. The survey contained a structured and open-ended questionnaire, which was sent to the participants via email.

The findings show that the majority of the participants in this study are not happy with most of the public services they receive from government. They were of the opinion that corruption and waste in our government is high, and that a large proportion of collected tax is wasted on unnecessary expenses. Further to this, the majority of participants indicated that government does not share sufficient information on how it is spending collected

revenue. However, a large proportion of participants believe that paying their fair share of taxes is the right thing to do, as it is required by law. These participants indicated that tax evasion is not acceptable and every taxpayer must pay their fair share of taxes when it is due and required.

This study found that the complexity of tax law, fairness and equity, direct democracy, role and efficiency of tax officials, trust in government, as well as tax audit and tax compliance cost have an impact on taxpayers in the mining industry's tax morale. Tax audit is perceived to have both a positive and negative influence on these taxpayers' tax morale. However, various economic and noneconomic factors identified in existing literature as influential on taxpayers' tax compliance were not found to have an influence on taxpayers in the South African mining industry. This may be due to the fact that the majority of the participants indicated that they pay taxes due on behalf of the company to comply with the tax law and other regulations that govern the mining sector.

KEYWORDS: Mining industry, tax morale, tax compliance and factors that influence tax morale in mining sector

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DEFINITION OF KEY TERMS

Table 1: Definition of key terms used in this document

Key term	Definition
Tax morale	Taxpayers' willingness to pay their tax duties (Torgler, 2005:527).
Tax avoidance	"Tax avoidance refers to situation in which the taxpayer has arranged his affairs so as to pay only the minimum of tax amount that is legally required" (Van Schalkwyk, 2012:787).
Tax evasion	Tax evasion is defined as, illegal actions intentionally undertaken by a taxpayer to underpay the taxes or to free himself from a tax burden" (Van Schalkwyk, 2012:787).
Taxpayer	A taxpayer is: "a) a person chargeable to tax; b) a representative taxpayer; c) a withholding agent; d) a responsible third party; or e) a person who is the subject of a request to provide assistance under an intentional tax agreement (Tax Administration Act, No. 28 of 2011).

LIST OF ABBREVIATIONS AND ACRONYMS

Table 2: Abbreviations and acronyms used in this document

Abbreviation	Meaning
SAS	Statistical Analysis Software
SARS	South Africa Revenue Service

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

The taxes, as well as other contributions by mining companies towards government, are an important contribution to the country's wealth and stability, and hence the environment in which they trade (PricewaterhouseCoopers LLP, 2009:4). On the other hand, companies regularly report their corporate income tax separately in their financial statements and the other contributions they make are not always recognised (PricewaterhouseCoopers LLP, 2009:4). Throughout the lifecycle of a mining project, mining companies pay taxes – in addition to corporate income tax, they also pay other taxes such as property taxes and indirect taxes. They also make significant contributions to government revenue by paying specific taxes, such as royalties and levies, and contribute to local infrastructure development, such as roads, schools and housing.

According to Curtis (2009:4), the South African economy was built on the country's mining resources, and has significantly grown and profited from its rich deposits of gold, coal, diamonds and platinum. South Africa mainly exports gold and platinum. In 2006, the price of these two resources increased significantly. The gold price increased by 45 percent and platinum increased by 27 percent.

In every country, tax authorities are empowered or authorised to collect revenue from taxpayers. Although most taxpayers disclose their revenue and pay their tax liabilities accurately, there are a few who do not (Ho and Wong, 2008:169). When faced with tax morale problems, it is commonly believed that moralities can serve as guiding principles for taxpayers on how to act truthfully and honestly (Ho and Wong, 2008:169).

Why do taxpayers resist total compliance with their tax obligations, and why does this situation vary internationally?

Although compliance differs significantly worldwide due to varying taxes, tax compliance levels hardly fall to a level foreseen by normal compliance economic theory (Alm & McClellan, 2012:1).

In a study conducted by Oberholzer and Stack (2009:737), it was found that there is a major tax gap in South Africa between the tax hypothetically collectable from the economically active population, and that collected in reality. The main cause of this tax gap is non-compliance by taxpayers – the attitude and perceptions of individuals (Oberholzer & Stack, 2009:737).

In South Africa, taxes have been imposed since 1914. Every year, the Minister of Finance presents his budget speech in which total government expenses for the following year are addressed in detail. The annual budget speech also outlines financing mechanisms for these expenses. In South Africa, government expenses are mainly financed by means of income collected from taxes (Venter, Hamel & Stiglingh, 2004:4; Mohr, Van der Merwe, Botha & Inggs, 1988:79-91), it is therefore important to protect the state's tax base (Oberholzer & Stack, 2009:737).

A high level of voluntary compliance may lead to a tax system operating effectively (Pentland & Carlile, 1996). Most countries have procedures and processes in place to encourage a higher degree of tax compliance, ensure effective and efficient manner of revenue collection, and discourage tax evasion (Chung & Trivedi, 2003:133). Most countries use common measures, such as the implementation of monetary penalties and/or imprisonment, to penalise taxpayers who do not comply with tax laws and regulations (Ho & Wong, 2006:32). Chung and Trivedi (2003) found that a high degree of tax compliance is important, especially for those states that fund a large portion of government spending with income from tax revenue. In South Africa, government spends a large portion of tax revenue on social welfare, healthcare and education services, therefore it is very important to implement measures to ensure effective and efficient revenue collection (Gordhan, 2012:3).

Webley, Robben, Elffer and Hessing (1992:304) proposed that there is perhaps three different groups of taxpayers – taxpayers who will often try to evade taxes, those who

never evade taxes and those who will try to evade taxes every now and then (not regularly). Bird and Oldman (1990:453) and Slemrod (1992: v) suggest that tax evasion is a general situation that is observed in all societies. It is normally a hidden behaviour, and is complex to the extent that it can have major economic and social significance (Lewis, 1982:159; Webley *et al.*, 1991:128). Taxation and evasion usually go together. When the Brit, William Pitt, delivered his speech on the introduction of income in 1799, tax evasion was already a significant topic. The speech was used as a measure of preventing all evasion and fraud habits, and to promote tax imposition on major forms of income (as cited by Webley *et al.*, 1991:1).

Both economists and psychologist have explored reasons why taxpayers evade taxes. Policymakers in developing and transition economies are particularly concerned about how to encourage a high degree of voluntary compliance (Cummingsa, Martinez-Vazquezb, McKeec & Torgler: 2009:447). Cowell (1990:6) argues that tax evasion affects the total revenue collected by government. The issue of evasion is unlike other illegal activity, as it is linked to the instruments of economic control that government utilises in implementing its economic policy (Cowell, 1990:6). Tax evasion is a wider issue for the development of public order, and a reduction therein increases the total revenue collection by the government (Knack & Keefer, 1997: 1253). On the other hand, decreasing tax evasion is generally not a simple issue. Imposing high penalties and increasing audit possibilities are not often the best measures to put in place (Lago-Peñas, 2010:441). People may resort to bribery and corruption should government impose extreme penalties, which may result in lower tax compliance and a major loss of trust in public organisations (Cummingsa *et al.*, 2009:447). Policymakers must understand the behavioural aspects of tax compliance decision-making to ensure that they formulate effective policies for reducing tax evasion (Cummingsa *et al.*, 2009:447).

Government enforcement activities alone cannot be seen as justification for its tax compliance levels (Alm & McClellan, 2012:1). Variances in tax compliance behaviour may well be related to why taxpayers are compliant with their tax duties and not why they evade it (Alm & McClellan, 2012:1). In light of these variances, numerous researchers have recommended that the intrinsic motivation for people to pay taxes, referred to as 'tax morale', varies across the globe. If taxpayers' morale is influenced by cultural norms, with

diverse societal institutions acting as restraints in different countries, then tax morale could be a crucial factor that influences taxpayers' tax compliance behaviour (Frey, 1997: 1050).

Why do people pay taxes and why is it necessary to examine tax morale? This question has prompted great consideration in tax compliance studies in recent years. It can be said that people do not like paying taxes. Torgler (2003:4) suggested that every country must have a tax policy which can be used to force people to pay their due taxes. According to Riahi-Belkaoui (2004:135-136), tax morale and factors that influences tax morale can greatly clarify the situation of tax compliance internationally. Recent studies suggested that tax morale is one of the main clarifying variables for the perceived level of taxpayers' tax compliance. The term 'tax morale' was coined by Schmolders (1960:97-98), who defined it as:

"The attitude of the entire population or the group of taxpayers concerning the query of evasion or compliance with their tax obligations; tax morale is attached to residents' tax attitude and in their realisation to be residents, which is the foundation of their internal acknowledgement of tax obligations and acceptance of the authority of the state".

Despite the definition coined by Schmolders, tax morale is a topic of ongoing debate and takes on various meanings. (Torgler, 2003:4) defines tax morale as taxpayers' willingness to pay taxes and believes it is an individual's fundamental motivation to pay taxes. Tax morale is contrary to tax evasion, it measures individuals' attitudes and not their behaviour (Torgler, 2004:239). Tax morale is also linked to social norms (Alm, McClelland, & Schulze, 1999:142), perception of authority and trust (Kirchler, Hoelzl, & Wahl, 2008:212), as well as taxpayers' morals (Song & Yarbrough, 1978:442). Feld and Frey (2002:91) suggested that taxpayers' tax morale is likely to be affected by the economic exchange between government and taxpayers.

It is understandable that there are such diverse views on what tax morale entails, which creates a problem for tax revenue analysis. Tax morale cannot be noticed directly, thus it can only be assessed by examining its effects (Pommerehne, Hart and Frey, 1994). Riahi-Belkaoui (2004:136) recommended that countries that provide their people with high moral norms, effective competition laws, high economic freedom and, importantly, market equity,

would have high levels of tax compliance. Tax morale has been defined as an intrinsic encouragement to pay taxes, and it is a non-monetary factor (Cummings *et al.*, 2005:4). Some studies have evaluated tax morale as an origin characteristic of those factors that influence tax compliance. Tax morale can be justified by the positive feeling of contributing to the community or can be perceived as an ethical obligation towards tax compliance. In the study conducted by Lubian and Zarri (2011:224), tax morale is believed to be positively connected with individuals' reported happiness.

Besides the various identified factors or individual characteristics that play a role in tax morale, such gender, religion, occupation, age and marital status, some believe that the environmental factors in which an taxpayers make their decisions also impact tax morale. Extensive attempts have been made to detect these external factors that have a significant impact on shaping tax morale.

Feld and Frey (2002:95) and Torgler (2005:527) used a combination of aggregate data on contextual factors and microdata on tax morale to examine the relationship between tax morale and direct democratic rights. Barone and Mocetti (2011:726) examined how local governments' inefficiency in spending its revenue affects tax morale. The study conducted by Alm and Torgler (2006:228) found that people's trust in the legal system and the ruling government also affects tax morale. Torgler *et al.* (2010:293) and Güth Levati and Sausgruber (2005:172) studied the correlation between some indicators of local independence (i.e. economic independence, decentralisation) and tax morale. Frey and Torgler (2007: 146) found that the behaviour of other taxpayers also influences individuals' behaviour. For instance, when other taxpayers are perceived to be compliant with all their tax obligations, this increases one's morale, and the other way around.

According to Alm and McClellan (2012:14-15), corporations are bound to similar tax morale considerations as individuals when making decisions about their taxes. Companies with higher tax morale, and that therefore believe that evading tax is immoral, do not evade taxes. "Corporate ethics has come under attack in recent years with organizations such as Enron, WorldCom, and Arthur Anderson representing examples of unethical practices in the business environment" (Ashforth, Gioia, Robinson & Trevino, 2008). A

firm's accountability is constantly challenged in the disciplines of business ethics and finance (Murphy, 2011:19).

Government now enforces stricter regulations pertaining to public-owned organisations, as a result of scandals around these organisations resulting in loss of public trust (Murphy, 2011:19). The implementation of the Sarbanes-Oxley Act (2002) in the United States of America, and its related Public Company Accounting Oversight Board are examples of increased regulation (Boatright, 2008).

South Africa is a nation with different languages, social histories, religions, cultures, beliefs, educational background, politics views and genders. It is conceivable that these differences may influence the tax morale of both individuals and corporations. Tax morale consequently impacts taxpayers' attitudes towards tax compliance.

This study attempts to examine which factors influence the tax morale of mining industry taxpayers in South Africa and the impact that these factors have on their tax compliance.

1.2 RATIONALE FOR THE STUDY

Taxpayers' compliance behaviour is influenced by various factors. Likewise, their tax morale is influenced by different internal and external factors (tax morale determinants).

Therefore, understanding taxpayers' behaviour or attitudes towards tax compliance is crucial. Despite many studies done on individuals' tax morale, not a great deal of research has been done on that companies and why they pay tax. The tax morale determinants in the mining industry therefore need to first be ascertained and evaluated in order to examine its effect on tax compliance.

1.3 PURPOSE STATEMENT

The main purpose of this study is to examine the effects of tax morale on tax compliance in the mining industry, and to determine perceived factors that influence tax morale in the mining industry.

1.4 RESEARCH OBJECTIVES

The main purpose of the study is supported by the following specific objectives:

- to determine factors that influences tax morale in the mining industry; and
- to determine the perceived effects of tax morale on tax compliance in the mining industry.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

Most compliance studies have focused on individuals' taxpaying behaviour and not much is well known about firms' compliance behaviour and the factors that influence it. This study aims to address this gap of knowledge. However this is limitations to the income tax aspects and extent to which tax morale influences corporate compliance behaviour, specifically in the mining industry. It is important to understand that the relationship between shareholders and the tax compliance decision-makers in a company is complex. This is generally because the tax compliance decision-makers are not necessarily the same individuals that hold shares in a company (Lavermicocca, 2009:66). The tax compliance decision-makers make decisions on behalf of the company, which in terms of law is recognised as a legal entity separately from its directors, shareholders, employees and any other officers (Lavermicocca, 2008:200).

The Companies Act (Act No. 71 of 2008), common law and other regulations impose legal obligations on directors and managers in respect of corporate governance, which includes tax risk management. The common law obligations require directors to act in good faith, in the best interest of the company as a whole, as well as to act as a fiduciary with respect to the company.

There is a propensity to associate the board's views on tax risk management (particularly compliance risk) closely with its views on corporate governance. In a study conducted by PricewaterhouseCoopers (2004:11), it was found that tax risk management is normally delegated to the chief financial officer and the head of tax. Further to this, it was also found

that there was no understanding or engagement around tax risk management at board level.

This study will examine how various factors, such as trust in government, fairness and equity of the tax laws and tax system, economic benefit, etc., influence tax morale. Ultimately the study will examine the perceived effects of tax morale on tax compliance in the mining industry.

The study will finally report its results of how tax morale affects tax compliance in the mining industry with the aim to identify factors that the government and the tax authorities can improve on in order to increase tax compliance levels.

1.6 DELIMITATIONS AND ASSUMPTIONS

1.6.1 Delimitations of the study

This study focuses on the effects of tax morale on tax compliance in the mining industry, therefore not non-mining sectors, with specific focus on mining companies in South Africa.

This is an exploratory study aimed at determining the effects of tax morale on tax compliance in the mining industry. As a result of the small size sample used in the study, the findings may not be generalised outside the population from which the sample was taken from. The participating respondents may not have responded to all questions and, as a result, the opinions of the respondents might not precisely reflect the opinions of all the members included in the sample.

This study is cross-sectional and represents a snapshot of how tax morale affects tax compliance in the mining industry at a particular point in time. Hence, any changes to respondent characteristics and legislation may influence the results of any similar future studies.

1.6.2 Assumptions

It is assumed that the individuals who participated in the survey are taxpayer representatives (tax manager, tax practitioners), who are involved in decision-making on tax compliance matters in the company.

Unless stated otherwise, a tax-compliant taxpayer refers to a taxpayer who submits all required tax returns accurately and before the due date, pays any outstanding money to the tax authorities and keeps all supporting documentations for a stipulated period of time, in accordance with prevailing legislation (tax and any other legislation) (McKerchar, 2003:34), and honestly disclose all information to the South Africa Revenue Service (SARS).

1.7 RESEARCH METHODOLOGY

The researcher first performed a literature review to establish theoretical constructs in order to determine the effect of tax morale on tax compliance in the mining industry.

The theoretical constructs were then used as a framework to empirically study the deterrents of tax morale and how they affect tax compliance in the mining industry using a qualitative approach. This was done through the collection and analysis of data obtained from a survey. The survey was conducted online and consisted of both structured and open-ended questions.

1.8 STRUCTURE OF THE MINI-DISSERTATION

The structure of the mini-dissertation is explained and summarised below.

1.8.1 Chapter 1: Introduction

Chapter 1 sets out the background to and the rationale for the study, which is clearly stated with research objectives. The importance and benefits of the study are highlighted,

as are the delimitations and assumptions made. This is followed by a brief discussion of the research design.

1.8.2 Chapter 2: Literature review / theoretical constructs

Chapter 2 comprises a discussion of previous research studies relevant to the current study. It further includes the theoretical background to how tax morale affects tax compliance in corporate industries. This chapter also analyses the different factors that influences tax morale.

1.8.3 Chapter 3: Research design and methodology

Chapter 3 presents the research design and methodology applied in this study. It commences with the introduction, followed by the research strategy, and then describes the research strategy and methodology applied to collect data. The data analysis technique is also briefly discussed. The quality and rigour of the study is debated, as well as the ethical considerations involved in survey research.

1.8.4 Chapter 4: Data analysis

Chapter 4 provides a data analysis and discussion of research findings from the empirical data collected through the research sample.

1.8.5 Chapter 5: Conclusion

Chapter 5 concludes the study with a summary of the research conducted in this study. It summarises the findings and conclusions found in the preceding chapters. Additionally, the limitations of the present study and recommendations for future research are presented.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

The existing research on compliance behaviour, specifically that of individual taxpayers, is immense, and the topic has been broadly studied by numerous researchers (Lavermicocca & McKerchar, 2013:711) and falls outside the scope of this research. The objective of the current research study is limited to a literature review that relates only to the factors that influence tax morale.

Lavermicocca (2009:66) suggested that it is important to understand that the relationship between shareholders and tax compliance decision-makers in a company is complex, since tax decision-makers are not essentially the same individuals that hold investment in the company. The tax compliance decision-maker acts as an agent of the company (Lavermicocca, 2008:200).

It is very important to acknowledge that when people make decisions on behalf of the company, their personal tax morale can influence the company's compliance behaviour. Therefore their socio-demographic characteristics, such as gender, age, education and religion, might influence their decision-making process, which affects the tax compliance of the company.

Chapter 2 comprises a brief introduction on the Income Tax Act (Act No. 58 of 1962), focusing on the specific sections applicable to the mining industry, as well as an overview of existing literature on factors that affects tax morale and subsequently influence the tax compliance behaviour.

Factors that might influence tax morale include economic benefit, the role of tax authority/government, social attitudes (trust in the legal system, courts, politicians, national pride and the perceived level of corruption in government), as well as the politics in the

country. Other factors include fiscal parameters, such as interest and penalties that might be imposed as a result of non-compliance; the probability that the company might be audited; corporate social responsibility; fairness and equity; and cost to comply.

2.2 TAX IN THE MINING INDUSTRY

The mining industry is unique in the manner in which it progresses and operates. Mining is typically characterised by substantial capital expenditure over a number of years preceding the commencement of operations (Smith, 2012:17). During the initial period of capital expenditure, little or no revenue is earned (Van Blerck, 1992:D-16-D-17).

In South Africa, a special taxation system is applicable to the mining industry due to the capital-intensive nature of the sector, as well as the historical importance of the mining industry in South Africa (Smith, 2012:17). The mining tax system is differentiated from the taxation of general companies through the use of different tax rates and differences in the determination of taxable income (Van Blerck, 1992:6-2). According to Van Blerck (1992:D-11), the differential tax rates applicable to mining companies intends to provide relief during times of unprofitability, which is typically the case during periods of intense capital expenditure and little operational activity.

This is compensated for by disproportionately high tax rates during times of high profitability (Van Blerck, 1992:D-11). All companies in South Africa are taxed at 28 percent, with the exception of gold mining companies, who are taxed in accordance with a specific formula based on non-mining taxable income and mining income. One of the main differences in the determination of taxable income of mining companies when compared to other sectors lies in the treatment of capital expenditure (Van Blerck, 1992:6-2).

In terms of Section 36 of the Income Tax (Act No. 58 of 1962), capital expenditure for mining companies includes, amongst others, the expenditure incurred on shaft sinking and purchasing of mining equipment. However, Section 15(a), read together with Section 36, allows for a mining company to deduct all qualifying mining capital expenditure from

taxable income, as defined by the Act, after the set-off of any balance of assessed losses from the previous assessment period.

This means that while a mining company has adequate capital expenditure stability, which is not utilised against taxable income in terms of Section 15(a), the company will not have any tax liability in respect of mining income. It is apparent that there are specific tax benefits for mining companies if the differential mining tax rates and capital allowances available to the mining industry are taken into account.

Government provides mining companies with tax breaks due to the fact that they are capital intensive, and to encourage the further development of the mining industry (Smith, 2012:17). While the intention of government might be to encourage the mining industry, the mining tax rules, however, present mining companies with a number of opportunities to avoid tax.

2.3 FACTORS INFLUENCING TAX MORALE

Tax morale can be defined as the individual factor that influences a person to fulfil his/her tax duties (Alm & McClellan, 2012:1). Below is a detailed discussion on various factors influencing tax morale, these have been divided into two sections, namely non-economic and economic factors.

2.3.1 Non-economic factors

2.3.1.1 *Trust in government*

People's trust in their government has been a worry for centuries. Locke (1988:1680-1690) suggested that governments need to work to maintain the trust of their people. Various studies in countries around the world suggest that trust in government is continually declining (Van Blijswijk *et al.*, 2004:718; Bok, 1996:8; Jimenez, 2013:22). Due to the continual decrease of trust in government, it is essential to understand the impact of taxpayers' declining government trust on tax compliance. Jimenez (2013:22) argued that the trust-as-heuristic hypothesis provides insight into the consequences of declining trust

and helps explain taxpayers' support for government action. The trust theory suggests that taxpayers use an easy judgment rule to decide whether to support states activities (Hetherington, 2005). The theory is based on the premise that when taxpayers view government as trustworthy and reliable, they will encourage actions taken by government; but when there is a lack of faith they will not support government actions (Rudolph, 2009:144-145). Trust in government can have a positive impact on the state, such as increased taxpayer compliance. Torgler (2003:22) argued that a taxpayer's association with government, including their trust in government, is a significant consideration when examining voluntary tax compliance. Trust in government has an important effect on tax compliance (Jackson & Milliron, 1986:125-166).

Governments continually look for ways to increase voluntary compliance, therefore an understanding of factors that influence taxpayers' voluntary tax compliance may help them to reduce the cost of ensuring compliance (Jimenez, 2013:23). The theory of political disaffection argues that when people lose trust in government, they start to believe that tax liabilities are too high (Rudolph, 2009:146). As a result, a loss of trust in government may provide the means whereby taxpayers rationalise evasion (Jimenez, 2013:23). In a number of studies using information from the World Values Survey, Torgler (2003a; 2003b; 2004) establishes that trust in government is absolutely related to individuals' willingness to voluntarily comply with tax laws in various countries. Torgler (2003a) also found that the relationship between high compliance and trust in government remained positive and significant after controlling other factors suggested to influence tax morale, including income, marital status, age, education, gender and employment status.

Other researchers have similarly established a significant connection between trust and tax compliance behaviour. Sheffrin and Triest (1992) studied the correlation between the perceived integrity of government and taxpayer compliance and found a significant positive relationship. Taxpayers' trust in government is likely related to their perceptions of government corruption (Jimenez, 2013:23). Bilotkach (2006) found that corruption is positively connected to evasion. Several studies have confirmed a positive connection between taxpayers' compliance and their trust in government in different states (Richardson, 2008:68; Song & Yarbough, 1978:47). The philosophy suggests that trust in government has major influence on taxpayers' compliance decisions.

Taxpayers, and mainly those paying high taxes and who are compliant with their tax obligations, are interested to know how government officials spend the taxes collected. In cases where government spends the revenue, for example on infrastructure, education, safety, public transportation, water and sanitation, housing and electricity supply, voluntary compliance is likely to increase. Similarly, taxpayers who recognise or observe that government is not spending national revenue wisely and not on public services and goods (government spending the revenue on things considered to be not necessary or not beneficial to them), taxpayers may feel deceived by government and may evade their tax liabilities.

However, it is not only trust in government that increases taxpayers' tax morale, they also need to trust the country's legal systems and courts (Torgler, 2003:5). In the studies conducted by Torgler (2003a; 2003b; 2004), two statistics sets were used at the individual level (International Social Survey Programme and World Values). The findings showed that trust in court, government and the legal system have a significant positive effect on taxpayers' tax morale.

2.3.1.2 Direct democracy

Torgler (2007:153) believes that the way a government operates and treats its people might influence their tax morale. Prinz (2002) argues that if a government respects its residents' preferences, it will gain more support from people as compared to the government that acts as a leviathan. One possibility for maintaining and creating high compliance behaviour is for governments to offer reassurance to taxpayers (Levi, 1998). A government that initiates and commits itself to its taxpayers through direct democracy regulations imposes limitation on its powers and by doing so, signifying that taxpayers are perceived to be responsible (Torgler, 2007:153). Additionally, direct democratic rules maintain or create a certain social investment and signify that residents are not ignorant or uncomprehending voters. Therefore, government sends messages that it considers taxpayers' preferences in their political processes. Governments should treat taxpayers as people with general rights and obligation. The more taxpayers can exercise their popular rights in political decision-making and the more tax policies are based on trust, the higher

the tax morale (Torgler, 2007:153). Taxpayers must be in a position to better control and monitor politicians via votes. Additionally, taxpayers can establish rules through initiatives and therefore will be able to renegotiate tax policies with government, for example, by influencing tax law and tax rates, which increases public benefit. Therefore, taxpayers' ability to partake in and vote on fiscal issues will positively increase tax morale (Torgler, 2007:153). Taxpayers' involvement in political decision-making processes improves their senses of public obligation and therefore also tax morale (Feld and Frey, 2002a:89). Direct democracy motivates residents to pay their fair share of taxes and ensures that revenue is spent according to residents' preferences.

The political ruling party in a country may have a significant influence on taxpayers' tax compliance behaviour. For example, if a taxpayer supports the governing political party, they may decide to be compliant with their tax obligation as they have confidence in that government and believe that it is efficient and equitable. On the other hand, taxpayers from opposition parties might be non-compliant because they perceive that government is untrustworthy, unfair and not transparent on how they spend national revenue. Engida and Baisa (2014:436) suggested that government decisions on changes in tax policies in line with their political and economic position have a major influence on taxpayers' compliance behaviour. For example, an inciting decision, such as to increase individual's tax rebate, could possibly increase taxpayers' tax compliance level (Torgler, 2007:153).

2.3.1.3 National pride

An additional factor that is believed to influence taxpayers' tax morale is their national pride. In tax compliance literature, there is little documented on how national pride affects tax morale.

"The dynamics that govern the establishment, obliteration, and distribution of many forms of shame and pride in society are not well understood, nevertheless nothing is more important to the understanding of the overall dynamics of a specific society than the noticeable differences which are among societies" (Boulding, 1992:93).

In a research study conducted by Tyler (2000: 65-82), it was found that the sense of group identification encourages compliant behaviour and thus influences people in groups, organisations and societies.

Konrad and Qari (2009:516) performed a cross-country examination on numerous European states and found affirmative evidence that taxpayers who are proud of their country of residence are more willing to pay their taxes and the other way around. The results also confirmed that loyalty indeed appears to have a positive impact on tax morale. Similar outcomes were confirmed in Asia (Torgler, 2004:243), Russia (Alm *et al.*, 2006) and Latin America (Torgler, 2005:25). Therefore, the higher the national pride, the greater the tax morale will be (Torgler 2007:9).

2.3.1.4 Role and efficiency of tax officials

Tax officials' most crucial role is to encourage voluntary compliance and minimise the tax gap (Engida & Baisa, 2014:435). Government and the tax officials are major role players in the tax system and need to be efficient in their management position to encourage tax compliance and decrease tax evasion (Hasseldine and Li, 1999:93).

Government also has an important role to play in the tax system and can have a major positive influence on shaping taxpayers' attitudes towards tax.

Torgler (2007:193) argues that taxpayers' willingness to pay taxes is influenced by how tax authorities treat them. Tax authorities are concerned with keeping the cost of collecting revenue low, to ensure efficient tax collection. Being treated respectfully by tax authorities increases taxpayers' tax morale, and in turn significantly minimises the cost of tax collection. On the other hand, disrespectful or rude treatment by tax authorities decreases taxpayers' tax morale and subsequently increases the cost of tax collection, hence more audits will be conducted to monitor taxpayers' compliance. It is important to understand what respectful treatment by tax authorities is. In the empirical studies conducted by Frey (2003), two important aspects were considered.

Firstly, transparency in the procedures followed by the tax authority. When tax authorities and government clearly and openly communicate their tax procedures and their decision are easily understood, taxpayers' willingness to pay their tax duties will increase. On the other hand, unclear, non-transparent procedures and the feeling of being treated unfairly, may decrease taxpayers' willingness to pay their taxes.

The second aspect is taxpayers' systematic response to the personal treatment by government, public officials and specifically tax officials. If taxpayers are treated as honest people, they are more likely to behave honestly with their tax issues. Their willingness to pay tax will increase.

However, this does not suggest that discouragement measures do not play any role. Discouragement measures have to be used against dishonest citizens to prevent tax evasion behaviour. Overall, an optimal balance between deterrence and respectful treatment has been achieved, where the system in place can differentiate taxpayers' minor mistakes from actions that should be treated as criminal offenses, such as intentionally evading taxes and trying to defraud tax authorities (Torgler, 2007:193) An experimental study by Feld and Frey (2002:91) confirms that taxpayers' tax compliance increase with more respectful treatment by tax administrators.

2.3.1.5 Perceived corruption of tax authorities

Corruption by tax authorities mainly undermines taxpayers' tax morale. A high perceived level of corruption by tax authorities can discourage taxpayers from paying their tax duties. Additionally, a large number of corrupt tax authorities might influence or affect the morality of their colleagues. Torgler (2007:195) suggested that fair procedures in a tax system can reduce the corruption level of tax authorities. Most tax compliance studies included the assumption that tax authorities are intrinsically motivated to partake in corruption activities (Hindriks, Keen & Muthoo, 1999:395). Torgler (2007:195) suggested that when a tax authority has discretionary control over resource it might reduce corruption levels. Particularly in developing countries, administration staff, legislators and politicians have discretionary control, since organisations are neither working well, nor credible. The absence of democratic measures and firm regulations, on the other hand, may encourage

unlawful activities. Rose-Ackerman (2007: 31-66) and Jain (2001:93) argue that corruption causes delays in social development in the country and causes delay in obtaining additional payments. In some countries government has increased tax authorities' salaries to reduce corruption levels.

In a survey conducted by Torgler (2007:195) in Latin America, the results indicated that people believed that corruption is a real problem. The results indicated that, on average, 44.2 percent of study participants in Latin America stated that people do not pay taxes because the corruption level in tax collection revenue is high. El Salvador, Mexico and Ecuador have the highest values and Peru the lowest. Hindriks *et al.* (1999:396) reported that, on average, 76 percent of all government tax assessors in India took bribes, and an average of 94 percent of interviewed tax authorities admitted accepting bribes in Taiwan.

Torgler (2007:195) found a further important factor to tax evasion – the absence of public morality and honesty. Morality limits the probability of taxpayers to act illegally.

Taxpayers may be aware that their non-compliance may damage their reputation in the community they live in (Spicer, 1986). As a result, they may not be comfortable with dishonesty. In a survey conducted by Orviska and Hudson (2002:100) assessing the British Social Attitudes Survey 1996, the results showed that taxpayers' perception of whether tax evasion is wrong or right is influence by civic conscience. In the Taxpayer Opinion Survey conducted by Torgler (2003a: 283-302), the results indicated that higher respect and obedience for tax authorities leads to higher tax morale. Furthermore, the results indicated that an increase in punishment and detection should not be the only strategy to increase tax compliance and tax morale. Frey (1997:44) suggested that the laws and regulations should recognise the basic goodwill of its people.

2.3.1.6 Equity and fairness

Taxpayers' perceptions of fairness and equality within the tax system may be important to their tax compliance decisions. The perceived equality within the tax system may also have an impact on tax evasion (Jackson and Milliron, 1986; Richardson, 2008:69). Rezac and Urofsky (2011:3) argued that the rationale of an income tax system is to collect

revenue to sustain activities (public services delivery) for the improvement of society, and that “taxes ought to serve as a means to human flourishing”. They argue that if taxpayers see that the tax system is fairly achieving these goals, they may be willing to compromise personal benefit for the benefit of the general public. Thus, if taxpayers do not see the tax system as achieving these goals in a just manner, it is improbable that they will comply with tax laws.

Tax compliance philosophies also support the idea that perceptions of fairness have an impact on tax compliance. In Andreoni *et al.*'s (1998:818) research on tax compliance, they found that perceived fairness is important to tax compliance decisions. The theory of tax compliance claims that perceived fairness is one of three important determinants of tax compliance (Torgler, 2007:94). Equity theory argues that taxpayers change their input or output in response to perceived unfairness (Jimenez, 2013:17). If taxpayers believe that their tax burden is unjust or that other taxpayers are not paying their fair share, they may engage in tax evasion (Andreoni *et al.*, 1998:818).

Spicer and Becker (1980: 171-175) conducted an experiment on the equity theory and found that when taxpayers were told that their tax burden was higher than that of others, they were more likely to evade paying it. However, Webley *et al.* (1991) performed a similar experiment, but found no significant differences between taxpayers who were told that their tax liability was lower than other taxpayers and those who were told that their tax liability was higher. In addition to inequity of inputs, equity theory foresees that perceptions of output inequity from a tax system have a major effect on compliance (Jimenez, 2013:17). Becker, Buchner and Sleeking (1987: 243-252) tested this theory and found that when taxpayers receive fewer benefits from tax revenue, they were more likely to evade payment. Taxpayers evade taxes when they believe that the level of public goods, the outputs, is not enough given their tax liability, or if they believe that the tax schedule is biased (Bordignon, 2003: 345-362).

A study conducted by Alm (1991:591) provides evidence supporting this theory by indicating that taxpayers' perceptions of the way they are treated relative to others is significantly connected with compliance. The study also identified that there are potential mechanisms through which perceptions of tax fairness could be improved. He stated that

taxpayers who voted on the way their tax payments will be spent have a higher probability of complying, even when their tax obligation is similar to those that did not vote. This conclusion suggests that changes in perceptions of equality can change compliance. However, if taxpayers perceive that a tax system lacks equality, they will be able to justify tax evasion (Davis *et al.*, 2003:43). Generally, these findings suggest that perceptions of fairness are positively connected with taxpayers' tax compliance behaviour (Falkinger, 1995:67).

In conclusion, taxpayers' perceptions of the equality within a tax system will have a direct and significant effect on compliance judgments.

2.3.2 Economic factors

Song and Yarbrough (1978:448) argue that taxpayers are rational economic evaders who would probably investigate the benefits and the cost of evading.

In the studies conducted by Becker (1968:169-217) and Allingham and Sandmo (1972:323-338), they suggested that the economic theory provides that taxpayers' behaviour is influenced by factors such as the likelihood of non-compliance exposure by tax authorities, the cost to comply compared to the benefits of tax evasion, and penalties for fraud and non-compliance. This suggests that if tax evasion is highly likely to be exposed by tax authorities and the penalties are high, fewer taxpayers will evade tax. In contrast, where audit probability and penalties are low, there is a high possibility of tax evasion by taxpayers. This philosophy also then predicts non-compliance. The high possibility of exposure has, in some instances, been found to be an effective plan to encourage honest behaviour (Torgler, 2013:218-219). Many tax authorities have adopted the principles of economic theory when developing strategies that rely principally on the fear of exposure and penalties (Torgler, 2013:20).

When a South African taxpayer fails to comply with the Income Tax Act or fails to effect payment on taxes due when required, penalties and interest can be imposed.

2.3.2.1 The fiscal exchange

The fiscal exchange theory suggests that provision of public services by government may influence compliance. In addition, the theory also recommends that government can increase taxpayers' compliance level by providing public services and goods that residences favour and which are within the reach most of the residents (Cowell & Gordon, 1988:320; Moore, 2004:306). Alm *et al.* (1992:23) argue that compliance will increase with high perceived available public services and goods. Most taxpayers are concerned with what they benefit directly when they pay their taxes in the form of public goods and services (Torgler 2013:22). According to Fjeldstad and Semboja (2001:2063), some taxpayers might be paying their taxes, because they value the public goods and services provided by their government. These taxpayers understand the reasons why they pay taxes and understand what the money is used for by the government. In doing this, they also help to motivate other taxpayers to comply with their tax obligations. Where taxpayers experience positive or good benefits in public goods and services, it may increase the possibility of them complying voluntarily (Torgler 2013:22). While taxpayers are unable to measure the exact value of public goods and services provided by government in return of the taxes they pay, it is unclear if these taxpayers have common views and attitudes about their own and others' conditions of fiscal exchange with government.

It is then rational to assume that taxpayers' behaviour is influenced by their happiness or lack of happiness with their terms of trade with government. Accordingly, if the tax system is perceived to be unfair, tax evasion may, at least partly, be considered as an attempt by taxpayers to adjust their terms of trade with government. Moore (2004:307) claims that the provision of public services and goods must be interpreted as a contractual link between taxpayers and government.

Taxpayers are willing to comply with the tax law if the exchange between the services provided by government and the tax paid are found to be equitable. Therefore, good actions by government (supply of public goods and services) will increase taxpayers' tax morale and will encourage them to be committed to the tax system and to pay taxes, resulting in increased compliance. If taxpayers are concerned about the way government spends or uses tax revenue in relation to the taxes they pay, this might mean that the

relation between the output (public services and goods provided by government) and the input (tax paid) is unequal.

Clearly, taxpayers' tax morale may be influenced by the correlation between the taxes they pay and the public services and goods received from government. They may feel cheated that their taxes are not spent efficiently, leading to a decrease in tax morale and compliance behaviour.

2.3.2.2 Tax audit

Several studies have found that a high possibility of taxpayers being audited will have a positive impact on tax compliance (Engida & Baisa, 2014:446). These studies also suggested that tax audits are important in a self-assessment system, and will enhance voluntary compliance. A system that promotes tax audits, i.e. random and numerous audits, may encourage taxpayers to be more compliant with their tax duties. This will ensure that taxpayers are honest when completing their tax returns and it will promote taxpayers' integrity (Engida & Baisa, 2014:435). On the other hand, taxpayers who have never been audited may be tempted to evade their tax obligations. These taxpayers might not disclose all their income to the receiver of revenue, and might overstate their deduction when completing their tax return.

Experimental studies conducted by Alm *et al.* (1993:32) encouraged endogenous audit selection rules. An endogenous audit is where tax authorities use information from tax returns to determine the audit, instead of randomly selecting tax returns for auditing (Torgler, 2002:660). The audit is dependent on taxpayers' behaviour; therefore the audit probability of the audit is endogenous. Torgler (2002:660) suggested three ways in which endogenous audit selection rules may be developed. Firstly, taxpayers who have been non-compliant in previous years will be audited frequently in future and tax authorities may conduct retrospective audits on previous tax returns submitted. Secondly, tax authorities may introduce a 'cut-off rule' whereby a taxpayer who discloses income less than the cut-off level may be audited with certainty. The findings of the study conducted by Torgler (2007) indicated that endogenous audit procedures generate higher compliance behaviour than a random audit. Endogenous rules reduce the non-compliance rate and ease the

level of tax collection over time (Alm *et al.*, 1993:43). In addition, tax authorities may also use the 'cut-off rule' to audit taxpayers with a refund that exceeds cut-off levels. This will encourage taxpayers to complete their tax returns with honesty. Tax audits are expected to have a positive impact on tax compliance – the higher probability of taxpayers being audited, the higher their tax morale (Togler, 2007:677).

2.3.2.3 Tax compliance cost

Taxpayers' tax compliance performance continues to worry to tax policy authorities. Taxpayers' non-compliance behaviour in their tax affairs impacts on the ability of the state to achieve its economic and social goals, as well as total revenue collection (Tan & Sawyer, 2003:431).

In South Africa, corporate income tax is an important source of income for our government. It accounted for about 18.9 percent of the total revenue collected in 2015 (South Africa Revenue Service, 2015:4).

Some theoretical studies have proposed that tax compliance cost may be a possible factor that influences taxpayers' tax compliance behaviour (Noor, Jeyapalan & Uchenna, and 2014:390). These researchers suggested that the cost involved for companies to comply with the tax law could possibly be one of the factors affecting corporate taxpayers' compliance decisions. Tax compliance costs are defined as cost to be paid by the taxpayer in order to comply with the country's relevant tax laws as a result of the company's tax liability. These costs involve internal costs, external costs and incidental costs. Internal cost refers to value of time spent by a company's staff on tax matters; external cost refers to the fees to be paid to tax professionals; and incidental cost refers to stationery items, telephone, computer, and competition costs. An increase in tax compliance costs may increase non-compliance levels, and thus decreases taxpayers' motivation to pay their taxes (tax morale decreases). A decrease in tax compliance costs decreases non-compliance levels among corporate taxpayers.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

The main purpose of this study is to examine the effects of tax morale on tax compliance in the mining industry, as well as to determine the factors that influence tax morale in the mining industry. In Chapter 2, relevant factors influencing tax morale as well as how those factors affect tax compliance, were analysed. This chapter explains the research methodology followed in this study to empirically explore these theoretical constructs in a real-life context.

The chapter commences with the research design, followed by a discussion of the research strategy and ethics. It concludes with an overview of the adequacy of the research that was conducted in this study.

3.2 RESEARCH DESIGN

A literature review was first performed in order to establish the theoretical construct of the term 'tax morale'. The theoretical constructs were then used as a base on which to generate a questionnaire to empirically examine the effects of tax morale on tax compliance, as well as to define the tax morale determinants.

There are many factors that influence tax morale in a corporate environment. Since there is a need to explain how tax morale affects tax compliance in the mining industry, it is important to understand the factors that influence tax morale. The identified factors can lead to a better understanding of how tax morale affects taxpayers' decisions relating to tax compliance. This was achieved through the simultaneous collection and analysis of both qualitative and quantitative data obtained through a survey. This approach was deemed to be relevant for the purposes of this study to establish factors that influences tax morale. Although qualitative and quantitative data are collected, the research design is

primarily qualitative in nature, as its main focus is on discovering factors that influence tax morale in the mining sector, and how these factors may influence tax compliance in this sector. The quantitative data were included in the study to enrich the qualitative data.

A qualitative study permits the researcher to gain new insights into a specific phenomenon (Leed & Ormrod, 2013:139). Thus, as empirical interpretations are made on how tax morale affects tax compliance in the mining sector, the study can be classified as being mainly qualitative.

The study may be classified as empirical as new data (primary data) are collected and analysed. The main objective of this study is to understand what factors have an influence on tax morale in the mining industry and the perceived effects of tax morale on tax compliance in the sector. The current study is empirical in nature. Saunders *et al.* (2009:588) define an empirical study as “research that have the objective of seeking new perceptions into phenomena, by asking questions, and evaluates the phenomena in a new manner.”

Many researchers in South Africa and other countries have examined the effects of tax morale on tax compliance from the individual taxpayer’s perspective, however, not much is known about the perceptions of mining companies. Therefore the effect of tax morale on tax compliance in the mining industry is explored to obtain new perception on this phenomenon. The objective of the research is, however, not to generalise the results to the whole population. This research is cross-sectional, which is defined by Saunders *et al.* (2007:595) as “the research of a specific phenomenon at a specific time”.

3.2.1 Research strategy

The study involves interaction between the researcher and participants, with the goal of identifying factors that influence tax morale and understanding how tax morale affects tax compliance in the mining industry. This is achieved by asking structured and open-ended questions through a survey. Survey research “includes obtaining facts about one or more groups of individuals by asking questions – possibly about their views, characteristics, attitudes, or prior experience and tabulating their answers” (Leed & Ormrod, 2010:187).

The main goal is to “study about a large population by surveying a sample of that population” (Leed & Ormrod, 2010:187). According to Saunders *et al.* (2009:144) surveys are common as they permit for a large amount of data from a significant population.

This particular method was chosen, as a survey facilitates the capturing of participants’ perceptions. Surveys are used in comparative studies that allow for the benchmarking of the various perceptions obtained from participants. This approach therefore helps to meet the research objective of determining how tax morale affects tax compliance in the mining sector and to also examine the different factors affecting their tax morale. The participants are ten South African taxpayers from the mining sector of which two of the participants were tax advisors who work with mining companies. In order to try to determine the social perceptions of many different taxpayers, effort was taken to obtain participants who mine different resources. The demographic information was general in nature and the surveys remained confidential to encourage honest responses.

3.2.2 Data collection

As the participants were in various geographic locations and had varying availability in their schedules, the questionnaire was emailed, which allowed them to complete the questionnaire at a time and place that is convenient for them. However, some of the participants completed a printed questionnaire. A unique identification code was provided to the participants to ensure that their data are kept confidential. The survey was open for 20 days, from 16 July 2016 to 11 August 2016. Between 16 July and 11 August 2016, emails were sent to 25 participants and 10 responses were received.

As the researcher is only fluent in English, the survey was conducted in English. This is a limitation to the study, which was countered by phrasing the questionnaire in plain language. The researcher’s contact details were provided to the participants, should they require clarification on any matters pertaining to the study.

3.2.2.1 Sampling

The target population and units of analysis are individuals from mining companies in South Africa and tax advisors. Targeted individuals include, but are not limited to chief financial officers, tax managers, tax consultants and tax directors. These people were deemed appropriate to complete the survey as they are involved in the companies' tax matters and it is likely that they make tax decisions on behalf of their companies. However, due to time, financial and access constraints, only a sample of this population was selected to participate in the study. As this is an exploratory study, it is not necessary to have a representative sample of the whole population. Thus, a non-probability sampling approach was adopted which combined purposive and volunteer sampling techniques. This is called heterogeneous sampling.

Purposive sampling involves sampling where the researcher uses his/her own judgment to select cases that meet the research objectives. One of the techniques for purposive sampling is heterogeneous sampling. This is where the researcher uses his/her own judgment to select participants with diverse characteristics in order to obtain maximum variation in the collected data (Saunders *et al.*, 2012:287).

The use of a heterogeneous sampling technique also ensures that there is a rich blend of responses from a varied sample set. This is due to the fact that the sample is selected based on the user characteristics that the researcher is aware of, and which are applicable to the study (Daniel, 2012:93). The most important characteristic of the initial sample set was that they are interested in the research topic. This is ascertained through earlier discussions with participants in which they indicated that they will be keen to take part in the study.

For qualitative data analysis purposes, heterogeneous sampling allows the use of patterns found in the responses from the sample set in describing and explaining the key themes pertaining to the research question (Saunders *et al.*, 2012:287-288). However, the main drawback is that the results generated from the sample cannot be extended to the rest of the population (Daniel, 2012:93).

3.2.2.2 Data collection instrument

Participants were asked to complete the questionnaire included in Appendix A. The questionnaire is based on Oberholzer (2008), Muli (2014) and Steyn's (2012) studies and was adapted, where necessary, to fit into the context of this study. Part 1 of the questionnaire asked participants to provide personal and company information. Part 2 asked participants to answer questions on their perception of tax morale and tax law. The questionnaire consists of both structured and open-ended questions. Thus, primary data were collected in both textual and numerical formats.

A pilot test of the data collection method and data collection instrument was performed with a senior tax manager, an associate tax director and a tax director from an audit firm. The pilot test group was varied in terms of employment levels and they have different mining clients. The pilot test group comprised people who are involved in the mining sector and who have a good understanding on how a mining company is operated. This was to ensure that problematic areas in terms of usability were identified and rectified before the survey was distributed (Saunders *et al.*, 2012:451). The pilot test group was also used to identify problems or errors that could affect the quality of the data to be collected, while ensuring that participants would be able to understand and complete the questionnaire.

3.3 DATA ANALYSIS

The objective of the study is to examine the effects of tax morale on tax compliance in the mining industry in South Africa. Numerical codes were allocated to all the questions included in the survey. The data were captured in an Excel spreadsheet to allow statistical examination thereof. Both quantitative data and qualitative data were captured on the Excel spreadsheet. The data were examined by means of the Statistical Analysis Software (SAS) package.

Chapter 4 comprises an analysis of evidence obtained from the questionnaires completed by corporate taxpayers on perception of the effects of tax morale on tax compliance in the mining industry. It also includes the results obtained on the demographic background of

participants, as well as all the participants' correspondence relating to the economic and non-economic factors that may influence their tax compliance decision. Questions 1-11 of the questionnaire obtains the background information required from participants (part one of the questionnaire).

Part two (questions 12 to 33) of the questionnaire contains questions and statements relating to tax morale and tax compliance. The survey evaluates how each economic and non-economic factor affects taxpayers' tax compliance decisions. Chapter 4 includes an analyses of the information obtained from the questionnaire and determines which economic and non-economic factors affect taxpayers' tax morale and compliance in the mining industry. The results are compared to the findings obtained from the literature review in Chapter 2.

3.4 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

To determine whether the data collected have the quality and rigour necessary for an empirical study, various criteria and evaluation techniques should be performed. The reliability and validity of the data have a direct impact on the reliability of the study's conclusion, and are therefore of high significance.

The theory of tax morale is defined based on existing literature. The review of previous studies provides the measurement basis on how to determine corporate taxpayers' perception on tax morale, how tax morale affects tax compliance in the mining industry, as well as how to determine the factors that influence tax morale. The data collected were stored and captured in a coherent method. The survey was emailed to 25 participants, and all the questionnaires were assigned an identification code to ensure that data are captured without errors.

The sample selected was fairly diverse in terms of resources mined, company taxable income, level of tax knowledge and education level. Regardless of the diversity of the sample, generalisations can only be made in reference to this particular sample, as the sample was not selected with the purpose of representativeness, but rather on

convenience. Therefore, the generalisations made based on this study cannot be applied to all South African mining companies.

One needs to bear in mind that perceptions on how tax morale affects tax compliance were obtained at a particular point in time from the participants. As perceptions change over time, one needs to be cognisant of the fact that similar responses may not necessarily be achieved should the study be replicated at a different point in time with the same group of participants (Grbichh, 2013:115). However, other researchers can follow the way in which the data were analysed in this study in order to reach the conclusion made.

A non-response from participants may influence the results of the study. It must therefore be followed up to establish the impact on the results of the survey. Non-response bias occurs when the answers from participating respondents potentially differ from those who refused to partake, for whatever reason, in the research (Saunders *et al.*, 2007: 212). As a result, the survey is not representative of the population and the data collected may be biased.

3.5 RESEARCH ETHICS

The following ethical principles were applied throughout the study:

- Permission to conduct an empirical study was obtained from the Faculty of Economic and Management Sciences' Research Ethics Committee before data could be collected.
- The anonymity of participants was maintained by sending out an anonymous survey. A unique respondent identifier was manually created for each respondent participating in the survey. The questionnaire did not collect any of the participants' personal details.
- Participants were informed of what the research entailed and that their responses were to be used for academic purposes only. Refer to the informed consent form included in Appendix B. Participants who indicated that they did not want to participate in the survey were excluded from the study.

- Participation in the study was on a voluntary basis, and participants could withdraw from the study at any point without incurring any negative consequences.
- No incentives, either financial or non-financial, were offered or given to encourage participation.
- No participants experienced any physical or psychological harm while participating in the study. Questions were phrased in a manner that avoided causing anxiety among participants. Participants also had the right not to respond to any of the questions posed to them.
- Only data obtained from the participants formed part of the dataset. A record of all responses was captured and stored on Excel.
- The researcher endeavoured to maintain the principles of objectivity, honesty and integrity throughout the study.
- The responses generated from the study are treated as private and confidential.

3.6 CONCLUSION

This chapter aimed to describe the methodological approach adopted in exploring the effects of tax morale on tax compliance in the mining industry. Chapter 4 presents a more detailed analysis and discussion of the findings obtained from the survey.

CHAPTER 4: DATA ANALYSIS

4.1 INTRODUCTION

This chapter aims to address following research objectives of this study, namely:

- to determine factors that influences tax morale in the mining industry; and
- to determine the perceived effects of tax morale on tax compliance in the mining industry.

This chapter includes a detailed analysis of the results obtained from the data collected from participants through the survey. The SAS package (Version 9.2) was used to analyse both quantitative and qualitative data. The findings obtained through the data were analysed to make recommendations and conclusions.

Data analyses will be presented on the following categories:

- participants' background;
- perception on economic factors that may influence taxpayers' tax morale;
- perception on non-economic factors that may influence taxpayers' tax morale; and
- tax morale influence on tax compliance in the mining industry.

4.2 RESULTS

4.2.1 Demographic profile details

Age distribution

Table 3 presents the age of the participants who participated in the survey. The population comprised only South Africa residents. The participants' ages ranged between 32 and 49 years.

Table 3: Age of participants: N=10

Age	Percent
32	10%
34	10%
35	10%
37	10%
39	10%
41	10%
42	30%
49	10%
Total	100

Gender composition and population group

The data of the study were collected from 10 white participants, of which 80% of the participants were male and 20% were female. This demographic may be due to the absence black people in top management in the mining sector.

Position in the company

The sample comprised three participants who are tax managers, three chief financial officers, one tax consultant and one tax director. Two participants did not indicate their position within their company.

Educational background and participant's profession

The majority of participants (50%) have completed a master's degree, 40% an honours degree and 10% have completed a three-year degree, as indicated in Table 4. Table 4 further indicates that 90% of participants are chartered accountants.

Number of years of mining tax experience

Regarding the number of years of mining tax experience, Table 4 indicates that 30% of participants have more than seven years' experience, 60% have more than three years but

less than five years and 10% have more than five years but less than seven years' experience in the mining industry.

How would you rate your mining income tax knowledge?

Table 4 indicates that 50% of participants rate their mining tax knowledge as good, 30% as excellent and 20% as average.

Table 4: Participants' demographic information

Educational background	Completed a three-year degree	Honours degree	Master's degree
Percentage of participants	10%	40%	50%
Participant's profession	Chartered accountant	Accounted	
Percentage of participants	90%	10%	
Number of years of mining tax experience	>3 years but <5 years	>5 years but <7 years	>7 years
Percentage of participants	60%	10%	30%
How would you rate your mining income tax knowledge?	Average	Good	Excellent
Percentage of participants	20%	50%	30%

If the company has taxable income, please indicate the level

Table 5 shows that 50% of the mining companies participating in the survey have taxable income.

If the company is not liable for income tax, this attributed mainly to

As indicated in Table 5, only 30% indicated that their company is not liable for income tax due to unredeemed capital expenses, 10% indicated that it is due to trading assessed loss, 10% indicated that it is due to trading assessed loss and unredeemed capital expenses.

Mineral(s) mined by the company

Table 5 indicates that participants work for or provide tax services to companies that mine various minerals.

Table 5: Companies' demographic information

If the company has taxable income, please indicate the level	Percentage of participants	If the company is not liable for income tax, this is attributed mainly to	Percentage of participants	Mineral(s) which are mined by the company	Percentage of participants
Taxable income of >R100 000 000	50%	Not applicable	50%	Coal and platinum group metals	10%
No taxable income	50%	Unredeemed capital expenses	30%	Gold	10%
		Trading loss	10%	'Platinum group metals	20%
		Trading loss and unredeemed capital expenses	10%	Calcium carbonate	10%
				Nickel and chrome	10%
				Gold and platinum group metals	10%
				No response	30%

4.2.2 Perceptions on economic factors that may influence taxpayers' tax morale

Fiscal exchange

The participants were asked to indicate to what extent they believe the current government provides value for taxpayers' money. From the responses, four participants believe that the current government provides value for taxpayers' money to a moderate extent, three participants said to a little extent and one participant said to no extent. Two participants did not respond to the question.

The participants were requested to indicate their satisfaction level with regards to the majority of public services provided by government and to also explain their answers. Only eight participants responded to the question. Four indicated that they are dissatisfied with

the majority of public services provided by government, while three are neutral about their satisfaction and one indicated that they are satisfied with the majority of public services provided by the government.

Table 6: Summary of reason for the above answers

Reason why participants are dissatisfied with the public services provided by government (summary)	Reason why participants are neutral about the public services provided by government (summary)	Reason why participants are satisfied with the public services provided by government (summary)
<p>Money is wasted and not optimally used to deliver essential services.</p> <p>The education level is very low and poor people are not getting the education opportunities.</p> <p>There is maladministration of funds in hospitals, the corruption level is very high in municipalities and SARS is currently in disarray, with uncertainties of possible restructure.</p> <p>Service delivery is very poor in certain areas.</p>	<p>Public service delivery is in a poor state, however, this depends on each region and some regions are better than others.</p> <p>Do not believe that we receive value for our money for many services delivered by government.</p>	<p>One participant indicated that they are satisfied with the majority of the public services provided by the government. However, they did not provide a reason for their answer. They have, however, indicated that they would change their answer to 'very satisfied' if the safety of all people can be improved (better policing and metro policing), and if they can see these good services being rolled out to all the suburbs around the mine.</p>

Views relating to statements relating to general tax issues

Participants were asked whether they strongly disagree, disagree, are neutral, agree or strongly agree with a number of statements relating to general tax issues (Appendix A, questions 19.1-19.4).

The majority of participants (seven) were of the opinion that government spends a large proportion of the taxes collected on unnecessary things. However, the majority of participants (nine) indicated that it is fair to pay taxes. In addition, participants generally do not believe that both the VAT rate (seven participants) and corporate income tax rates (six participants) should be decreased. However, one of the participants indicated that they believe that the income tax rate should decrease and three participants are neutral regarding these statements.

Do you think the government collects sufficient revenue so is not a problem if some corporate taxpayers evade tax?

The majority of participants (six) do not believe that government receives sufficient tax revenue, and that it therefore does matter if corporate taxpayers evade taxes. Two participants believe that government gets enough taxes and that it is not a problem if some corporate taxpayers evade tax. Two participants did not respond to the question.

Two participants indicated that taxpayers should pay every cent due to government. Two indicated that it is unacceptable for companies to evade taxes, as taxes are imposed by law and it is every company's responsibilities to pay taxes. Two participants also indicated that they are concerned about how collected tax is spent. They believe that collected taxes are wasted by government officials and that the corruption level in government is too high.

Tax cost of compliance

The participants were requested to indicate if the financial cost incurred to ensure that the company complies with tax laws is high and to motivate their answer. Five participants indicated that the financial cost incurred to ensure that the company complies with tax laws is high. Four participants do not believe that the financial cost incurred to ensure that the company complies with tax laws is high.

Of the participants who indicated that the financial costs are high, only four provided reason for their answers. Three indicated that the tax law is complex and SARS is not always willing to assist them with their tax issues. They then rely on tax consultants to ensure that the company does not incur any penalties in terms of the Tax Administration Act (Act No. 28 of 2011). One participant indicated that the availability of cash is not always possible, cash is rather used to pay salaries and for operating expenses. They further indicated that tax consultants are very expensive and, as a result, decisions are normally taken in-house on complex matters where tax legislation is not always clear, which could have a major effect on tax compliance even though that was not the intention of the company. One participant indicated that in many cases significant costs are incurred

to provide assurances to directors/officers that the company is in compliance, but it still does not provide absolute comfort, as SARS might still have a different view.

Is the effort and time needed to ensure that the company complies with tax laws high?

The participants were requested to indicate whether the effort and time needed by the companies to ensure that they comply with the tax laws is high or not and to motivate their answers. Eight participants believe that the time and effort required to ensure that the company complies with tax laws is high, with only two not believing that the time and effort required to ensure that the company complies with tax laws is high.

The study revealed that there are number of reasons that leads to the above believe. Three participants indicated that companies can no longer afford to have their financial team look after tax matters as the risk is too high. They have to appoint a specialist to deal with tax matters and all the queries from SARS on a day-to-day basis. One participant indicated that, in a lot of instances, SARS requires a large amount of information to be submitted by the taxpayer (for example, in preparation for an audit signed annual financial statements may be requested). In big companies, or groups of companies, it may be time consuming to gather all the necessary information to be submitted. In some instances, the information requested by SARS is based on complex transactions executed by taxpayers. One participant indicated that “SARS is basically appointing any company as their agent to do all their work” i.e. self-assessments etc. One participant indicated that the time spent is high due to the fact that tax affects every single transaction – whether it is income tax, VAT, Pay As You Earn or royalty tax. It requires an investment in time and money.

Do you think that the tax liability burden is so too heavy and that numerous corporate taxpayers are forced to evade tax in order to keep their business running?

A high proportion of participants (eight) are of the opinion that the tax liability burden is not too heavy and that numerous corporate taxpayers are not forced to evade tax to keep their businesses running.

Four participants indicated that corporate taxpayers take responsibility for the amount due and strictly comply with the law. Two participants indicated that paying tax is not the concern, the problem come in when the taxes collected by SARS are not spent efficiently.

One of the taxpayers who agreed with the statement pointed out that the tax burden is extremely heavy, particularly on the royalties for mines operating on a low margin. One of the participants indicated that the tax burden is not heavy; however, the problem come in when SARS delays audits and payment of refunds, which may negatively impact a small business.

Tax audits

Participants were requested to indicate whether they believe that tax audits encourage tax compliance in the mining industry and to motivate their answers. Five participants indicated that they believe that tax audits encourage tax compliance in the mining industry; four did not believe that tax audits encourage tax compliance in the mining industry; and one participant did not have an opinion on this question. The reasons for participants' answers can be summarised as follows:

- **Positive reasons:** Three participants indicated that when they prepare their tax returns, they make sure that all information disclosed is accurate. They are aware that SARS may audit their tax return and request supporting documents. One participant believes that regular tax audits are necessary to ensure high compliance levels. One participant stated that tax audits do not necessarily trigger finalisation, but may trigger prescription. In this manner, taxpayers can be certain that there are no potential outstanding tax disputes that they are not aware of.
- **Negative reasons:** Two participants indicated that they do not believe that tax audits are necessary. They further indicated that tax audits should not impact taxpayers' tax compliance. They believe that all tax returns should be completed correctly when submitted the first time. One participant stated that tax audits create a high level of frustration. One participant indicated that some companies are being targeted by SARS with audit upon audit, which easily breaks motivation to comply, and that there

are sufficient corporate and governance controls in place that drive compliance and that not only tax audits that drive compliance.

4.2.3 Perceptions on non-economic factors that may influence tax morale in mining

Trust in government

The participants were requested to indicate how much confidence they have in the South African legal system. The responses indicated that four participants have a lot of confidence in the South African legal system; three have moderate confidence; two have very little confidence; and one indicated that they have no confidence in the South African legal system.

The participants were asked whether they strongly disagree, disagree, are neutral, agree, or strongly agree with a number of statements relating to general tax issues (non-economic factors) (Appendix A, questions 19.5-19.7).

The majority of participants (seven) agree that corruption and waste of tax revenue is high in government. One participant disagreed with the question and one participant was neutral. Only one participant did not respond to this question.

Further to this, eight participants indicated that government does not provide them with sufficient information on how tax revenue is used. One participant disagreed with the statement and one participant did not respond.

Three participants believe that the amount of taxes that is paid by their company is equitable considering the benefits they receive from government. However, three participants disagreed and three had a neutral view. One participant did not respond to the question.

Equity and fairness

The participants were asked to indicate a penalty which they deem appropriate to different tax offences. The majority of participants (60%) indicated that imprisonment and fines were appropriate for tax evasion. A large percentage of participants (80%) indicated that a fine is appropriate for failing to report additional income, overstatement of tax loss or unredeemed mining capital expenses, and overstatement of expenses while preparing tax computation for the company. Further to this, all participants were of the view that a fine is suitable for late payment of taxes and non-submission of tax returns. The majority of the participants were of opinion that there should be a fine for taxpayers who understate taxable income and overstate expenses while preparing tax computation for the company.

Participants were requested to provide their views on whether the penalties of a fine or to imprisonment for a period not exceeding five years are too severe (i.e. high) if a person committing tax evasion is guilty of an offence and liable on conviction. They were also requested to motivate their answers.

Seven participants indicated that every taxpayer must pay their fair share of taxes when due. They further indicated that tax evasion is an offence and authorities should take tough measures on this. However, two participants indicated that the penalties are too severe and it would better if the same penalties and imprisonment were also applicable to the authorities for making mistakes, errors and there should be no penalty when SARS has a different opinion on the treatment of certain transaction for tax purposes.

The participants were requested to provide answers on number of statements relating to tax compliance (refer to Appendix A, question 23.1-23.5). Eight participants indicated that they report all of their company's income to the tax authorities when submitting their tax returns every year. Two did not respond to the question. Only one participant indicated that when submitting tax returns in future, the company would consider not reporting all its income. The majority of the participants (seven) indicated that the company does not overstate its deductions, other than what is permitted in terms of the law, when they submit their income tax returns. Only one indicated that the company may do so in future. Seven participants indicated that if a tax professional advises them to underestimate their income

when completing tax returns, they will not action the tax professional's advice. Only one participant indicated the opposite. Two participants did not respond to the question.

Do you think tax evasion is common in the mining industry?

A high proportion of the participants (eight) did not think tax evasion is common in the mining industry and two participants did not have an opinion. The majority of the participants (seven) indicated that they do not think that tax evasion in the mining industry is common simply because mining companies are heavily monitored and it is one of the highest regulated industries in the world. One indicated that the mining industry is on its knees at this stage and as a result, most of the companies are not in a tax payable position.

The participants were requested to give their opinion on why they think companies evade tax in general and to support their answer(s). The majority of the participants (six) indicated that, in their view, they do not think that companies purposively evade taxes. Two indicated that the aim of the company is to comply with the law. Three indicated that cash flow is a significant consideration, and most companies use favourable interpretation of tax legislation (optimising tax payment). However, two participants indicated that tax is too complex and lack of suitably qualified tax professionals may results in tax evasion. Further to these findings, one participant indicated there is no incentive for an individual to evade tax for the benefit of the company since they will be disciplined and fired.

Perceived corruption of tax authorities

The participants were requested to indicate their impressions of the corruption level of South African tax authorities. Nine responded to the question. The responses indicated that three participants perceive South African tax authorities to have a high level of corruption, three indicated low, two did not know and one perceived a very low corruption level amongst tax authorities.

National pride

The participants were requested to indicate to what extent management or shareholders are proud of paying taxes in South Africa. Nine participants responded to the question. Four indicated that their management or shareholders are very proud to pay taxes in South Africa, two indicated low, two indicated that they did not know and one indicated very low.

The participants were also requested to express their views on the mid- and long-term future of South Africa. All of them had similar views about the question. Nine indicated that they are concerned about South Africa's economy as due it is not showing enough growth year-on-year to overcome big problems like unemployment. It was indicated that investors are pulling out of the South African economy and they are expecting the economy to decline further if government does not make changes to current policies, corruption levels and the education system. One participant indicated that South Africa's mid-term future is good and long-term is average. One participant also brought forward that from a mining perspective, South Africa is not benefiting enough from mining activities and there are no incentives to improve this position.

Does your company pay tax because it feels it is the right thing to do?

The majority of the participants (eight) indicated that their companies pay tax because is the right thing to do in order to comply with tax law. Two did not have an opinion. All eight participants who responded generally believe that all corporate taxpayers must pay the taxes due and comply with the country's law.

The participants were requested to indicate whether their companies pay tax as part of giving back to the community, or if it because it is a legal requirement. All of the participants indicated that their companies pay taxes because is a legal requirement. However, five further stated that their company also pay taxes as part of giving back to the community.

Role and efficiency of tax officials

Do you think tax officials (SARS) would notice if the company decides to engage in tax evasion?

The participants were requested to give their opinions on the role and efficiency of tax authorities, and were requested to give a yes or no answer and to provide a reason to support their answers.

A high proportion of the participants (seven) agreed that tax officials would notice if the company decides to engage on tax evasion. Of these, five believe that SARS has controls in place and its internal processes are improving continuously, which allows it to identify any unusual transactions. Two participants believe that through current random audits, SARS will be able to identify any unusual transactions.

The participants were requested to indicate if they have consulted SARS officials in the past regarding company matters. A large proportion of the participants (nine) indicated that in the past, they have consulted with SARS authorities regarding company matters and only one participant has never consulted a SARS official before. Only two participants indicated that when they consulted with SARS authorities they experienced them to be well-organised (i.e. they were assisted without waiting too long). However, five indicated that when they consulted with SARS officials they did not find them to be efficient (i.e. they had to wait a long time for assistance). Just over half of the participants (six) indicated that when they consulted with SARS authorities, they were treated with respect. Four participants disagree and indicated that when they consulted with SARS authorities, they were not treated with respect. A large proportion of the participants (seven) indicated that they feel neutral about SARS officials' tax knowledge and two indicated that that they found SARS officials' tax knowledge to be of a high standard.

Direct democracy

The participants were requested to indicate if the South African mining tax law is too complex for corporate taxpayers to understand and to motivate their answer. Seven

participants indicated that they believe that the South African mining tax law is too complex for corporate taxpayers to understand, while three disagreed. Two indicated that, although the mining tax law is complex, taxpayers must train their employees or must engage with tax consultants on tax issues within the company.

The participants were requested to indicate if the complexity of the tax law affects companies' tax compliance and to motivate their answer. Six participants indicated that they believe that the complexity of the tax law does affect their company's tax compliance, while three do not believe that the complexity of the tax law affects their company's tax compliance.

Six participants indicated that too many tax issues are grey areas in the current tax legislation. They pointed out that the tax legislation is not always written clearly, and new legislation is sometimes brought into effect without consulting taxpayers. Further to this, they indicated that errors observed at companies are generally not errors that are purposefully made – instead it is due to the complexity of the law.

4.2.4 Summary of economic and non-economic factors and how they affect tax morale in the mining industry

Table 7 summarises the results obtained from the survey conducted, and links the findings back to the literature review in Chapter 2 to identify whether these factors also have any influence on taxpayers' tax morale.

Table 7: Summary of economic and non-economic factors and how they affect tax morale in the mining industry (literature review vs survey results)

Factor	Literature review	Results obtained from the survey
Trust in government	Studies suggest that trust in government has a major influence on taxpayers' compliance decisions.	Perceived high corruption level in government has a negative impact on taxpayers' attitude and tax compliance morale. However, this does not impact on their tax compliance decisions.



Factor	Literature review	Results obtained from the survey
Direct democracy	Torgler (2007:153) believes that the way government operates and treat people might influences taxpayers' tax morale. Giving taxpayers a chance to partake and vote on fiscal issues will positively impact tax morale (Torgler, 2007:153).	<p>The way the government spent taxpayers' money and the way tax authorities treat mining taxpayer, negatively influences taxpayer attitude toward tax compliance but does not impact their tax compliance decision.</p> <p>Tax legislation is not always written clearly and new legislation is also sometimes brought into effect without consulting taxpayers which could negatively affect tax morale.</p> <p>There are too many grey areas in current tax legislation.</p>
National pride	Affirmative evidence shows that taxpayers who are proud of their country of residence are more willing to pay their taxes and the other way around.	<p>Half of the participants indicated that their companies do not only pay taxes as a legal requirement, but also as part of giving back to the community.</p> <p>These participants also raised their concerns about the mid- and long-term future of South Africa. Nine participants indicated that they are concerned about South Africa's economy.</p>
Role and efficiency of tax officials	Taxpayers' willingness to pay taxes is influenced by how tax authorities treat taxpayers. A high perceived level of corruption by tax authorities can discourage taxpayers from paying their taxes.	The way that tax authorities treat some taxpayers in the mining industry negatively influences their attitudes towards tax compliance, but does not impact their tax compliance decision.
Equity and fairness	Taxpayers' perceptions of the equality within the tax system will have a direct and significant impact on their compliance judgments.	Perceived fairness of the tax system and the tax rate positively influence taxpayers' attitudes towards compliance in the mining industry. There is also a perception amongst taxpayers that tax evasion in the mining industry is not common.
Perceived corruption of tax authorities	A high perceived level of corruption among tax authorities can discourage taxpayers from paying their tax duties.	The majority of the participants in the current study have a neutral view with regards to corruption levels amongst tax officials. Therefore this factor was perceived not to have an impact on taxpayers' tax morale in the mining industry.
Fiscal exchange	Government can increase taxpayers' compliance level by providing public services and goods that residents favour and which are within the reach of most residents.	Government spending has a negative impact on taxpayers' attitudes in the mining industry. Only one participant indicated that he is satisfied with the majority of the public goods provided by government. Despite this, it appears that tax compliance decisions are not impacted.

Factor	Literature review	Results obtained from the survey
Tax audits	<p>The higher the possibility of taxpayers being audited, the lower the odds of tax evasion and the higher their tax morale,</p> <p>A system that promotes random and numerous tax audits may encourage taxpayers to be more compliant with their tax duties, and will ensure that taxpayers are honest when completing their tax returns and it will promote integrity (Engida & Baisa, 2014:435). On the other hand, taxpayers who have never been audited may be tempted to evade their tax obligations. Thus, tax audits are expected to have a positive impact on tax morale.</p>	<p>Tax audits have a positive impact on tax morale in the mining industry. It decreases tax non-compliance, which is usually not intentional or planned, but which due to the complexity of the law. Thus, tax audits provide assurance to taxpayers that their tax liability is correct. Only five participants indicated that tax audits affect their tax morale and four indicated that tax audits do not impact their tax morale. One participant did not respond to the question.</p>
Tax compliance cost	<p>An increase in tax compliance cost may increase non-compliance levels and decrease taxpayers' motivation to pay their tax duties (tax morale decreases). A decrease in tax compliance costs on the other hand, will lead to a decrease in non-compliance levels among corporate taxpayers.</p>	<p>Financial burden influence taxpayers' tax morale negatively. Cash is not always on hand to appoint a professional tax consultant and many decisions are then taken in house were the tax legislation is not well understood and may result in intentional non-compliance.</p>

The following steps were followed when determining which factors have an impact on tax morale in the current study. The survey questionnaire that was sent to participants contained questions which requested them to give their opinion(s) on different tax-related questions. Based on the responses received, the data were analysed to determine which factors have positive and negative influences on tax morale in the mining industry. Where over half of the participants (six or more) agreed to a specific question or had similar views regarding any tax compliance statement, this was perceived to have most influence on taxpayers' tax morale in the mining industry, either positively or negatively. Where less than half of the participants had similar views, this was perceived not to have any influence on their tax morale. This was further supported by individual's reasons for why they perceive a specific factor to affect their tax morale. The results provide supporting evidence that trust in government, direct democracy, fairness and equity and compliance cost have the most influence on taxpayers' tax morale in the mining industry and may subsequently influence their tax compliance decisions. Equity and fairness within the tax system has a positive influence on tax morale, whilst direct democracy, trust in government and compliance costs have a negative influence. Lastly, tax audits and the role and efficiency of tax officials were identified to have both positive and negative influences on tax morale in the mining industry. Fiscal exchange, perceived corruption

levels of tax officials, and national pride and were found to have no perceived influence on tax morale in the mining industry. Although some of these factors have an influence on tax morale, they will not have an influence on tax compliance as the majority of participants indicated that they pay taxes due by their company to comply with tax laws and other regulations that govern the mining sector.

4.3 CONCLUSION ON FINDINGS

The purpose of this chapter was to analyse the data collected through a questionnaire, which was completed by the study participants. The first section analysed the demographic background of participants, including race, age, gender, educational background, profession, company's taxable income level, years' experience in the mining sector and level of mining tax knowledge. The second section analysed findings relating to participants' perception relating to economic and non-economic factors that may influence their tax compliance.

Non-economic factors, such as trust in government, direct democracy, the role and efficiency of tax officials, national pride, equity and fairness, and perceived corruption of tax authorities, were found to have no perceived influence on tax compliance. However, these factors might have an influence on the taxpayers' tax morale.

With regard to equity and fairness, a high proportion of the participants (eight) were of opinion that the tax liability burden is not too heavy and that most corporate taxpayers are not forced to evade tax in order to keep their business running. The majority of the participants indicated that corporate taxpayers take responsibility of the amount due and payable and they strictly comply with the law. When taxpayers perceive the tax system to be fair and equitable, it has a positive influence on tax morale and increases their tax compliance.

Economic factors, such as tax audits, were found to have both a negative and positive influence on taxpayers' tax morale, whereas tax compliance costs were perceived to have a negative influence on tax morale in the mining industry. Based on the results obtained, participants were of the view that tax audits encourage tax compliance in the mining

industry. The results revealed that companies find the tax legislation to be complex and this leads to uncertainty on how to apply the legislation. Therefore tax audits give taxpayers assurance that the tax treatment of certain transactions is correct. Mining companies further believe that tax audits give them assurance that their submitted returns are accurate and that regular tax audits are a necessity to ensure high compliance levels.

Tax audits were, however, also perceived to create a high level of frustration. Some participants were of the opinion that some companies are being targeted by SARS with audit upon audit, which easily breaks motivation to comply.

Fiscal exchange was perceived to have no influence on taxpayers' tax morale in the mining industry. In addition, perceived fiscal exchange between government and mining companies was found not to impact tax compliance decisions, as all mining companies are obliged to comply with the tax law.

Based on the results, mining companies are of the view that the South Africa mining tax law is too complex and that new legislation is sometimes brought into effect without consulting taxpayers. Direct democracy thus has a negative influence on tax compliance. The cost of compliance incurred to ensure that a company is compliant was found to be high. The majority of the participants indicated that tax legislation is complex and SARS is not always willing to assist. Therefore companies tend to rely on external tax consultants to ensure that they do not incur penalties and interest on undeclared income. Therefore, compliance cost may influence tax compliance negatively in the mining industry. Compliance cost is perceived to have a negative influence on tax morale.

CHAPTER 5

CONCLUSION

5.1 INTRODUCTION

South Africa, similar to many other countries, aspires to develop and grow its economy and provide the necessary basic public services to its people, while decreasing inequality and poverty (Oberholzer, 2007:207).

The research objectives of this study were to identify factors that influence tax morale in the mining industry, as well as to determine the perceived effects of tax morale on tax compliance in the mining industry. Literature from various sources were reviewed and analysed to achieve the objectives of this study. The hypothetical concepts from the different literature reviewed were applied to real life scenarios to examine the factors that influence tax morale in the mining industry, as well as to determine the perceived effects of tax morale on tax compliance in the mining industry. This was done by collecting primary data through a survey conducted among a selected sample.

This chapter will summarise the findings and discuss the contributions of the current study to the research domain. In addition, the chapter will discuss the limitation to the current study and provide insight into future research that may be conducted to further explore the effects on tax morale on tax compliance in the mining industry.

5.2 SUMMARY AND CONCLUSIONS

5.2.1 Non-economic factors

Non-economic factors, such as national pride and the perceived corruption of tax authorities were found to have no influence on taxpayers' tax morale in the mining industry. These factors were also perceived to have no impact on tax compliance decision.

Fairness and equality within the tax system was perceived to have an impact on taxpayers' tax morale. The majority of the participating mining companies found the corporate income

tax rate to be fair and equitable. When taxpayers perceive the tax system to be fair and equitable, there are more willing to comply with tax law. The fairness of a tax system has a positive influence on tax morale and tax compliance in the mining industry.

Participating mining companies were of view that the South Africa mining tax law is too complex, and that sometimes taxpayers are not consulted when new legislation is brought into effect. Trust in government and direct democracy, may thus have a negative influence on their morale and tax compliance. The complexity of the tax law may result in companies unintentionally evading taxes, which decreases taxpayers' tax compliance level.

5.2.2 Economic factors

Economic factors, such as tax audits and compliance costs, were found to have an influence on taxpayers' tax morale.

Not all mining companies are of the view that tax audits encourage tax compliance. They are of view that tax audits create confusion and sometime are not conducted efficiently. However, half of the participants prefer tax audits, and believe that it provides general assurance that the tax returns submitted are correct and further assists taxpayers to have confidence in the tax treatment of certain transaction, which eliminates intentional tax evasion. Therefore, tax audits can have both a negative and positive influence on taxpayers' tax morale. Taxpayers who are of the view that tax audits encourage tax compliance will ensure that their tax affairs are in order. However, one cannot infer that the other taxpayers will not necessarily be non-compliant, as all the participants in this study indicated that their companies comply with the tax obligation as imposed by the tax law.

Tax compliance costs have a negative influence on taxpayers' tax morale as well as their tax compliance behaviour. The high cost of professional tax consultants, often force companies to look at their tax issues internally, despite not always understanding the tax law, which may result in unintended non-compliance.

5.3 SUMMARY OF THE CONTRIBUTIONS OF THE STUDY

The results of this study may be shared with government and, in turn, may enable government to have a better relationship with its taxpayer and to develop trust among its people. Government may improve public service delivery and spend taxpayers' money in a more efficient manner. In addition, this may help SARS to improve their internal procedures and tax collection system. SARS and government should detail or provide more information on how the tax collected will be spent and should perhaps request people to provide them with suggestions on how the money should be spent. The National Treasury and tax authorities should develop new strategies for implementing new sections in the tax legislation, and should also provide more guidance on the application of the tax legislation to enhance the application thereof by taxpayers. This will eliminate unintentional non-compliances by taxpayers.

5.4 LIMITATIONS OF THE PRESENT RESEARCH

The study had some limitations, as it only focused on corporate taxpayers who are in the mining industry. Non-mining companies were excluded from the current study. Only mining companies participated in the survey and individual taxpayers were excluded from the study. The study further excluded mining companies outside South Africa. In addition, the sample size is was not representative of the whole population in South Africa. Therefore, the findings of this study may not be generalised outside the population from which the sample was taken. Additionally, the survey was open for a short period and may have impacted the number of responses received. These limitations could be addressed in future studies.

5.5 FUTURE RESEARCH

The following future research projects could stem from the current study:

- study all companies in South Africa to determine the effects of tax morale on tax compliance in various sectors;

- study the topic on a larger sample in the mining sector, not only limited to South Africa, to obtain detailed findings on the topic; and
- study South African individual taxpayers and compare the findings to previous research findings.

5.6 CONCLUDING REMARKS

Tax morale in the mining sector is mostly influenced by trust in government, equity and fairness within the tax system, compliance cost and direct democracy. In addition, tax audits are perceived to have both positive and negative influence on taxpayer tax morale in the mining industry. Some non-economics factors were found to also have an impact on taxpayers' tax compliance attitude, but these factors did not affect their tax compliance behaviour since all participants indicated that their companies pay taxes in order to comply with the tax law.

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**APPENDIX A:
DATA COLLECTION INSTRUMENT**

Title of the study: “The effects of tax morale on tax compliance in mining industry”.

Dear Participant

You are invited to participate in an academic research study conducted by Thina Netshaulu, Masters student from the Department of Taxation at the University of Pretoria. The study is being conducted as part of a mini dissertation.

The purpose of the study is to examine how tax morale affects tax compliance in mining industries as well as to determine factors that influences tax morale

Disclaimer: This is an anonymous study survey as your name will not appear on the questionnaire. The answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give. Please answer the questions in the attached questionnaire as completely and honestly as possible. The questionnaire will take about 30 - 45 minutes to be completed.

Questionnaire

Mark the applicable answer/s, with a cross(x).

Part 1- Background

1. Please indicate your age in years

2. Please indicate your gender:

Male	1
Female	2

3. Please indicate to which population group you belong:

Black/African	1
Coloured	2
Indian	3
White	5



Other, please specify.....	6
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4. Please indicate your position in the company:

Chief Executive Officer	1
Tax manager	2
Chief Financial Officer	3
Tax consultant	4
Tax assistant	5
Other, please specify.....	6

5. Please indicate your educational background:

Grade 12	1
Completed 3 years Degree	2
Honours degree	3
Master's degree	4
Doctorate	5
Other, please specify.....	6

6. Please indicate your profession:

Chartered accountant	1
Lawyer	2
Accountant	3
Other, please specify.....	4

7. Please indicate number of years of mining tax experience:

<1 year	1
> 1 year but <3 years	2
> 3 years but <5 years	3
> 5 years but <7 years	4



> 7 years	5
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8. How would you rate your mining income tax knowledge?

No knowledge	1
Poor	2
Below Average	3
Average	4
Good	5
Excellent	6

9. If the company has taxable income, please indicate the level:

<R5 000 000	1
>R5 000 000 but <R100 000 000	2
>R100 000 000	3
Not applicable	4

10. If the company is not liable for income tax, is this attributed mainly to:

Trading assessed losses	1
Unredeemed mining CAPEX	2
Not applicable	3

11. Please indicate which mineral(s) are mined by the company

Coal	1
Gold	2
Platinum group metals (PGM)	3
Diamond	4
Manganese	5
Vanadium	6
Other, please specify.....	7

Part 2 – Tax morale and tax compliance

12. To what extent do you believe the current government provides value for taxpayer's money?



To no extent	1
To a little extent	2
To a moderate extent	3
To a large extent	4
To a very large extent	5

13. What is your view on the mid-term and long term future of

South Africa?

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.....

14. How satisfied are you with the majority of public services provided by the government.

Dissatisfied	1
Neutral	2
Satisfied	3
Very satisfied	4

Please briefly explain your answer above

.....

.....

.....

15. How much confidence do you have in the South African legal system?

Very high	5
High	4
Nothing	3
Low	2
Very low	1

16. What is your perceived corruption level of **South African** tax authorities (SARS)?

Very high	5
High	4
I don't know	3
Low	2
Very low	1

17. To what extent is the management or shareholders proud of paying taxes in South Africa?

Very high	5
High	4
I don't know	3
Low	2
Very low	1

18. Do you understand the reasons why the company has to pay tax?

Yes	1
No	2
Unsure or do not know	3

19. Please indicate whether you agree/disagree with the statements below dealing with general issues relating to tax.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
19.1 A large proportion of taxes is used by the government for meaningless purposes	1	2	3	4	5
19.2 It is unfair to pay tax	1	2	3	4	5
19.3 VAT rates must be reduced	1	2	3	4	5
19.4 The Income tax rate must be reduced	1	2	3	4	5

19.5 Waste and corruption in government is high	1	2	3	4	5
19.6 The amount of tax that the company has to pay is reasonable considering the benefits received	1	2	3	4	5
19.7 The government does not provide enough information about how they use taxpayers' money	1	2	3	4	5

20. The statements below relate to tax evasion. Tax evasion refers to illegal activities deliberately undertaken by a taxpayer to free himself/herself from a tax burden, for example, where a taxpayer who is supposed to pay tax does not register for tax purposes or where a taxpayer omits income from his/her annual tax return. Please briefly provide us with your opinion regarding the following statements:

20.1 Do you think fiscal authorities (SARS) would notice if the company decided to evade tax? Please provide a brief reason for your answer

.....

.....

20.2 Do you think government receives enough tax so it does not matter if some corporate taxpayers evade tax? Please provide a brief reason for your answer

.....

.....

20.3 Do you think the burden of tax is so too heavy and that many corporate taxpayers are forced to evade it in order to survive? Please provide a brief reason for your answer.

.....

.....

20.4 Does your company pay tax because it feels it is the right thing to do?

Yes	
No	

Please provide a brief reason for your answer

.....

.....

20.5 Do you think the company pays tax as part of the company giving back to the community or is it because it's a legal requirement?

.....

.....

20.6 Do you think tax evasion is common in the mining industry?

.....

.....

20.7 In your opinion, why do you think companies evade tax?

To get great return on investments	
Cash flow problems	
Not comfortable to pay taxes to the current government	
They don't understand why they have to pay taxes	
Other, please specify.....	
Generally I do not think that companies purposively evade taxes	

Please provide a brief reason for your answer

.....

.....

21 Please indicate which penalty you would consider to be appropriate with regard to committing the following crimes.

21.1 Tax evasion

Fine	1
Imprisonment	2
No Penalty	3

21.2 Failing to report additional income

Fine	1
Imprisonment	2
No Penalty	3

21.3 Non submission of tax returns

Fine	1
Imprisonment	2
No Penalty	3

21.4 Late payment of taxes due

Fine	1
Imprisonment	2
No Penalty	3

21.5 Understatement of taxable income and overstatement of expenses while preparing tax computation for the company

Fine	1
Imprisonment	2
No Penalty	3

22.6 Understatement of tax loss/unredeemed mining CAPEX and overstatement of expenses while preparing tax computation for the company

Fine	1
Imprisonment	3
No Penalty	3

22 A person committing tax evasion is guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding five years. Do you think these penalties are too severe (i.e.high)? Please also provide a brief reason for you answer.

.....

.....

23 Please answer the following as honestly as possible. Your identity will remain anonymous.

	Yes	No
23.1 Every year we report all the company's income to the fiscal authorities (SARS) when we submit the income tax return		
23.2 The company would consider not reporting all of the company's income to the fiscal authorities (SARS) when submitting the income tax return in the future		
23.3 The company sometimes makes higher deductions than what is legally permitted when submitting the income tax return		
23.4 The company would consider making higher deductions than legally permitted when submitting the income tax return in future		
23.5 If a tax advisor advises the company not to declare all of the company's income, the company would take his advice		

24 Have you consulted with SARS officials in the past regarding to company's matters?

Yes	1
No	2

If you answered yes to question 24 above, please indicate whether you agree/disagree with the following statements. If you answered "no" please ignore the below questions.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
24.1 When I consulted with SARS officials I found them to be efficient (i.e., I did not have to	1	2	3	4	5

wait a long time for assistance)					
24.2 When I consulted with SARS officials they treat me with respect	1	2	3	4	5
24.3 When I consulted with SARS officials I found their knowledge relating to tax issues to be of a high standard	1	2	3	4	5

25 In your opinion, is the South African mining tax law too complex for corporate taxpayers to understand?

Yes	1
No	2
Unsure or do not know	3

26 Please give a reasons for your opinion regarding the complexity of the South African mining tax law.

.....
.....

27 In your opinion, does the complexity of the tax law affect company's tax compliance

Yes	1
No	2
Unsure or do not know	3

28 If you answered yes to question 27, please explain briefly how and why the complexity of the tax law in your opinion affects the company's tax compliance.

.....
.....

.....

29 In your opinion, is the financial cost incurred to ensure that the company comply with the tax law is high.

Yes	1
No	2
Unsure or do not know	3

If you answered yes above, please proceed to question 30 and if you have answered no please proceed to question 31.

30 Briefly explain why the cost required to be compliant in your opinion affect the company's tax compliance.

.....

.....

.....

31 The time effort required by the company to ensure that the company comply with the tax law is high.

Yes	1
No	2
Unsure or do not know	3

If you answered yes above, please proceed to question 32 and if you have answered no please proceed to question 33.

32 Briefly explain why the time effort required to be compliant in your opinion affects the company's tax compliance.

.....

.....

.....

33 Do you think tax audits encourage tax compliance in the mining industry? Why or why not.

.....

.....

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Thank you for participating in the survey. We appreciate your assistance



**APPENDIX B:
INFORMED CONSENT FORM**



Letter of Introduction and Informed Consent

Dept. of [Taxation](#)

Title of the study

THE EFFECTS OF TAX MORALE ON TAX COMPLIANCE IN THE MINING INDUSTRY

Research conducted by:

[Ms.T.Netshaulu \(29092796\)](#)

Cell: 072 264 1356

Dear Participant

You are invited to participate in an academic research study conducted by [Thina Netshaulu](#), [Masters](#) student from the Department of [Taxation](#) at the University of Pretoria.

The purpose of the study is to examine how tax morale affects tax compliance in mining industries as well as to determine factors that influences tax morale.

Please note the following:

- This is an anonymous study survey as your name will not appear on the questionnaire. The answers you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 45 minutes of your time. The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my study leader, ([Mrs N Monageng at 012 420 3420](#) and/Monageng@up.ac.za) you have any questions or comments regarding the study.

Please sign the form to indicate that:

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

Thina Netshaulu

Participant's signature

2016-05-14

Date