THE HISTORICAL EVOLVEMENT OF THE FEATURES OF A TAX SYSTEM

by

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CHAPTER 1
INTRODUCTION

1.1 BACKGROUND AND RATIONALE FOR THE STUDY

“If history has taught us anything, it is that nothing is certain, other than paying taxes of course” (Onu & Oats, 2016). Tax systems have a very long history and the inevitability of taxes highlights just how important tax systems are.

A tax system can be described as “a set of rules, regulations and procedures that defines what events or states of the world trigger tax liability” (Slemrod & Gillitzer, 2013:11). Tax systems date back to as early as 3000 BC (D’Amore-McKim School of Business, n.d.). The governments of ancient Persia, Greece, Egypt, Rome and China levied taxation to fund government expenses (Burg, 2004). Burg (2004) notes that the first taxes were levied on property, the sale of goods, inheritances, and customs duties.

Throughout history many tax revolts and protests occurred that led to changes in the laws and policies that governed tax systems around the world (Burg, 2004). Ancient taxes (from 3000 BC) evolved into the taxes of the Middle Ages (AD 500 to 15th century), which in turn evolved into modern day taxes (D’Amore-McKim School of Business, n.d.). Modern day tax systems refer to taxes which were introduced during and after the 17th century (D’Arcy & Nistotskaya, 2015:2; Schwab, 1890). Modern day taxes brought a focus on taxing income earned, moving away from taxes related to property and goods (Farr, 1853).

Taxes throughout history shaped the tax systems as they are known today in the 21st century. Although aspects of historical taxes are still in use, continuous remodelling of the tax system is needed to adapt to the ever-changing environment. Some of the biggest societal changes came about as a result of the first and second industrial revolutions (Greenwood, 1997). The first revolution (1760 to 1840) introduced the power of steam and water and the second revolution (late 19th century to early 20th century) centred around electricity and mass production (Khan, 2018). During the 1950s a third industrial revolution followed, changing the environment even more drastically through a strong reliance on technology (Khan, 2018). The fourth industrial revolution, also known as Industry 4.0

(Schwab, 2017), that brought about the cyber-physical system (Xesol Innovation, 2019), originated in 2011.

Anderson and Rasmussen (2015) note that society has been transformed by changes in technology. The services rendered and products offered have greatly changed over time. It is reasonable to assume that the events/services/goods that trigger tax liabilities as envisioned by Slemrod and Gillitzer (2013) have changed in accordance with historical and technological advances.

The purpose of this study is to examine the features of a tax system as introduced at the start of modern-day taxes in the 17th century and to explore how some of these features have evolved over time in order to understand the features of tax systems relevant in the 21st century. The reason for commencing with 17th century taxes is that tax systems started to gain some form of structure from the 17th century onward, making it easier to identify and compare the features of tax systems and evaluate how the features have evolved over time.

Before commencement of the relevant research, the term “features of a tax system” as applied in the current study had to be clarified. The Cambridge Dictionary (2020b) defines feature as “a typical quality or an important part of something”. “Part of a tax system” was found to refer to either the different tax types or the fundamental principles or “maxims” of a tax system. The researcher explored both concepts in order to clarify the “features of a tax system” considered in this study.

Adam Smith was the first researcher to deliberate about the “maxims” of a tax system. He showed that the maxims of equality, certainty, convenience and economy (Smith, 2010:536) are vital for ensuring that a government raises enough funds to finance expenses of the sovereign or commonwealth (Smith, 2010). The maxims of a tax system have also evolved over time, as evidenced by the Organisation for Economic Co-operation and Development (OECD,2014), who recently published what they consider to be the fundamental principles of a tax system: neutrality; efficiency; certainty and simplicity; effectiveness and fairness, and lastly flexibility. These principles are in line with the maxims defined by Adam Smith, but they represent a more modern version. Alley and Bentley (2005:624) were also of the opinion that the principles of a tax system needed modernising. The fundamental principles are important when evaluating a tax system and its parts, as they establish the foundation of the tax system (Du Preez & Stiglingh, 2018). Where Du Preez and Stiglingh (2018) evaluated the fundamental principles of a tax system over the period 1776 to 2015, the current study places a lot of emphasis on the evolvement towards modern-day taxes.

The features of a tax system are driven by the events triggering tax liabilities. Features of a tax system can therefore also be said to refer to the different tax types that establish a country’s tax system. The OECD (2018) classifies taxes according to the basis on which taxes are levied. Tax types therefore refer to the different forms of taxes founded on a certain basis, such as income, property, goods, services, and payroll (OECD, 2018).

The current study focusses on how the features of a tax system have changed over time and not the manner in which these features are evaluated. The meaning of “features of a tax system” adopted for the purposes of this study is the different tax types, as explained above.

The Cambridge Dictionary (2020a) defines “evolve” as changing over a period of time or developing gradually, and the current study centres on the evolvement or change over time of the features of a tax system.

Research into the evolvement of the features of a tax system could contribute to future analysis and research on the importance and effectiveness of the features for future tax systems. The evolution and reasons for change would also shed light on what prompts change and how the changes affect tax types. Understanding these changes would allow a person to evaluate how the features of a tax system have changed and if these features have adapted to remain relevant.

For the purpose of this study only two features of a tax system were selected to research extensively (refer to Section 3.1 for detail on the selection process). The reason for selecting only two types of taxes is to allow for an in-depth study of the history of each tax type: when it was first introduced, by whom it was introduced and what led to the introduction and implementation of that tax feature.

The remainder of Chapter 1 elaborates on the research question and research objectives of the study. The research design and methodology of the study is introduced, and the chapter concludes with outlining the structure of the study.

1.2 RESEARCH QUESTION

The purpose of the study is to research how the features of a tax system have changed over time by attempting to answer the following research question:

What are the different features of a tax system and how did the features evolve over time?

1.3 RESEARCH OBJECTIVE

The research objectives to guide the researcher in answering the research question are as follows:

1. To identify the features of a tax system by systematically exploring the existing body of literature.
2. To determine how the features of a tax system have changed over time by closely examining two of the features. This is done by analysing and interpreting the literature relating to the selected tax features and their respective histories.

1.4 RESEARCH DESIGN AND METHODOLOGY

The research design and methodology of this study are set out below. More detail on elements of the research design and methodology is provided in Chapter 2.

Kirshenblatt-Gimblett (2006) describes research design as the blueprint for collecting, measuring, and analysing data in an attempt to effectively answer a research question. Research design elements include the philosophical stance, the nature of the study, reasoning methods, time horizon, unit of analysis, types of data, and sources of data. A brief description of the research design elements for the current study is provided below, with a detailed overview given in Chapter 2.

The philosophical stance of this study is that of pragmatism. A study that points out actions supporting the theory and that gives consideration to factual and non-factual results is conducted in accordance with a pragmatist paradigm. In the current study factual and non-factual results from various journals are investigated and therefore the philosophical stance is evaluated to be one of pragmatism.

Ethridge (2004:24) defines a descriptive study as one where a researcher does not control variables but only attempts to describe existing characteristics, i.e. what is already known. The current study describes and analyses facts that are already known and can therefore be regarded as a descriptive study.

The findings of the study are documented in an attempt to build or generate theory. The theory includes a list of the various features of a tax system or types of modern taxes and provides insight into how the selected features of a tax system have evolved over time. The generation of a theory from existing or emerging data shows that an inductive reasoning approach has been followed in the current study.

The study has a cross-sectional research design, as the literature was collected at a certain point in time. In contrast, a longitudinal study would collect data at various points in time.

Only secondary data in the form of books and published e-journal articles were considered for the current study. Secondary data is data that has already been collected and published (Hox & Boeije, 2005:593). The journal articles researched in this study are descriptive and therefore qualitative in nature (Gibson & Brown, 2009). The literature analysed may include both numerical and non-numerical data. Quantitative research is concerned with numbers and figures, but for the current study, aimed towards exploring the features of a tax system, qualitative, non-numerical data is relevant.

Lastly, the unit of analysis for the current study is the literature relating to the features of a tax system.

Research methodology is described by Leedy and Ormrod (2001) as the approach taken by the researcher to answer the research question. The research methodology elements considered are methodological classification, review classification, data collection techniques, and data quality assessments.

The methodological classification is based on the type of data analysed and research method used in the study, which aims to provide an overview of the literature on features of a tax system. A qualitative method classification for this study is thus appropriate. The qualitative study is conducted by using a specific review method to allow for detailed insight into the phenomenon under review.

The aim of the study is to provide the reader with an understanding of the background and available knowledge for the question at hand; therefore, a literature review is conducted. The traditional literature review method includes a process in which a body of literature is reviewed, criticised and used as a basis for concluding on a specific topic (Cronin *et al.*, 2008). Research in the current study is conducted through a type of literature review known as a systematised review. Grant and Booth (2009:95) state that for a mini dissertation as part of a postgraduate study, a systematised review is sufficient. It holds the advantages of a systematic review without the extent of a systematic review.

Lastly, for the research methodology in this study, consideration was given to the data collection techniques and the quality assessment to allow the researcher to conduct an in-depth analysis with the aim to explore the features of a tax system. The data collection techniques comprise the following aspects to collect relevant data for the study: keywords, the inclusion and exclusion criteria, as well as the manner in which the data was recorded and analysed. The quality assessment procedures ensured that only journal articles from reputable sources were considered for further analysis.

Section 1.5 provides an overview of how the study is structured.

1.5 STRUCTURE OF THE MINI-DISSERTATION

1.5.1 Chapter 1: Introduction

The first chapter provides an overview of the study by commencing with the background and rationale for conducting the study. This is followed by an overview of the research question and research objectives to guide the research process. The chapter concludes by introducing the research design adopted.

1.5.2 Chapter 2: Research design and methodology

Chapter 2 provides a discussion of the research design and research method adopted for this study. Details of the research design elements as well as the research methodology are highlighted. With regards to the methodology adopted, specific mention is made of the keywords and the inclusion and exclusion criteria applied to obtain literature to be analysed.

1.5.3 Chapter 3: Data analysis and presentation of results

The relevant literature was researched by means of a systematised review process and Chapter 3 gives a detailed explanation of the analysis of the literature. The data and findings of the research process are presented in this chapter.

1.5.4 Chapter 4: Conclusion

The final chapter provides a conclusive summary of the findings of the study. It includes final comments on how the features of a tax system have evolved over time. The conclusion is focussed on specific tax features: when they were first introduced, by whom they were introduced and what led to the introduction and implementation of these tax features. The limitations of the study are also noted and recommendations for future research are offered.

CHAPTER 2
RESEARCH DESIGN AND METHODOLOGY

2.1 INTRODUCTION

Research is done in order to create something new and/or answer unanswered questions (Goddard & Melville, 2004). This study aims to answer the following research question: *What are the features of a tax system and how did the features evolve over time?*

The objective is to provide an understanding of the phenomena under review, namely the features of a tax system, and to this end a review of selected literature is conducted. The traditional literature review method includes a process in which a body of literature is reviewed, criticised, and used as a basis for concluding on a specific topic (Cronin *et al.*, 2008:38).

Chapter 2 provides a detailed overview of the research design elements and the research method adopted for this study.

2.2 RESEARCH DESIGN

“The research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby ensuring you will effectively address the research problem” (Kirshenblatt-Gimblett, 2006). In order to select and adopt the appropriate research design, the following design elements were considered: philosophical stance, nature of the study, reasoning methods, time horizon, unit of analysis, types of data and sources of data. A theoretical overview of each concept is provided below. These elements are then practically applied in the study.

2.2.1 Philosophical stance of the study

Research philosophy deals with the source, nature and development of knowledge (Bajpai, 2011). Sekaran and Bougie (2016) define philosophy as how a person “perceives and comprehends reality, based on everything around us.” Furthermore, a research philosophy can be regarded as the belief about the ways in which data about a phenomenon should be collected, analysed, and used (Dudovskiy, n.d.-b).

For this study, four types of a philosophical stance are considered, namely: positivism, critical realism, interpretivism, and pragmatism. A brief description of each is set out below.

Positivism can be described as the stance in research where value is derived from using observable and measurable inputs (Kaboub, 2008:343). Kaboub (2008) also states that the positivist paradigm comprises the actual observation of events using one's senses. Only after observing the events can they be explained, using logical analysis. Sekaran and Bougie (2016) argue that positivism is a belief that the truth can be measured objectively, without any human intervention and without considering humanity. From a positivist stance, real events are merely observed by a person and this is followed by a logical analysis of the findings. The person does not intervene in any of the events, but observes them with the aim of revealing the truth related to those events.

Critical realism is related to positivism, but the focus is on what can be seen and experienced, i.e. observable facts and events, given an underlying, unobservable structure of reality (Lewis *et al.*, 2009:147). Critical realism is persuasive in natural sciences, but the success of the philosophy is reliant on the scientific arguments it was derived from (Kemp, 2005:173). Critical realism is highly dependent on what is known.

Interpretivism comprises meaning-centred research. The stance asserts that humans are different from other physical phenomena and can create meanings that should be studied (Lewis *et al.*, 2009:148). The main concept behind interpretivism is to work with the subjective meanings of humans – their existence should be acknowledged, the meanings reconstructed and work should be done to understand these meanings (Goldkuhl, 2012:137).

Pragmatism is described as a stance which asserts that theories are only valid where they are supported by actions (Lewis *et al.*, 2009:151). Goldkuhl (2012:139) says in this regard: "The meaning of an idea or a concept is the practical consequences of the idea/concept" (Goldkuhl, 2012:139). Sekaran and Bougie (2016) argue that the human nature element needs to be considered in a pragmatic study, whether factual or non-factual. Therefore, the researcher must keep in mind that any idea or concept can change depending on the actions that support it (subjective nature) (Sekaran & Bougie, 2016).

The current study aims to identify the features of a tax system and explore how they changed over time. The theory, i.e. the feature of a tax system, is supported by the actual implementation into one or more tax systems around the world. The implementation is the action supporting the theory. No observable inputs are considered, no scientific arguments are analysed, and subjective human opinions are not solely considered. The features discussed in answering the research question, must be supported by actions, as described according to a pragmatist stance. In conclusion we can say that the study adopts a stance of pragmatism as it relates to an investigation into a real-life context.

2.2.2 The nature of the study

The nature of the study refers to the type of research done in a particular study (Dulock, 1993). Research comprises a formal, systematic investigation into data and this can be done in an exploratory, descriptive, or experimental way.

In an exploratory research study, some facts are known. The aim of exploratory research is to explore a research topic and expand on new ideas and not to provide final and conclusive solutions to existing problems (Dudovskiy, n.d.-a). According to Singh (2007:64), "exploratory research is the initial research, which forms the basis of more conclusive research. It can even help in determining the research design, sampling methodology and data collection method".

A descriptive research study aims to collect and describe data in order to explain the current state of affairs. The researcher usually conducts a literature review, followed by qualitative (non-numerical) or quantitative (numerical) research (Sekaran & Bougie, 2016). The researcher has no control over variables as he only attempts to describe the characteristics or correlations of variables based on the collected data, or in other words what is known (Ethridge, 2004:24).

An experimental study aims to define or predict the impact of conditions on dependent variables through manipulating or changing independent variables (Vithal & Jansen, 2012:10). This form of research entails a causal study used to measure the impact of a change on existing norms and assumptions (Kabir, 2016:132).

Based on the clarifications of the nature of a study above, it is concluded that the current research falls within the ambit of a descriptive study. The researcher aims to collect and describe data in order to understand the current situation. Furthermore, the researcher has no control over any of the variables and does not aim to manipulate any variable. It is therefore concluded that the research study on hand is conducted in a descriptive manner.

2.2.3 Reasoning methods

The Cambridge Dictionary (2020d) defines reasoning as “the process of thinking about something in order to make a decision”. The method of reasoning can then be described as the process that should be followed when thinking about something in order to make a relevant conclusion. There are three types of reasoning: inductive, deductive, and abductive reasoning (Butte College, 2016). These methods are described in more detail below.

The inductive reasoning method starts with identifying specific observations, followed by the generalisation of the conclusions to create a theory that can be applied to a group of situations, thus moving from the specific to the general (Butte College, 2016). These generalisations must be tested and the researcher needs to document exactly what was observed when performing the test (Zalaghi & Khazaei, 2016:25). Inductive reasoning is effectively the process of predicting the unknown using the known (Heit, 2000:569).

The deductive reasoning method starts with creating an assumption that is based on theories. A research plan is then created to test the identified assumption (Zalaghi & Khazaei, 2016:26). According to Evans (2013:2) deductive reasoning is the testing or repetition of an idea. Consequences are stated based on the known assumptions (Evans, 2013:2). Butte College (2016) further notes that with deductive reasoning one moves from the general rule to a specific application.

The abductive reasoning method is a combination of the inductive and deductive methods. Deductive and inductive reasoning have certain shortcomings: respectively the uncertainty about how to select a theory to be tested via formulating hypotheses, and the fact that no amount of empirical data will necessarily enable theory-building (Mitchell, 2018:105-106). Abductive reasoning tries to eliminate these shortcomings by adopting a pragmatic perspective (Saunders & Lewis, 2012:152). Abductive reasoning can be described as common-sense reasoning – the ability to interpret explanations from observations (Elsenbroich *et al.*, 2006:1).

Answering the research question of the current study does not require a process of repeating consequences using known assumptions. The study attempts to build theory on what the features of a tax system are and how the features have evolved over time. It can therefore be seen as using inductive reasoning, moving from the specific to the general with the purpose of building new theory.

2.2.4 Time horizon of the study

The time horizon refers to the time taken to complete the research, i.e. to study the literature, reach conclusions, and answer the research questions. It therefore indicates the timeframe in which the study is conducted and concluded. A distinction is made between a longitudinal and a cross-sectional time horizon (Levin, 2006), both of which are discussed below.

A cross-sectional study can be described as a study designed to obtain information from variables in different contexts but at a particular moment in time (Saunders & Lewis, 2012). The study considers the matter at a certain point in time, analysing qualitative and quantitative data (Levin, 2006:24).

A longitudinal study is a study of variables over a period of time. The aim of such a study is to research how the dynamics of a problem is impacted over time (Ployhart & Vandenberg, 2010:96; Saunders & Lewis, 2012).

In order to answer the research question of the current study, literature was collected at only one point in time and not over a period of time, although the literature itself relates to data over a period of time. It is therefore concluded that this is a cross-sectional study.

2.2.5 Unit of analysis

A distinction should be made between "unit of analysis" and "unit of observation", any of which may be applicable in a research project. Sedgwick (2014) argues that the unit of analysis is "the 'who' or 'what' for which information is analysed and conclusions are made." Examples of the "who" or "what" that is examined includes individuals, households, companies, legislation, or literature (Web Center for Social Research Methods, 2020). "Unit of observation", on the other hand, relates to data being measured and collected (Sedgwick, 2014:1).

The research question of the current study gives a clear indication as to what the unit of analysis is, namely the relevant literature relating to the features of a tax system that is analysed in order to reach a conclusion. The fact that the study includes change over a period of time does not change the unit of analysis.

2.2.6 Types of data

Two different types of data are described below: quantitative and qualitative data.

Quantitative data is data that can be counted. It is structured and can be represented numerically (Bacon-Shone, 2013:12).

Cambridge Dictionary (2020c) defines "qualitative" as "based on information that cannot easily be measured, such as people's opinions and feelings rather than information that can easily be shown in numbers". Qualitative data includes interview transcripts, observation schedules, and field notes (Gibson & Brown, 2009). It can be concluded that qualitative data is made up of descriptive and not numerical data.

This study uses qualitative data in an attempt to answer the research question. The literature analysed may include both numerical and non-numerical data, but since the study is aimed towards exploring the features of a tax system, qualitative data is relevant.

2.2.7 Sources of data

Data can be sourced from two categories: secondary and primary data. Primary data is collected from first-hand resources and includes the creation of new data – something that had not existed prior to the study (Hox & Boeije, 2005:593). Secondary data is a type of data that has already been published in sources such as books, newspapers, magazines, journals and online portals (Hox & Boeije, 2005:593). Johnston (2017:620) argues that secondary data is an under-used research technique and that it can be valuable in especially literature reviews such as a systematic review.

In order to answer the research questions of this study secondary data was used. The study utilises published literature to explore the concept of features of a tax system – therefore secondary data.

2.3 RESEARCH METHODOLOGY

Research methodology can be described as the approach taken by the researcher to answer the research question (Leedy & Ormrod, 2001:14). This section discusses research methodology by examining the methodological classification, review classification, data collection techniques, and data quality assessments. Each concept is discussed theoretically, whereafter it is applied to the current study.

2.3.1 Methodological classification

Bajpai (2011) defines the methodological classification of research as the "systematic and scientific procedure of data collection, compilation, analysis, interpretation, and implication pertaining to any business problem". There are three main methodological classifications: the quantitative, qualitative, and mixed method of research.

Quantitative research involves the collection of numerical data so that information can be quantified and used in statistical analysis (Sukamolson, 2007:2; Williams, 2007:66). A quantitative research method requires quantitative data (as discussed in Chapter 2.2.6) that can be accessed through statistical, mathematical, and computational techniques.

Qualitative research is an effective model that occurs in a natural setting that enables the researcher to develop a level of detail from being highly involved in the actual experiences from which data is gained (Creswell, 2003:173). Qualitative data can be observed, described, and recorded, but it does not include numerical numbers.

The mixed research method is a combination (and not a replacement) of the quantitative and qualitative research methods (Williams, 2007:70). The mixed method makes use of numerical and non-numerical data when trying to answer a research question.

After considering the three research methods above, it was concluded that this research study utilises a qualitative research method. Data obtained from the relevant resources are qualitative in nature and assessed accordingly. The purpose of the study is to research the features of a tax system and their evolvement, for which a qualitative approach is appropriate.

The next section elaborates on the research method adopted, namely that of a systematised review.

2.3.2 Systematised review of the literature

In this section a clear distinction is made between a systematic and a systematised review method. First a broader definition of a literature review is given after which both the systematic and the systematised review are discussed.

All types of literature review used as research methods can be generalised with one term – a "review". The Cambridge Dictionary (2020e) defines "review" as "the act of considering something again in order to make changes to it, give an opinion of it or study it". Various types of review exist, for example critical reviews, literature reviews, meta-analysis, systematic reviews, and systematised reviews (Grant & Booth, 2009). According to Grant and Booth (2009) review types are distinguished from one another based on their respective structures and methodologies. For this study, the systematic and systematised reviews are relevant.

A systematic review can be described as an appraisal of and systematic search into primary research papers using a rigorous and clearly documented methodology to search and select studies in order to minimise bias in the results (Grant & Booth, 2009). The crux of a systematic review is to gather data, discard the unwanted data and then to summarise the remaining data in such a way as to answer the research question (Grant & Booth, 2009:94). The accuracy and reliability of a systematic review is dependent on the literature body that is available for analysis relating to the research question at hand (Khallaf *et al.*, 2017). For a wide scope of literature, Mulrow (1994) argues that a systematic review is the most efficient and a high-quality method to identify and evaluate relevant literature.

One of the advantages of a systematic review is that it is quite exhaustive by design. The aim is to review all the literature that has been published on a specific question (Grant & Booth, 2009). By design it is less costly than creating a new study (MacGill, 2019). A further advantage is that the quality of the review is improved through transparency, greater objectivity and a broader range of studies included (Mallett *et al.*, 2012). The quality of the review allows for the findings to be evidence based and appropriated to numerous real-life scenarios (Grant & Booth, 2009).

A review very closely related to a systematic review, is the systematised review. While a systematised review may include elements of a systematic review it is not as comprehensive (Grant & Booth, 2009:95). A systematised review possesses most of the attributes of a systematic review, therefore as a result most of the benefits of a systematic review will also be applicable to a systematised review (barring the completeness of the literature analysed) (Grant & Booth, 2009).

Although it is noted that a systematic review requires less time than creating a new study, a systematised review requires even less time because it is not as exhaustive as a systematic review (MacGill, 2019). The systematised review is, however, considered to be very reliable and accurate as a literature body is being reviewed (Grant & Booth, 2009). In view of the reliability and accuracy of the review type it can be assumed that systematised reviews are high-evidence based (MacGill, 2019).

The major steps in a systematic literature review include the defining of a research question, searching for and selecting studies for review, analysing the selected studies, and finally to present the results of the review (MacGill, 2019). These steps are also applicable to the systematised review used to answer the research questions of the current study, but the method is not as exhaustive as a systematic review. Grant and Booth (2009:95) point out that for a mini dissertation as part of a postgraduate study a systematised review is sufficient.

The systematised review is conducted here, as it holds the methodology and advantages of the systematic review but can be conducted in a shorter period of time. A systematised literature review method ensures a relevant research question is defined and that sufficient and appropriate articles are analysed before conclusions are reached.

2.3.3 Data collection techniques

The process to collect articles for analysis consists of logical steps. The aim of this section is to explain the process and steps applied to search for and analyse articles relevant to the study. Keywords, inclusion and exclusion criteria and the recording of data are discussed separately.

For this study keywords, as well as inclusion and exclusion criteria, were used to establish the relevant data to collect. Keywords were obtained from the title, the research question, the research objectives, and the main constructs of the study. The use of keywords in combination with inclusion and exclusion criteria ensured that only articles applicable to the study were included. This section concludes by elaborating on the method adopted for analysing the data.

2.3.3.1 KEYWORDS

The use of keyword searches is the most common way of identifying literature for review (Cronin *et al.*, 2008:40). Keywords help to get perspective on a topic, but it is very important to use appropriate keywords to ensure more specific articles are identified with the search (Ely & Scott, 2007:66). The more specific a keyword, the better the search results obtained. For the current study, keywords were derived from the title, the research question, the research objective, and the main constructs of the study. The keywords were used to compile key phrases that were typed into search platforms of the respective databases. Key phrases are combinations of keywords that assist with the search for literature that is relevant to the current study. The different keywords for objective 1 and objective 2 of the study are described in detail below.

2.3.3.2 KEYWORDS – OBJECTIVE 1

The research objectives were formulated as follows in chapter 1:

1) To identify the features of a tax system by systematically exploring the existing body of literature; and
2) To determine how the features of a tax system have changed over time by closely examining two of the features. This is done by analysing and interpreting the literature relating to the selected tax features and their respective histories.

The research questions and objectives of the study make it clear that the evolution of the features of a tax system are to be studied. Chapter 1 discussed the phrase ‘tax feature’ and what it means in detail. The chapter concluded with the different tax types being identified as the features of a tax system for purposes of this study. “Features” is underpinned as the term driving the study. Further consideration was given to making the keywords more precise, which in return would result in a more accurate literature body. The search results for the objective 1 keywords should ideally identify all the different tax types.

The selected keywords for objective 1 of the study are “tax” and “type”. “Tax” forms a critical part of the title of the study and defines the object of which the features are to be identified. “Tax” is therefore an important keyword for defining the nature of the search. “Type” is identified as a keyword from the definition for “feature of a tax system”, namely: features of a tax system can be said to be the different tax types that establish a country’s tax system.
Consequently, the keyword and key phrase relating to objective 1 were identified as “tax” and “tax type”.

On the basis of the identified keywords and phrases, the searches for literature for objective 1 were done by applying filters for different time periods. The first period was 1600 to 1900, quite a long period. The subsequent period was divided into decades (from 1900 until 2020), which were used as separate time period filters. Conducting searches with the key phrases while applying the specified filters ensured that all the features of a tax system were identified.

2.3.3.3 KEYWORDS – OBJECTIVE 2

The second objective puts the emphasis on the evolution of the features of a tax system. Chapter 1 explained the change over a period of time as the exact definition of "evolve" (Cambridge Dictionary, 2020a). The identified keyword and key phrase based on objective 1 identified the body of literature that needed to be considered. This search could be further refined through keywords and phrases based on the second research objective.

The keywords for objective 2 of the study are "tax", "history" and "features of a tax system" or "tax types". "Tax" forms a critical part of objective 2 as it in part defines the object for which a literature body is required. The second part of objective 2 is the identified features of a tax system. All the features of a tax system would qualify as keywords of the study.

The phrase "evolved over time" is critical to objective 2 of the study. However, the use of this phrase as a keyword in the respective searches limits the search results. The limitation of "evolved over time" is due to the scarcity of articles considering how tax features have changed over time. After careful consideration it was held that "history" would be a more inclusive keyword. "History" refers to when a feature of a tax system was introduced, why it was introduced, how it changed, and where it stands today. In essence, the keyword "history" provided articles considering aspects of how a feature of a tax system has evolved over time.

A time period filter was also deemed appropriate with regard to objective 2 of the study, since it would ensure that sufficient literature covering the "lifetime" of a feature of a tax system has been identified for possible further analysis. The first period identified as being relevant was 1600 to 1900. This period is appropriate as not many features were introduced during that time. The subsequent decades (until 2020) were used as separate time period filters when searching for relevant literature. These were deemed appropriate as they would ensure sufficient coverage while identifying when the features were first introduced into tax systems.

The keywords and phrases for objective 2 used for the study can thus be set out as follows:

- "Tax" + "History";
- "Identified feature of a tax system" (for example: "Income tax");
- "Identified feature of a tax system" + "History" (for example: "Income tax history").

Conducting searches with these key phrases while applying the specified filters ensured that a sufficient and appropriate literature body was selected for possible further analysis.

2.3.3.4 INCLUSION AND EXCLUSION CRITERIA

This section briefly explains how the search results for the different key phrases and filters applied were analysed for inclusion in the study. The analysis in this section includes the basis for the identification, selection, and recording of academic articles. The inclusion and exclusion criteria for objective 1 and objective 2 of the study are described below.

2.3.3.5 INCLUSION AND EXCLUSION CRITERIA – OBJECTIVE 1

Objective 1 of the study is aimed at identifying the various features of a tax system. The titles of the search results were analysed to determine if mention was made of a tax type. All tax types identified in the process were included in the study.

2.3.3.6 INCLUSION AND EXCLUSION CRITERIA – OBJECTIVE 2

Objective 2 of the study is focussed on analysing a literature body relating to the evolvement of the features of a tax system. In an attempt to only analyse high quality journals, the research was limited to peer-reviewed academic articles published in journals listed on the ABDC list. Chapter 2.3.4 deals more extensively with the quality assessment process that was followed.

Any research that had been done worldwide on the features of a tax system and their histories were included for further analysis based on the inclusion and exclusion criteria. In essence, that means all results returned from searches using the key phrases as discussed in the previous section. There was also no limitation on which country's taxes were discussed in the articles, since the current study researches the evolution of tax features in general, not the evolution of a tax feature in a specific country.

The time of publication of an article was used to obtain literature from certain time periods by applying these periods as filters when conducting searches with the key phrases. The relevant periods were defined as 1600 to 1900 and all subsequent decades ending with the period 2010 to 2020. The broadness of the first period is appropriate as not many journal articles were published during that time. The subsequent period was divided into decades, ensuring sufficient coverage, and limiting the potential of not identifying important information relating to the evolution of a tax feature. Searching for articles from different time periods ensured that articles covering the lifetime of a feature of a tax system were included in the selected literature body.

Only articles which had open access were considered for the study. Lastly, the title and abstract of each article were read to determine whether the article was relevant to the current study. The relevance of each article was measured against the research question and objectives of the study. An article was not selected for further analysis if it was deemed not relevant or in any language other than English. Table 1 provides a summary of the inclusion and exclusion criteria as applied in the study.

TABLE 1: SUMMARY OF INCLUSION AND EXCLUSION CRITERIA

Item	**Inclusion Criteria**	**Exclusion Criteria**
Quality control	Articles in journals listed in the ABDC list with a rating better than B	Articles in other journals
Open access	Articles which have open access	Articles which do not have open access
Geographical locations	Studies from all geographical areas	None
Countries' tax	All countries	None

features to consider		
Years of publication	Articles published in or after 1600	Articles published prior to 1600
Types of literature	Published peer-reviewed academic articles	Unpublished academic articles including: • books and textbooks • PhD theses and masters' dissertations • technical reports • conference literature • popular media
Language	English	Any other language
Relevance	Relevant to research question and/or objective	Not relevant to research question and/or objective

The next section explains the techniques adopted to systematically record academic articles that were identified in terms of the criteria above.

2.3.3.7 RECORDING OF SELECTED ACADEMIC ARTICLES

Academic databases to which the University of Pretoria are subscribed were the main sources of information for this study. The researcher made use of key phrases to find specific articles relating to the research topic. This section describes how the identified academic articles were recorded.

2.3.3.8 RECORDING OF SELECTED ACADEMIC ARTICLES – OBJECTIVE 1

The results of the key phrase searches for objective 1 of the study were recorded in a tabular format to note the period filter that was applied as well as the feature of a tax system that was identified from the inclusion and exclusion criteria.

2.3.3.9 RECORDING OF SELECTED ACADEMIC ARTICLES – OBJECTIVE 2

As an initial filter, all data and information that related to tax features and their histories, as included for the purpose of objective 2 of the study, were retrieved. As a second filter, only articles that met the inclusion criteria as discussed in Chapter 2.3.3.2 were selected for further analysis.

An online tool – Qiqqa – was used to record and analyse the selected academic articles. Qiqqa is a tool that assists a researcher with the research process. It is specifically designed to assist the researcher to "organise, manage and work with your selection of research sources" (Graham, 2013). Qiqqa was used in this study for its ability to improve the literature analysis process by easily importing documents, making notes, and highlight important sections (Qiqqa, n.d.).

2.3.3.10 QUALITY ASSESSMENT OF THE DATA – OBJECTIVE 2

The Australian Business Deans Council (ABDC) is the voice of the business schools in Australia (Grant, n.d.-b). In 2008, they created the first ranking list of business journals (Australian Business Deans Council, n.d.) and since 2008 annual rankings lists have been published. Journals are graded according to a scale defined as: A*, A, B, and C. The ABDC-list grades journals to classify the research conducted by academic members of that institution (Hirschberg & Lye, 2018:2). "These scales have been proposed to evaluate research within the institution and across institutions and have gone through a series of public discussions as documented at the ABDC web-site" (Hirschberg & Lye, 2018:2).

Hirschberg and Lye (2018:22) conclude that the ABDC-list provides an indication of the quality of the research contained in a specific journal. Dickson (2014) says that a journal listing has some value, but that the quality of published papers should be evaluated by a panel of experts. It is concluded that the ABDC list provides sufficient grounds to ensure quality journals are analysed. This section explains the quality assessment of the data in terms of the ABDC rating of the journals in which the recorded articles were published.

The quality rating categories are defined as follows (Australian Business Deans Council, n.d.):

- A*-rated journals are defined as being "the best or leading journal in its field – publishes outstanding, original, and rigorous research that will shape the field."
- A-rated journals are of the second highest quality.

- B-rated journals are third best.
- C-rated journals are the last category of quality journals.

The results from the quality assessment are presented in Table 2. For the current study only articles with a rating higher than B were considered. The articles selected using the inclusion and exclusion criteria for objective 2 were considered against the 2019 ABDC list. Any article published in a journal that is not listed in the ABDC list was not included for further analysis. The 2019 ABDC list as published on 9 December 2019 was used to assess the selected articles (Grant, n.d.-a).

TABLE 2: QUALITY ASSESSMENT RESULTS

Name of the Journal	A* Rated	A Rated	B Rated	C Rated	Not rated
American Economic Journal: Economic Policy	1				
Canadian Tax Journal	1				
Columbia Law Review	1				
Cornell LQ	1				
Economic Inquiry		1			
Harvard Law Review	3				
Journal of Development Economics	1				
Journal of Economic Literature	1				
Journal of Political Economy	6				
Journal of Public Economics	1				
Law Quarterly Review	1				
National Tax Journal		15			
Political Science Quarterly		6			
Scandinavian Journal of Economics		1			
Southern Economic Journal		1			
Tax L. Rev.		3			
The American Economic Review	5				
The Quarterly Journal of Economics	7				
The Review of Economic Studies	2				
The Yale Law Journal	5				
B-rated journals			13		
C-rated journals				4	
Not-rated journals					32
Total	36	27	13	4	32

Through the inclusion and exclusion criteria 112 journal articles were selected for quality review. The quality review was done by mapping the journal as well as the number of articles selected with the rating of that journal. There were 32 articles from journals that were not listed in the ABDC list. Seventeen articles published in journals which were rated by the ABDC only had a rating of B or C. From Table 2 it is clear that 63 journal articles passed the quality assessment – the articles with a rating of A* or A. The 63 articles were subject to the last inclusion criterion – open access. Nine articles did not meet the requirement for open access. As a result, only 54 articles were included for analysis in the current study. A visual presentation of the inclusion and exclusion criteria is included in Figure 1 in the next section.

2.3.3.11 SUMMARISED OVERVIEW OF DATA COLLECTED AND QUALITY ASSESSMENT

The purpose of this section is to provide an overview of the articles obtained by searching for key phrases (with the selected filters) and to indicate how the identified articles were assessed before they were selected for further analysis.

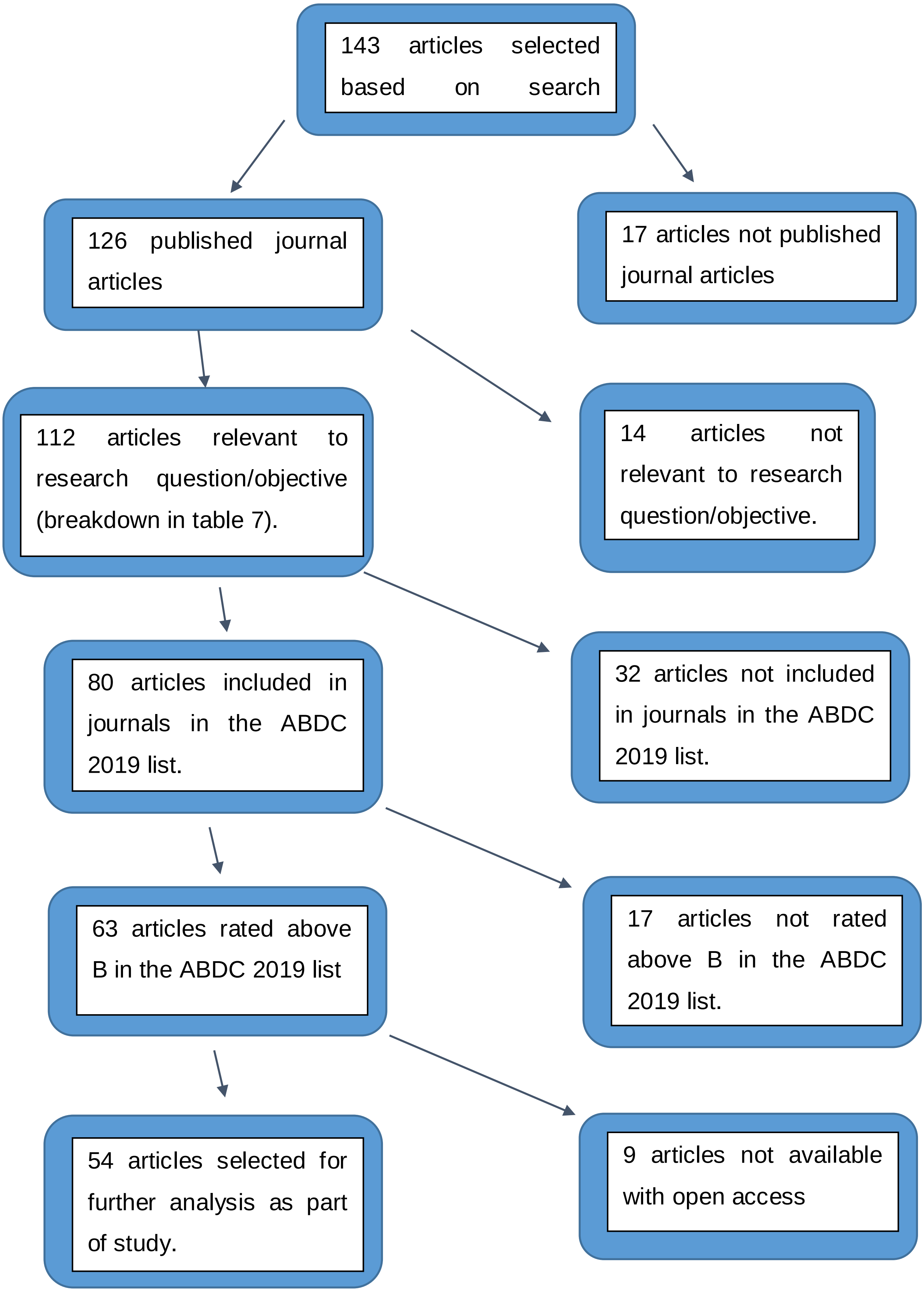
The search results for objective 1 were not subject to the quality assessment as the objective was merely to identify the different features of a tax system. The quality assessment test was applied to objective 2 as the articles selected would be further analysed in an attempt to answer the second research question.

Table 2 highlighted the ABDC ratings related to the journals in which the selected articles appeared. The time-period filter that was applied when searching for articles ensured that articles covering the full period under review were selected. For quality assessment it would also be important to ensure that sufficient articles from all time periods were included for further analysis in order to fulfil objective 2 of the study. The selection of tax types for further analysis is discussed in more detail under Chapter 3.

Regarding objective 2 only articles meeting all the inclusion criteria were used, with a few exceptions as set out below.

Initially the search results for objective 2 of the study returned 143 articles which were selected for the study. These articles were then considered against the inclusion and exclusion criteria. The net result was that 54 articles would be reviewed for purposes of answering the research question: What are the different features of a tax system and how did these features evolve over time? Figure 1 provides a comprehensive visual presentation of how the inclusion and exclusion criteria were applied to select the 54 articles for further analysis.

FIGURE 24: FLOW DIAGRAM OF INCLUSION AND EXCLUSION CRITERIA



2.4 CONCLUSION

The research aim of this study is to analyse high quality journal articles in an attempt to answer the research question: What are the different features of a tax system and how have the features evolved over time? The study takes the form of a systematised literature review to assist with the process of finding, selecting and analysing high quality journal articles.

Chapter 2 set out the research design and methodology of the current study. A qualitative research method was applied to obtain secondary data (i.e. journal articles) from peer-reviewed journals. Keywords such as "tax", "type", "evolve" and "history" and the definition of the features of a tax system were used to formulate the key phrases as set out in section 2.2.2.1. Conducting searches with these key phrases while applying the specified filters ensured that a sufficient and appropriate literature body was selected to assist in answering the research questions.

The identified journal articles were then subjected to the inclusion and exclusion criteria as well as the quality assessment procedures mentioned to ensure the second research question is adequately answered using reputable sources that are relevant to the current study. The selected articles were recorded and analysed in this study.

The research design comprises a descriptive study of qualitative data that was accessed at a certain point in time. An inductive reasoning approach was followed as the study generalised the identified features to all tax systems. Finally, the research design has an overarching philosophical stance of pragmatism.

CHAPTER 3
ANALYSIS OF DATA AND FINDINGS

3.1 INTRODUCTION

The purpose of Chapter 3 is to firstly determine what the features of a tax system are, and secondly, to select features for further analysis for purposes of answering the research question regarding the evolvement of the features.

3.2 OBJECTIVE 1: PRESENTATION AND DISCUSSION OF SEARCH RESULTS

In section 3.2 the findings with regards to objective 1 of the study are presented. This is done in a chronological sequence, describing the findings as well as summarising the findings in visual format.

3.2.1 Types of taxes

The keyword and key phrase for objective 1 of the study were defined as ‘tax’ and ‘tax type’. Time period filters were used to ensure the search for literature regarding objective 1 was done for different time periods. As discussed earlier, the first period extended from 1600 to 1900. The subsequent decades (until 2020) similarly served as filters when searching for relevant literature. For example, the first search was conducted for “tax” with a time period filter of 1600 to 1900. The second search was also done for “tax”, but with a time period filter of 1900 to 1910, 1910 to 1920, and so forth. The tax features that were thus identified were: property tax, land tax, Civil War tax, income tax, inheritance tax, wealth tax, mineral properties tax, capital gains tax, gasoline tax, gift tax, value added tax and carbon tax. Each tax type is briefly discussed below.

3.2.1.1 PROPERTY TAX

Property taxes were introduced in New England during the period 1620-1650 (Schwab, 1890). “New England is a region located in the northeast corner of the USA. The region is made up of six unique states: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont” (Discover New England, n.d.).

Before property taxes were introduced, the main sources of income in New England were export duties and excise on certain products (Schwab, 1890). At the time New England could not implement any other indirect taxes and decided to implement property taxes (Schwab, 1890). This decision was supported by the majority of people being farmers with land (Schwab, 1890).

3.2.1.2 LAND TAX

England first introduced land tax in 1692 to increase funding for England's war against France (Hook, 1905). Personal property was the main object of the tax. This tax was abolished in England in 1833, due to the difficulty of keeping the tax in assessment (Hook, 1905).

3.2.1.3 CIVIL WAR TAX

Civil War tax was first introduced in 1861 in the United States of America (Hill, 1894). This form of taxation was introduced as a form of income tax during the Civil War. The purpose of the tax was to provide the US government with money to fund the war (Hill, 1894:416).

The Civil War taxes were not immediately repealed at the end of the war but continued to be in force until 1872 (Fox, 1986). The Civil War tax was an "emergency tax" in a time of war (Fox, 1986). This tax feature is (for the time being) no longer applicable and will not be analysed in more detail.

3.2.1.4 INCOME TAX

In 1706 Massachusetts imposed taxes on "incomes by any trade or faculty" as part of their land tax regime (Seligman, 1894:612). This was the first time that income was included under a modern tax regime.

The modern income tax regime was first introduced in Great Britain in 1799 (Seligman, 1894). The introduction of income tax came as a result of the need for increased revenues and a professed desire by the English government to round out the existing tax system in the direction of greater justice (Seligman, 1894). At the time land and property taxes were common, but these tax systems had shortcomings as revenue was also generated by people without capital assets (Seligman, 1894). The income tax system was introduced to levy taxes on the income generated without having capital assets linked to a person's income (Seligman, 1894).

3.2.1.5 INHERITANCE TAX

Inheritance tax was first introduced in 1828 in the USA to tax the privilege of succession (Millis, 1905). This form of taxation quickly spread to 30 of the US commonwealths (states) as well as other countries, including the United Kingdom, France, and South Australia (Millis, 1905). The importance of this tax is highlighted by its contribution to total revenue being as high as 6% in France in 1901 (Millis, 1905).

3.2.1.6 WEALTH TAX

Wealth taxes were first introduced in Switzerland in the 1840s (Zeballos-Roig, 2019). Four journal articles relating to this tax type were analysed, but there was no mention of the reasoning behind the implementation of wealth taxes.

3.2.1.7 MINERAL PROPERTIES TAX

Mineral property taxes were first introduced in the USA (Minnesota) in 1881 (McVey, 1908). Up to that point in time most land in Minnesota had been taxed under the property tax regime (McVey, 1908). The mineral property tax was implemented to ensure mining property was also taxed (McVey, 1908).

3.2.1.8 CAPITAL GAINS TAX

Capital gains tax was first introduced in 1913 in the USA (Wells, 1949). The disposal of capital assets was not included in the income tax provisions of the time (Wells, 1949). This new tax ensured the proceeds or capital gains were taxable (Wells, 1949).

3.2.1.9 GASOLINE TAX

The state of Oregon in the USA required funds to build and maintain roads during 1919 (Martin, 1923). Gasoline tax was subsequently implemented as all the people using the roads would effectively be paying for the construction of new roads and the maintenance of others (Martin, 1923).

3.2.1.10 GIFT TAX

The implementation of gift tax in the USA in 1924 had a twofold motivation (Magill, 1940). Firstly, the gift taxes served to prevent the "evasion" of estate tax through *inter vivos* gifts. Secondly, gift taxes served to prevent the loss of tax through the splitting of large estates (Magill, 1940). Gift taxes were introduced to prevent people from evading taxes which were already enacted (Magill, 1940).

3.2.1.11 VALUE ADDED TAX

France was the first country to introduce a value added tax to raise funds for rebuilding the country after World War 2 (Lock *et al.*, 1955). This tax was an addition to normal income taxes and ensured more tax money was collected by the France government (Lock *et al.*, 1955).

Japan had been the first country to recommend value added tax as early as 1950 (Bronfenbrenner, 1950). However, France was the first country to implement the tax in 1954 (Norr & Hornhammar, 1970:381).

3.2.1.12 CARBON TAX

Finland was the first to introduce carbon taxes in 1990 (Poterba, 1991). The Netherlands and Sweden soon followed suit. They implemented carbon tax as an instrument to mitigate climate change (Poterba, 1991). The tax is designed to internalise the externalities relating to fuel consumption (Poterba, 1991).

Table 3 provides a visual representation of the different tax types that were discussed under section 3.2.1. The table also indicates the year of introduction and the country that first implemented the tax type.

TABLE 3: TAX FEATURES: YEAR AND COUNTRY OF FIRST IMPLEMENTATION

	Tax feature	**Year first implemented**	**Country of implementation**
1	Civil War tax	1861	USA
2	Property tax	Before 1650 (after 1620)	New England
3	Land tax	1692	England (Great Britain)
4	Income tax	1799	England (Great Britain)
5	Inheritance tax	1828	USA
6	Mineral properties tax	1881	USA – Minnesota
7	Capital gains tax	1913	USA
8	Gasoline tax	1919	USA – Oregon
9	Gift tax	1924	USA
10	Value added tax	1954	France
11	Wealth tax	1840	Switzerland
12	Carbon tax	1990	Finland

Section 3.2.1 identified 12 features of a tax system, as illustrated in Table 3. The next section provides an overview of the process that was followed in determining the features to be analysed further in an attempt to answer the research question.

3.3 OBJECTIVE 2: ANALYSIS OF DATA AND FINDINGS

3.3.1 Selection of features of a tax system for further analysis

The purpose of this section is to identify features of a tax system which could be further analysed in an attempt to answer the research question. Two factors were considered before a feature of a tax system was selected for further analysis. First, how frequently has the feature been written about? Second, what economic impact does the feature have? For the purpose of this study only two features of a tax system were selected for analysis. This allowed for an in-depth exploration into the history of each tax type: when it was first introduced, by whom it was introduced, and what led to the introduction and implementation of that tax feature. The two features that had the most articles written about it and the biggest economic impact were selected for further analysis. They can be described as the most important features. This limitation is reasonable as these two features proved to have the biggest impact on tax systems around the world.

The findings regarding objective 1 returned 12 different features of a tax system. These features were summarised in Table 3 in Section 3.2. A further search was conducted for literature relating to objective 2 to delve deeper into how the features evolved over time. Table 4 below gives a visual representation of how frequently a tax feature was written about as well as the total number of literature sources relating to that tax feature. Table 4 thus illustrates the first consideration used to select the two features for in-depth analysis. The “tax feature” column includes the name of the tax type, and the respective time periods are indicated in the other columns.

TABLE 4: SUMMARY OF FREQUENCY OF APPEARANCE OF TAX FEATURES IN RESEARCHED LITERATURE

Tax feature	1600-1900	1901-1910	1911-1920	1921-1930	1931-1940	1941-1950	1951-1960	1961-1970	1971-1980	1981-1990	1991-2000	2001-2010	2011-2020	Total
Civil War tax	3	-	-	-	-	-	-	-	-	-	-	-	-	**3**
Income tax	16	7	12	5	4	5	4	4	2	3	5	3	7	**77**
Property tax	6	5	1	4	1	5	1	2	2	0	2	1	3	**33**
Inheritance tax	5	8	6	1	5	2	3	1	2	4	4	6	5	**52**
Land tax	7	5	6	4	4	2	5	4	3	3	7	4	3	**57**
Mineral properties tax	2	1	3	4	2	2	7	6	6	5	8	4	8	**58**
Capital gains tax	-	-	3	2	18	8	7	5	1	9	4	5	2	**64**
Gasoline tax	-	1	3	12	3	1	4	2	5	3	4	4	6	**48**
Gift tax	-	-	-	5	6	4	4	5	8	6	7	5	7	**57**
Value added tax	-	-	-	-	-	2	7	15	9	10	9	7	7	**66**
Wealth tax	2	2	3	2	-	1	5	6	6	7	11	6	10	**61**
Carbon tax	-	-	-	-	-	-	-	-	-	7	9	5	5	**26**

Table 4 gives a visual presentation of the findings returned when conducting a search for the various features of a tax system using the time period filters. Income tax was written about the most, while the Civil War was written about the least. Value added tax and capital gains tax were also frequently written about.

The second consideration for determining two tax features for further analysis, is the economic impact of the various features of a tax system. In their revenue statistics 2019 report, the OECD (2019) reported that the following taxes yielded the most revenue for the OECD countries:

- Income tax – 34.2%
- Social security contributions – 26%
- Value added tax – 20.2%
- Taxes on property – 5.8%
- Other consumption taxes – 12.2%
- Other taxes – 2.6%.

Social security contributions is a tax which is levied on both employers and employees to fund a social security programme. The social security tax pays for the retirement, disability, and survivorship benefits that people receive under the social security system (Kagan, 2019). The contributions confer entitlement to receive a contingent future social benefit (Kagan, 2019).

Gordon and Li (2009) performed a study on the sources of taxes in developing countries and found that income tax together with consumption and production taxes are the biggest tax revenue sources in these countries. Value added tax is a taxation on the production and consumption of goods and services at every stage of production (Bronfenbrenner, 1950). It is thus reasonable to conclude that income tax and value added tax are the taxes which yield the most revenue in developing countries.

From the OECD report and the study of Gordon and Li it became clear that income tax and value added tax make the biggest tax revenue contributions among both OECD countries and developing countries (Gordon & Li, 2009; OECD, 2019). On the basis of frequent writings and economic contribution it is therefore concluded that income tax and value added tax are the biggest revenue contributors in a general tax system.

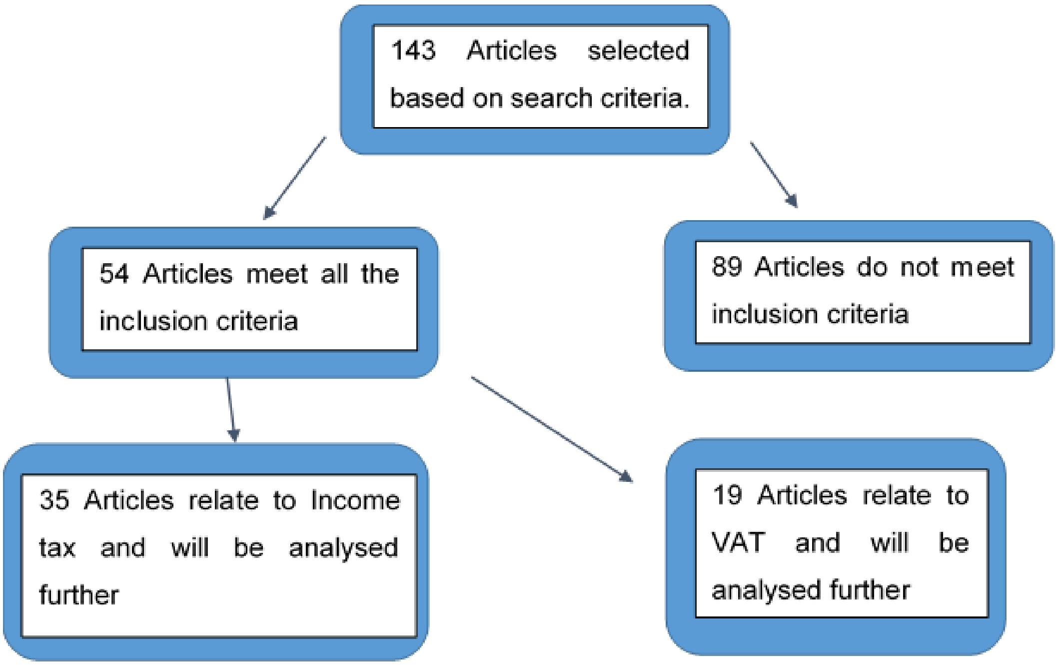
With regards to objective 2 of the study, it can therefore be concluded that limitation provisions were applied to identify two features of a tax system for further analysis. The first of the provisions requires the most frequent writing about the tax features. It was found that the features most frequently written about were: income tax, value added tax, and capital gains tax (in that order). The second factor or provision to consider is the economic impact of the features. From the OECD report it was concluded that income tax and value added tax are the biggest revenue contributors to a general tax system. For the purposes of objective 2 of this study the following features of a tax system were therefore selected to be analysed in order to see how they evolved over time:

- income tax
- value added tax.

3.3.2 Detailed examination of two selected tax features

After having identified income tax and value added tax (VAT) for further analysis to determine how these features of a tax system evolved over time, a new search was conducted to obtain literature relevant to the second research objective. From Table 4 in section 3.3.1 it can be seen that the new search for income tax and VAT resulted 143 academic writings (77 plus 66) being selected. Figure 2 below gives a visual representation of how the articles were selected for further analysis. The 143 articles were subject to the inclusion criteria and quality assessment discussed in Chapter 2. Through the inclusion criteria and quality assessment process only 54 articles were selected for further research. The 54 articles can be broken down as 19 VAT articles and 35 income tax articles. The analysis of these articles is presented in the following sections.

FIGURE 40: SELECTION OF ARTICLES FOR FURTHER ANALYSIS



3.3.3 Income tax

This section includes the analyses and findings regarding the question how income tax has evolved over time.

3.3.3.1 OVERVIEW OF LITERATURE ANALYSED

Initially income taxes were included in other forms of taxes. In 1706 Massachusetts imposed taxes on “incomes by any trade or faculty” as part of their land tax regime (Seligman, 1894). This was the first time that income was included as a basis in a modern tax regime. Massachusetts’ land tax was amended in 1738 to include the words “business or employment” (Seligman, 1894), which resulted in income from one’s employment being subject to tax. The Land Tax Act of 1777 went even further and levied tax on “incomes from any profession, faculty, handicraft, trade or employment” (Seligman, 1894). Massachusetts was the first to tax income, but it was Great Britain who led the way by introducing a new tax system, which included income tax, in 1799 in an attempt to realise the revenue potential (Seligman, 1894). The income tax of 1799 was to be levied directly on income and all persons were required to do a return of their total income (Seligman, 1894). Similar to England, the revenue feature of the income tax was the chief

consideration in the origin of income tax regimes in Italy, France and the USA (Seligman, 1894:610-613).
Tax on income was first introduced as a federal tax in the USA in the Act of August 5, 1861 to fund the Civil War (Hill, 1894). This tax was to be levied at 3% of all income in excess of $600 (Hill, 1894). However, this tax was soon repealed and changed to an "emergency tax" (Hill, 1894).

The nature of income tax and its revenue potential resulted in income tax attracting more attention and demand than any other tax reforms (Hill, 1892). Outside Great Britain, Prussia (a prominent German state) was the first to consider an income tax regime. Prussia first attempted to introduce income tax in 1812, but they only successfully implemented it in 1851 (Hill, 1892). The tax was to be levied on all incomes exceeding 400 thalers with a distinction to be made between funded income (incomes from property or invested capital) and unfunded income (wages, salaries and alike) (Hill, 1892). Unfunded income was taxed at 2% and funded income at 3%. The well-known principle of self-assessment, which requires taxpayers to declare their own income, was first introduced by Prussia in their income tax of 1852 (Hill, 1892). The Prussian income tax effectively represents the first development of a progressive taxation on personal income (Hill, 1892:416-418).

By 1894 income tax was introduced and used widely around the globe (Seligman, 1894). The reason for the attractiveness of income tax was two-fold: first, there was a need for increased revenue from a government point of view, and second, a professed desire to round out the existing tax system in the direction of greater justice (Seligman, 1894). Income tax was responsible for the evolvement of tax systems as a whole, for example: the development of income tax resulted in land tax becoming a general property tax (Seligman, 1894). Income tax was seen to be more just and equal compared to the existing indirect taxes and had fewer defects than the direct taxes of the time (Seligman, 1894). It is important to note that income tax was not expected to exist on its own, but was designed to be part of a larger tax system. By 1894 income tax had evolved by bringing a shift from taxing gross income to taxing net income (Seligman, 1894). Furthermore, the evolution led to people being allowed to claim certain deductions for expenses incurred (Seligman, 1894:616-638). The evolvement of income tax was further evidenced by the split in 1894 between income and capital. The split would be difficult to implement, but there was a realisation that a distinction should be made between income and that which yields income (Dunbar, 1894:27-32).

By this time, income tax had been introduced around the world, but absolute success was not guaranteed. Dunbar (1894:28) noted: “It is the judgment of some important and enlightened countries, as, for example, of England and Prussia, that, without attaining absolute success, they make an approximation near enough to justice it worth their while, under every change of administration, to maintain a tax upon incomes as a branch of their regular revenue.”

By 1895 the USA had not yet implemented an income tax regime at federal level. The USA collected federal tax on income through their Tariff Act of 1894, but they had not yet implemented an income tax (Miller, 1895). The introduction of income taxes around the world provided evidence that income taxes would strengthen the weak parts of the USA financial system – this is evidence of the evolution that income tax brought (Miller, 1895). Some important questions that were raised at the time were in relation to: progressive rates, exemption of small incomes, heavier taxation of permanent incomes and the overall justice of the taxation (Miller, 1895:255-268). These questions would later have a direct impact on the evolution of income tax as a tax feature.

In 1900 it was noted that the USA would need to change their constitution before they could implement a national income tax. Also important is that in 1895 the USA supreme court ruled against a federal income tax (West, 1900:433). There was much debate regarding the amendment to the constitution and the uncertainty relating to the tax that USA states might levy and the taxes that might be levied by the nation (Whitney, 1907:296) . By 1910 the USA was again confronted with a question relating to their constitution and income tax. The question was: Would the adoption of the proposed amendment change the situation? The proposed amendment was that Congress “shall have power to lay and collect taxes on income, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration" (Seligman, 1910). However, other parts of the constitution stated “that no capitation or other direct tax shall be laid unless in proportion to the census or enumeration hereinbefore directed to be taken", and “representatives and direct taxes shall be apportioned among the several states according to their respective numbers” (Seligman, 1910). The proposed amendment was thus contradicting other parts of the constitution, as income tax was no longer seen as an indirect tax. (Seligman, 1910:193-196).

Adams (1911) reported in 1911 that the USA was against a USA state income tax, but that they were (again) considering federal income taxes. Much of the concern was around the collection of the tax and whether or not it would be possible and feasible for a federal tax to be collected from the source (Adams, 1911). Business income tax is “a tribute which business may properly be called upon to pay for the protection afforded by the state and the opportunities provided to exploit the commercial opportunities of a given district” (Adams, 1911). Personal income taxes, on the other hand, are “paid for the benefits which the individual receives from the state as a consumer, for the streets on which he walks, the parks in which he takes his recreation, the schools which his children enjoy, the personal protection which he and his family receive from the police, the health commissioner, and other officials” (Adams, 1911). Business income taxes accordingly should be paid at the source, where the income arises, and should go to the tax jurisdiction in which the income arises – not the jurisdiction in which the recipient of the income resides (Adams, 1911). On the other hand, personal income taxes should be adjusted to the entire ability of the taxpayer and should be paid to the jurisdiction in which he resides (Adams, 1911:302-304). This was the first time that the source of income became important in the levying and collection of income taxes.

The legislature of Wisconsin passed an income tax law in 1911 (Adams, 1913). The Wisconsin income tax was enacted in an attempt to find an equitable and efficient method of personal taxation (Adams, 1913). The rates were progressive, rising in the case of individuals and partnerships from one per cent on the first $I 000 of taxable income to six per cent on taxable income over $I2 000 (Adams, 1913). For corporations, the rate rises from two per cent on the first $I 000 of taxable income to six per cent on income over $6 000 (Adams, 1913). Another step in the evolution of income taxes came when the collection of information at source became an integral part of the Wisconsin income tax, as what was outgoing from taxpayer A was income to taxpayer B (Adams, 1913). With respect to wages, salaries, rents, and interest paid out, all taxpayers were required to provide information on the source of the income. Income tax systems would soon evolve even more when the tax treatment of depreciation and the treatment of losses became an important consideration (Adams, 1913:569-580).

One of the most important events to influence the national finances and constitutional development of the USA was the adoption of an amendment to the Federal Constitution in 1913 (Hill, 1913). The amendment gave Congress the power "to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states and without regard to any census or enumeration” (Hill, 1913). It was common knowledge that the amendment would be followed by the implementation of an income tax with sharply progressive rates (Hill, 1913). The tax would also be collected at the source to ensure greater certainty that the taxes would be collected (Hill, 1913:46-50). The evolution of income tax now included progressive tax rates and collection from the source of the income. Income tax was designed to be an effective part of tax systems and its value was well known (Seligman, 1914:1).

The new USA income tax was modelled partly upon the 1894 tax, and the Civil War tax to some extent upon the English income tax (Blakey, 1914). The fundamental administrative matters of assessment and collection of the "normal tax", however, followed the English principle of stoppage-at-the-source rather than the Prussian system of self-assessment (Blakey, 1914). The inclusion of the word "accruing" in the USA Income Tax Act demanded that the tax was payable for the year in question, even though the income might not actually be received until later (Blakey, 1914). This was the first time income was taxable before receipt – a significant moment in the evolution of income taxes. It should be noted that depreciation was allowed as a deduction, but not expenses for betterments (Blakey, 1914:27-29). The distinction between betterments and repairs and maintenance was now an important consideration.

The 1918 USA Income Tax Act provided for the taxing of capital gains while allowing capital losses as deductions (Clark, 1919). In 1919 the USA Supreme Court ruled in two cases that dividends of a corporation declared by issuing its own stock were not income within the meaning of the Sixteenth Amendment, resulting in stock dividends not being income but outgoing capital (Clark, 1919). The evolution in the treatment of capital losses and stock dividends could be to the detriment of government, since an incentive was given to the taxpayer to realise his losses while postponing the realisation of gains and to realise his investment without paying taxes on the profit. (Clark, 1919:735-740)

When, in 1914, Connecticut was confronted by a tax crisis they adopted a state corporate income tax, while in New York the financial situation also became acute (Seligman, 1919). In 1919 New York enacted their income tax law of 1919 which made them the first leading industrial USA state who discarded general property taxes and implemented income tax on individuals and corporations (Seligman, 1919). The New York corporate income tax aimed only to reach the income earned within the state (Seligman, 1919); to tax the income in the state/country of source was an evolvement in the tax feature. Further, a decision was taken not to exempt dividends from individual's taxable income (Seligman, 1919). The argument was that income from property as well as the property should be taxed; hence the income from a corporation could be taxed even if the corporation itself was taxed (Seligman, 1919:522-529). In the same year that the USA courts ruled on the treatment of dividends, the income tax evolved further to legislate the taxing of dividends.

In 1920 Great Britain had a few changes to their income tax system. The notable changes included an increased exemption limit, increased allowances and some administrative changes (Comstock, 1920). It was also during this period that the value of the income tax was noted. It had become the most important form of taxation in Great Britain (Comstock, 1920:488-491). A lot of time had passed, and the world had changed a lot, since the first introduction of income taxes in Great Britain. Due to the change in time and economic conditions it was only appropriate that the income tax also had to change (Comstock, 1920).

Income tax survived the First World War and proved to be elastic and very productive (Adams, 1921). However, the period after the war brought an industrial depression which resulted in income tax deemed to be over-burdening and the rates excessive (Adams, 1921). Income tax evolved during this time, and tax morality and honest taxpayers emerged as the keys to its successful implementation (Adams, 1921). During these times the importance of tax rates came to the fore. It was realised that tax rates should be kept at a level that would not push taxpayers to start avoiding or evading income tax (Adams, 1921:527-536).

In 1924 light was shed on the double taxation in the USA (by state and federal authorities). There was also increased complexity relating to the income tax system and there was no uniformity, even if the tax was the most important tax in the USA (Copland, 1924). The injustice of the income tax was highlighted by the treatment of losses. The current system did not take into account losses that exceeded income (Copland, 1924). For the first time the treatment of income losses became an important consideration. Australia devised a scheme to address this issue – the averaging system – after rejecting the possibility of rolling forward losses, stating that this would not provide adequate relief (Copland, 1924). The averaging system was criticised to be complex and defeating the principle of graduation, while some contended that the carrying forward of losses would afford sufficient relief (Copland, 1924). Thus income tax evolved in some countries in that these countries implemented the carrying forward of losses to combat any injustices (Copland, 1924:73-78).

Eichholz (1938) held that the complexity of income tax systems was an issue as lawyers or accountants who did not specialise in tax would not be able to find their way. The primary reason for any tax and the measurement of its success was the revenue it brought in, but other considerations, which included equity, certainty and ease of administration (Eichholz, 1938), also applied. A good tax distributed its liability fairly, based on taxpayers' ability to bear it, while having a low cost of administration (Eichholz, 1938). Eichholz (1938:1202-1203) was of the opinion that the administration relating to tax laws was mostly antiquated and not as simple as one would hope for. It was clear that income tax needed to evolve if it was to remain a good tax that was easy to administer.

After the Second World War calls were made to stop the erosion of the tax base. In essence, the call was to limit the exceptions, preferences, loopholes and leakages in the tax system (Bittker, 1967). Bittker (1967:925-927) highlighted the need for income tax to evolve by aiming to create a tax base which would have the support of taxpayers with good will.

During the period 1957 to 1972 a lot of work was done on optimising income tax. Tobin *et al.* (1967:26) considered that a negative tax might be the answer, but there was a lot of uncertainty relating to the cost and the adequacy of the basic allowances. Sheshinski (1972:297) in turn held that the ideal income tax system would be a progressive tax with a negative income tax for people with low incomes. To this day a negative tax has never been implemented. Eighteen years after Sheshinski's work, Pechman (1990:1) still found that the progressivity of tax systems were on the decline. Pechman (1990) suggested that work needed to be done to improve the equity of tax systems. Again, the need for income tax to evolve and be more equal and progressive was raised.

Dual income tax systems were first introduced between 1987 and 1993 in countries like Denmark, Finland, Norway and Sweden (Pirttilä & Selin, 2011). The dual tax system entailed a progressive tax on earned income and a proportional tax on capital income and it grew in popularity by taking shape in countries around the world (Pirttilä & Selin, 2011) .The advantage of this new income tax system was the favourable tax treatment of capital income. This was also a response to countries implementing capital gains taxes (Pirttilä & Selin, 2011). For individuals with high capital income, the reform brought a considerable reduction in the marginal tax rate on capital income (Pirttilä & Selin, 2011:120-138). Income tax evolved from a single rate to progressive rates to a system which included progressive and fixed rates.

The next section provides a summary of how income tax as a feature of a tax system evolved over time.

3.3.3.2 THE EVOLUTION OF INCOME TAX: A SUMMARY OF THE FINDINGS

This section gives a summary of the evolution of income tax as evidenced by findings from the 35 articles analysed in the previous section. From the detailed analysis it is possible to create a timeline of the major developments in the evolution of income tax. Table 5 below sets out this timeline. It must be noted that the timeline is based only on the 35 articles that were analysed as part of this study. A broader overview of the literature relating to the evolution of income tax may result in additional findings, but these other articles were not included in the current study.

TABLE 5: EVOLUTION OF INCOME TAX

Year	Major development
1706	Land tax regime in Massachusetts includes taxes on "income by any trade or faculty".
1738	Land tax regime in Massachusetts includes taxes on “business or employment”.
1777	Land tax regime in Massachusetts includes taxes on “incomes from any profession, faculty, handicraft, trade or employment”.
1799	Great Britain implements the first income tax regime.
1851	Income tax is introduced in Prussia on a self-assessment basis using progressive rates.

1861	A tax on income is introduced in the USA – the Civil War tax.
1894	A shift from taxing gross income to taxing net income – allowing deductions.
1894	The split between income and capital became apparent. Distinction made between income and that which yields income.
1894	USA levies tax on income through the Tariff Act of 1894.
1895	Progressive tax rates and exemption of small incomes become important considerations.
1911	It is ruled that business income taxes should be paid where the income arises, but personal income taxes should be paid where the taxpayer resides.
1911	First income tax in a USA state.
1911	Collection of information at source starts playing an integral role.
1913	USA enacts their federal income tax. This should be collected at the source.
1914	Taxes are levied on the earlier of either receipt or accrual.
1914	Depreciation allowed as a deduction.
1918	Allowance of capital losses to be set off against capital gains.
1919	Dividends deemed to be capital income.
1919	Dividends are income by nature and should not be exempted.
1920	Income tax is branded the most important taxation in Great Britain.
1921	Tax morality and honest taxpayers become the key to the success of the income tax system.
1924	Australia introduces the averaging income tax system.
1924	Other countries allow the carrying forward of losses.
1938	The complexity of income tax is raised as an issue that needs to be addressed.
1967	A move towards limiting exceptions, loopholes and leakages in tax systems and creating a tax base that is supported by taxpayers with good will.
1972	Exploration of a negative tax.
1990	Tax systems have become less progressive – this requires attention.
1993	Dual income tax is introduced in a few countries – incorporating progressive and single rate taxes.

As indicated, the limitations applied to this study – the inclusion and exclusion criteria together with the selection of tax features for further analysis – resulted in 35 income tax articles being further analysed. Of these 35 articles only five were published after 1993, but the latter did not contain any information relating to answering the research question.

Income tax as a feature of a tax system has faced many tests and has evolved to keep up with the change in times. Table 5, representing a summary of the evolution, shows a clear breakdown of many aspects of income tax which are still relevant and topical today. These include the treatment of capital income, the source principle, earlier of either receipt or accrual, collection at source, and the treatment of losses, to name a few. From the analysis of the articles relating to the evolution of income taxes it is noted that the evolution was mainly driven by the following features:

- Increased revenue by taxing wealth that had not been taxed earlier.
- The professed desire to round out the existing tax system in the direction of greater justice.
- Progressive tax rates which point to a more fair tax system.
- Reasonably easy administration when information is received from the source of the income.
- Income tax is an equitable and efficient method of personal taxation.
- Income tax is an integral and permanent part of countries' fiscal arrangements.
- Income tax proved to be elastic and very productive.

The analysis clearly shows that income tax as a feature of a tax system has evolved over time. In some instances the evolution kept up with the change in times, but Eichholz (1938), Bittker (1967) and Pechman (1990) argue that more evolution is required. They highlight the need for evolvement in the administration of income taxes, the tax base, and the equality of income taxes.

The next section considers how value added tax evolved over time by further analysing the selected articles.

3.3.4 Value added tax

This section includes the analyses and findings regarding the question how value added tax has evolved over time.

3.3.4.1 OVERVIEW OF LITERATURE ANALYSED

During 1950 value added tax (VAT) was considered to be the most interesting tax prospect (Bronfenbrenner, 1950). VAT was described as a system of sales tax at every stage of production – a tax on the value created at each stage (Bronfenbrenner, 1950). VAT was set to replace the older local business tax as well as the transaction tax with a design that encouraged capital formation by shifting the tax burden from business to consumers (Bronfenbrenner, 1950). The rise of VAT in tax systems resulted in an evolution of older forms of taxes. From the outset it was known that tax evasion would persist, but that its effect would decrease (Bronfenbrenner, 1950). The original system was designed to allow a deduction of cost of goods from the tax base at each stage of production, while certain activities would be exempted (Bronfenbrenner, 1950). VAT contributed to the evolvement of tax systems by bringing the following major advantages (Bronfenbrenner, 1950):

- the avoidance of the defect characteristics of retail sales tax, manufacturer sales tax and transaction tax;
- the ease of collection; and
- the elimination of the risk of double taxation on retail tax.

In 1954 France was the first country to introduce a value added tax. This was done in an attempt to raise funds for rebuilding the country after World War 2 (Lock *et al.*, 1955). This tax was an addition to normal income taxes and ensured more tax money was collected by the France government (Lock *et al.*, 1955). During 1955 Michigan enacted their business activities tax on the basis of the VAT in France and the proposed VAT in Japan. The Michigan tax taxed the value added by manufacturing or other commercial activities (Lock *et al.*, 1955). The principle difference from the VAT proposed for Japan was that no deduction would be allowed for capital goods expenditures, and a deduction would be allowed for interest (Lock *et al.*, 1955). VAT was at this stage a fairly new type of tax, but it had already evolved. VAT was to be paid on gross receipts less allowed deductions (Lock *et al.*, 1955). It was not to be paid on wages, salaries, repayments of debt or the proceeds on the sale of assets. The allowable deductions could be summarised as taxes other than tax on net income, amounts paid to carry on the activity, interest and rent, as well as a reasonable allowance for depreciation of real property (Lock *et al.*, 1955).

During 1960 a review was done on the Michigan business tax (a variant of VAT) after it had been in effect for 7 years. VAT now assumed a prominent position in the tax structure of the state with the revenue and the administration of the tax proving to be very successful (Papke, 1960). A net income credit provision was also introduced in the state to provide relief for low or zero-income businesses (Papke, 1960). The credit was calculated in such a way that the larger the percentage of net income to adjusted receipts, the smaller the credit was (Papke, 1960). At this stage VAT was deemed to be the most equitable form of business tax (Papke, 1960). The rise in the prominence of VAT brought along many questions, which in turn were met by the evolution of VAT as a tax feature.

Sweden took notice of the impact VAT had in tax systems around the world and in 1964 it was announced that VAT would replace their sales tax before 1 July 1966 (Sandberg, 1964). The sales tax showed a lot of problems, including double taxation and the fact that some producers might be considered to consume their own investments (Sandberg, 1964). VAT contributed to a change in behaviour as taxpayers would want to report low sales and high costs, rather than just aiming for low sales as under the old sales tax (Sandberg, 1964). VAT proved to be a dynamic tax by having a nature where the cost for one person was the sales for another; hence there was a lower risk for tax fraud (Sandberg, 1964).

It fast became apparent that there were two approaches to VAT. The first was the tax credit method and the other the calculation of value added method (Due, 1965). By 1966 VAT was being discussed and instituted by many governments around the world, including underdeveloped countries in Africa and Asia (Forte, 1966). There were, however, some notable exceptions. Japan rescinded its VAT and Sweden rejected a recent proposal for VAT. Furthermore, Great Britain and the USA had not adopted the much talked about VAT. Some problems with VAT were highlighted, for instance a high number of taxpayers needed to be assessed and there was a lot of uncertainty relating to small businesses (Forte, 1966). VAT needed to evolve to address the issues and meet the requirements of countries like Sweden, Japan, USA and Great Britain. During 1966 the main advantages of VAT were identified as (Forte, 1966):

- minimisation of the discrimination inherent in current business taxes;
- promotion of economic growth; and
- improvement of the balance of tax payments.

Oakland (1967) noted that VAT had evolved into three variants that had taken shape around the world. Most of the countries had implemented VAT in an attempt to avoid the cascading feature of turnover tax, while also decreasing the distortion of sales prices (Oakland, 1967). The three variants of VAT were distinguished by the way in which capital expenditure was treated (Oakland, 1967). The first system allowed an upfront deduction for capital expenses, the second allowed a deduction for depreciation over time, and the third did not allow any deduction for either capital expenses or depreciation (Oakland, 1967). The most popular arguments for VAT were said to be (Oakland, 1967):

- It enhanced a nation's competitive position in foreign markets.
- It had favourable effects on investment and economic growth.
- It allowed for the transfer of resources from inefficient firms to efficient ones.

In 1965 VAT had been implemented only by France, with Finland and Michigan implementing variants thereof (Lindholm, 1970). By 1970 VAT had evolved so much that it was one of the world's most productive taxes and was introduced all over the world. VAT was now a critical part of tax systems around the world and produced 30 - 40% of tax revenues (Lindholm, 1970:1179).

VAT also brought along evolution in other forms of legislation and trade agreements, for instance (Norr & Hornhammar, 1970):

- The recently formed European Common Market began a push towards VAT in 1970.
- Article 99 of the Treaty of Rome led to an explosive growth in the context of VAT and the way it could harmonize taxes.
- The European Trade Association made a move towards VAT during this time.
- France amended their VAT to conform to the norms.
- Sweden implemented VAT in 1969 after earlier rejections.

The USA was still considering the implementation of VAT while Sweden became the first country to implement the VAT tax credit system (Norr & Hornhammar, 1970). Some notable aspects of the evolution of the VAT systems were the exclusion of private persons and a shift in focus to levy VAT in the territory where goods or services were consumed (Norr & Hornhammar, 1970). Furthermore, the VAT treatment of imports and exports were considered, whereupon it was deemed appropriate to levy VAT on imports while exempting exports (Norr & Hornhammar, 1970).

VAT was becoming an ever more important feature of a tax system, which led to many writers analysing this tax feature. Cohen (1971) analysed the VAT systems in Europe during 1971 and concluded that VAT was operating quite successfully in Europe while the public also received it favourably. VAT had evolved in that the general VAT rate was more than 10% in all the countries, with varying rates for special items (Cohen, 1971). In his analysis, Cohen (1971) identified the following advantages of VAT in a tax system:

- broad general uniformity;
- revenue potential; and
- efficient operations regarding exports and imports.

Musgrave (1972) analysed the problems of VAT in 1972 and considered if the USA should implement the tax in their tax system. Musgrave (1972) described VAT as the reincarnation of the old US retail sales tax. VAT would be a good substitution for a turnover tax, but not for the sales tax in the US (Musgrave, 1972). It was understood that VAT would work better than sales tax in countries with less developed business structures, tax administrations and lower levels of tax compliance (Musgrave, 1972) than the USA. As a result, Musgrave (1972) was not in favour of introducing VAT in the US tax system. The USA Treasury Department studied VAT as part of its 1984 tax reform effort. Their finding was also not to recommend VAT for the USA tax system (Brashares *et al.*, 1988). The view was that although VAT had evolved, the VAT system would not be a good fit for the USA tax system.

In their analysis Carlson and Patrick (1989) concluded that VAT was a regressive tax – as were all other consumption-based taxes. Their study also considered the fairness of VAT as a tax type. When considering the regressivity of VAT and the distribution of total income across the USA population, it was concluded that VAT was not a fair tax and that it contributed to tax systems becoming less progressive (Carlson & Patrick, 1989).

In 2004 the design of the VAT system was put under question. The importance of the threshold for VAT was identified as a critical part in determining the success or failure of the tax (Keen & Mintz, 2004). The threshold referred to the level of turnover above which firms were required to charge VAT on their outputs and entitled to reclaim tax on their inputs (Keen & Mintz, 2004). Too high a threshold would compromise the basic objective of raising revenue, but too low a threshold might leave the authorities overwhelmed by the difficulties of implementation and increased compliance costs (Keen & Mintz, 2004). VAT was now seen as a regressive tax and the importance of the VAT threshold highlighted the need for VAT to evolve.

Fifty years ago, the value added tax (VAT) was rarely heard of outside of France and some specialist texts. Now, in 2010, VAT had been implemented in over 130 countries, where it commonly raised 20% or more of all tax revenue (Keen & Lockwood, 2010). Keen and Lockwood (2010) noted that the rise of VAT was, by any standard, the most significant development in tax policy and administration of recent decades. The impression that emerged was that the adoption of VAT evolved tax systems around the world by increasing tax revenue and improving the effectiveness of the tax systems (Keen & Lockwood, 2010).

3.3.4.2 THE EVOLUTION OF VAT: A SUMMARY OF THE FINDINGS

Section 3.3.4.2 provides a summary of the evolution of VAT as evidenced by the 19 articles analysed in the previous section. From the detailed analysis it is possible to create a timeline of the major developments in the evolution of VAT. Table 6 below sets out this timeline. It must be noted that the timeline is based only on the 19 articles that were analysed as part of this study. A broader overview of the literature relating to the evolution of VAT may result in additional findings, but these other articles were not included in the current study.

TABLE 6: EVOLUTION OF VALUE ADDED TAX

Year	Major development
1950	VAT is considered a system of sales tax at every stage of production.
1950	The design of VAT is aimed at shifting the tax burden from the business to the consumer.
1950	A deduction of costs will be allowed.
1954	France introduces VAT in an attempt to raise funds to rebuild the country.
1955	Michigan enacts their version of VAT without allowing a deduction for capital expenditures, but rather making a reasonable allowance for depreciation.
1955	VAT is not to be paid on wages, salaries, repayments of debt or on the sale of assets.
1960	VAT is now prominent in Michigan and the revenue and administration are successful.
1960	The first introduction of a net income credit provision.
1965	There are now two approaches to VAT: the first is the tax credit method and the other the calculation of value added method.
1966	VAT is being instituted world-wide. Some notable exceptions are: Japan, Sweden, Great Britain, and the USA.

1967	VAT now has three variants. The first system allows an upfront deduction for capital expenses, the second allows a deduction for depreciation over time, and the third does not allow any deduction for either capital expenses or depreciation.
1970	VAT is now one of the world's most productive taxes – producing 30 - 40% of tax revenues.
1970	The European Common Market as well as the European Trade Association begin a push towards VAT. Article 99 of the Treaty of Rome leads to VAT growth.
1970	Sweden implements VAT with a tax credit system.
1970	Exclusion of private persons and a shift in focus to levy VAT in the territory where goods or services are consumed.
1970	VAT is levied on imports, while exports are exempted.
1984	The US Treasury Department recommends that VAT is not fit for the USA.
2004	The importance of the threshold for VAT is identified as a critical part in determining the success or failure of the tax.
2010	VAT is found in over 130 countries, where it commonly raises 20% or more of all tax revenue. By any standards, the rise of VAT has been the most significant development in tax policy and administration of recent decades.
2010	VAT has improved the effectiveness of the tax system as a whole.

As indicated, the limitations applied to this study – the inclusion and exclusion criteria together with the selection of tax features for further analysis – resulted in 19 VAT articles being further analysed. It was found that VAT as a feature of a tax system has faced many tests and has evolved to keep up with the change in times. The evolution is summarised in Table 6. It gives a clear breakdown of many aspects of VAT which are still relevant and topical today. These include the calculation of the value added, the treatment of salaries and wages, the tax credit method, the treatment of capital expenses and the VAT implications for imports and exports, to name a few. From the analysis it is evident that researchers and authorities were constantly considering the advantages of VAT in tax systems. It can be argued that the evolution of value added tax was mainly driven by the following features/advantages of VAT:

- The defect characteristics of retail sales tax, manufacturer sales tax and transaction tax are avoided.
- Collection is easy.
- The risk of double taxation on retail tax is eliminated.
- The nature of the VAT system is such that the costs for one person is the sales for another; hence a lower risk for tax fraud.
- The discrimination of current business taxes is minimised.
- The balance of tax payments is improved.

- A nation's competitive position in foreign markets is enhanced.
- The tax has favourable effects on investment and economic growth.
- Resources can be transferred from inefficient firms to efficient ones.
- The tax operates efficiently with regard to exports and imports.

There is enough evidence that value added tax as a feature of a tax system has evolved over time. In some respects the tax has kept up with the change in times, but Carlson and Patrick (1989), Musgrave (1972) and Keen and Mintz (2004) all argue that further evolution is required. They highlight the need for VAT to become less regressive and point out that the VAT thresholds should still evolve for VAT to remain relevant around the world.

The final chapter contains the conclusion of the study and sets out how the research question was answered.

CHAPTER 4
CONCLUSION

4.1 INTRODUCTION

The current study examined how the features of a tax system have evolved over time. The aim of the study was to first identify the features of a tax system, then to select features for more extensive research, and lastly to investigate the evolvement of these features. Only two features were selected for the in-depth research.

The purpose of this chapter is to present a final conclusion on the current research. A summarised overview is given of the way in which the research question was answered. This includes the research objectives, the systematic review process, and the findings from analysing literature in relation to the research question. In addition, the chapter identifies the limitations of the current study and provides suggestions for future research on the topic. The chapter ends with concluding remarks about the study.

4.2 THE WAY IN WHICH THE RESEARCH QUESTION WAS ANSWERED

At the outset, the researcher identified that tax systems have been in effect for many centuries. Taxes were first levied around 3000 BC (D'Amore-McKim School of Business, n.d.), while modern taxes first came to the fore in the 17th century (Schwab, 1890). The current study was limited to modern taxes, as the ancient taxes and those of the Middle Ages evolved into modern taxes. Changes around the world resulted in changes in the events that triggered tax liabilities (Slemrod & Gillitzer, 2013). These represent the evolution of the features of a tax system.

The current study took shape by identifying two objectives. The first was to get clarity on the features of a tax system by systematically exploring the existing body of literature, and the second was to determine how the features of a tax system have changed over time. To this end, two features of a tax system were selected and the relevant literature relating to the selected features and their respective histories was closely researched.

4.2.1 Objective 1

Central to the first objective was the phrase "features of a tax system". It was therefore deemed necessary to clearly define the phrase. "Feature" was defined as an important part of something (Cambridge Dictionary, 2020b). Adam Smith (2010) formulated the "maxims" that underlie all tax types and all tax systems, while the OECD recently published what they regard as the fundamental principles of tax types and/or systems. These fundamental principles were not considered the "features of a tax system". The study adopted the events triggering tax liabilities as the features. In layman's terms the "features of a tax system" was defined as the various tax types in a system. The first objective could thus be rephrased to read: identify the tax types of a tax system by systematically exploring the existing body of literature.

The first section of chapter 3 sought to identify the features of a tax system. The search results returned 12 features that were discussed and then summarised in Table 3. These 12 features provided the answer to the first objective and the first part of the research question. The 12 features were:

1) Civil War tax
2) Income tax
3) Property tax
4) Inheritance tax
5) Land tax
6) Mineral properties tax
7) Capital gains tax
8) Gasoline tax
9) Gift tax
10) Value added tax
11) Wealth tax
12) Carbon tax.

A selection process was subsequently implemented to determine two tax features for further analyses for purposes of fulfilling objective 2 of the study.

4.2.2 Objective 2

Once the “features of a tax system” had been identified, it was possible to determine how two of these features have evolved over time by analysing and interpreting the literature relating to the selected tax features and their respective histories.

The selection process to determine the two features that were to be analysed consisted of two components. The first criterion was tax features which were frequently written about in research literature, while the second was the economic impact a tax feature had by considering the level of tax revenue generated by that feature. After applying these criteria, income tax and value added tax were selected. Thirty-five academic articles were analysed for data on income tax and 19 academic articles for data on value added tax.

Income tax as a feature of a tax system has evolved significantly over time. The evolution is set out in Table 5 in section 3.4.1. Modern-day income tax had a humble beginning in 1706 when income was first taxed under the land tax regime of Massachusetts (Seligman, 1894). The year 1799 marked the first instance of a proper income tax regime when Great Britain introduced it into their tax system (Seligman, 1894). Income tax soon faced many tests and evolved to keep up with the change in times. The evolution can be broken down into many aspects of income tax that are still relevant and topical today. These include the treatment of capital income, the source principle, earlier of either receipt or accrual, collection at source and the treatment of losses to name a few. There is enough clear evidence that income tax has evolved over time. Although the evolution partly kept up with the change in times, Eichholz (1938), Bittker (1967) and Pechman (1990) argue that more evolution is required. They highlight the need for the evolvement of the administration of income taxes, the tax base, and the equality of income taxes.

Value added tax as a feature of a tax system has also evolved over time, as set out in Table 6 in section 3.4.2. The modern-day value added tax had a slow introduction into tax systems, first being implemented by France only in 1954 (Lock *et al.*, 1955). Other big countries were also slow to introduce VAT and by 1966 the following countries had still not implemented it: Japan, Sweden, Great Britain and the USA (Forte, 1966). VAT withstood the slow introduction, evolved where necessary and by 2010 more than 130 countries had included VAT in their tax systems (Keen & Lockwood, 2010). In spite of the slow start, VAT quickly became very relevant and important (Keen & Lockwood, 2010) for the revenue of a country. The evolvement of VAT can be broken down into many aspects that are still relevant and topical today. These include the calculation of the value added, the treatment of salaries and wages, the tax credit method, the treatment of capital expenses and the VAT implications for imports and exports to name a few. In part, the evolution kept up with the change in times, but Musgrave (1972), Carlson and Patrick (1989) and Keen and Mintz (2004) argue that more evolution is required. They highlight the need for VAT to become less regressive and for VAT thresholds to still evolve if VAT were to remain relevant around the world.

Fulfilling the second research objective established the following:

- Income tax has evolved over time to become an important part of most tax systems around the world. Although its evolvement partly kept up with the change in times, in some areas evolution is still required.

- Value added tax has also evolved over time to become an important part of numerous tax systems around the world. Similar to income tax, the evolvement of value added tax partly kept up with the change in times, while evolution in some areas is still required.

4.2.3 Research question

Research relating to the first objective returned 12 features of a tax system. After careful analysis of the research literature, the findings of the current study can be summarised as set out below:

1) Twelve features of a tax system can be identified.

2) Income tax and value added tax have evolved over time to remain relevant and important to tax systems around the world.

4.3 LIMITATIONS OF THE STUDY

The most important limitation of the study is the restricted amount of data that was analysed, as the process followed for the systematised review only resulted in 54 articles to be included for the purposes of this study. The researcher had limited access to databases, as only the databases that the University of Pretoria has access to could be used. However, this limitation does not necessarily compromise the outcome of the study due to the descriptive nature of the study and the fact that the research was not aimed at generalising any conclusions reached.

A further limitation was the selection of only two features of a tax system for further analysis. This resulted in only the evolution of income tax and VAT being considered for the current study. The inclusion of only two features is justified by the fact that an in-depth exploration could be made of the history of each tax type: when it was first introduced, by whom it was introduced, what led to the introduction and implementation of that tax feature, and the evolvement of the tax feature.

4.4 RECOMMENDATIONS FOR FUTURE RESEARCH

This study provides a basis for future research as the study is but a mere introduction into exploring the features of a tax system. The study reached conclusions by focussing on a limited amount of literature. Using a wider literature range, many other aspects around the research question can be interpreted and explored. Below are some suggestions for future research to follow from this study.

A more comprehensive study could be conducted on all the identified tax features and how they have evolved over time. This would provide a better understanding of the features that remain relevant for current tax systems. The findings of the current study could be used to compare the tax features of developed countries versus developing countries. The history of a particular feature, reasons for its implementation and how the feature has evolved over time could show whether the developed and developing world should focus on different tax features.

4.5 CONCLUDING REMARKS

Chapter 1 of this study provides the background and rationale for the research and sets out the two research objectives. In fulfilling these objectives, the study systematically reviews the literature relating to the different features of a tax system as well as how two of the features of a tax system have evolved over time. This study may be used as a basis for other studies to consider tax features and their evolvement (refer to the recommendations for future research in section 4.4).

Chapter 2 encapsulates the theory and the steps of a systematic review by exploring the different research designs and methodologies and applying them to the current study. The chapter also provides detail on the research design as well as the research methodology used in the study. The research methodology includes a detailed analysis of the process followed to find and select literature for further consideration in the current study.

Chapter 3 encompasses the detail of the research done to be able to conclude on the research question. The first section of the chapter focusses on identifying the features of a tax system, the second section elaborates on the selection process to determine the two features for further analysis, while the third section provides the actual analysis of how the two features of a tax system have evolved over time. Chapter 3 concludes that, based on the analysis of previous literature, the following can be deduced:

1) Twelve features of a tax system can be distinguished.

2) Income tax and value added tax have evolved over time to remain relevant and important to tax systems around the world.

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