

**THE IMPACT OF TAX SYSTEMS ON THE BUSINESS CONTINUITY OF SMALL  
MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA**

**by**

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# ABSTRACT

## THE IMPACT OF TAX SYSTEMS ON THE BUSINESS CONTINUITY OF SMALL MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA

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### **Background:**

South Africa's tax systems have been put in place to obtain contributions from citizens to help the government provide for the needs of society. These needs include the reduction of poverty and unemployment, which is the reason taxes are used to promote investment in small, micro and medium enterprises (SMMEs). SMMEs help the government reduce unemployment and poverty.

### **Main purpose of study:**

The main purpose of this study was to determine the impact of the tax systems on the sustainability of South African SMMEs. This study performed an analysis of literature to respond to and present the findings in an effective manner.

### **Method:**

This study used a qualitative methodology with a systematised review to deliver trustworthy findings about the impact of the tax system on the sustainability of South African SMMEs. The study adopted a pragmatic philosophical stance and gathered information from existing journals.

### **Findings:**

The study reveals that taxes have a negative impact on the sustainability of SMMEs in South Africa. Taxes have been proven to increase compliance costs and to require time to

complete forms, submissions and disputes of returns; acquire new knowledge; or consult with experts.

**Conclusions:**

The research papers included in the literature review make it clear that taxes have a negative impact on the sustainability of South African SMMEs. A more comprehensive study is necessary to establish why 90% of SMMEs in South Africa terminate within the first 10 years of operation. However, one reason may be compliance costs arising from tax.

## TABLE OF CONTENTS

ACKNOWLEDGEMENTS	i
ABSTRACT	iii
TABLE OF CONTENTS	v
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS AND ACRONYMS	xi
CHAPTER 1 INTRODUCTION	1
1.1    BACKGROUND	1
1.2    RATIONALE FOR THE STUDY	1
1.3    RESEARCH OBJECTIVE	2
1.4    RESEARCH DESIGN AND METHODOLOGY	2
1.5    MAIN CONSTRUCTS OF THIS STUDY	2
1.5.1    Tax reliefs	3
1.5.2    Tax burdens	4
1.5.3    Knowledge of owners	4
1.5.4    Tax compliance	5
1.6    STRUCTURE OF THE MINI-DISSERTATION	5
1.6.1    Chapter 1: Introduction	6
1.6.2    Chapter 2: Research design and methodology	6
1.6.3    Chapter 3: Data analysis and results	6
1.6.4    Chapter 4: Conclusion	6
CHAPTER 2 RESEARCH DESIGN AND METHODOLOGY	7
2.1    INTRODUCTION	7
2.2    RESEARCH DESIGN	7
2.2.1    Philosophical stance of the study	7
2.2.2    The nature of the study	9
2.2.3    Reasoning methods	9
2.2.4    Time horizon of the study	10
2.2.5    Unit of analysis	10
2.2.6    Types of data	11
2.2.7    Sources of data	12
2.3    RESEARCH METHODOLOGY	12

2.3.1	Methodological classification	12
2.3.2	Systematised review of the literature	13
2.3.3	Data collection technique	14
2.3.3.1	<i>Keywords</i>	15
2.3.3.2	<i>Search criteria</i>	15
2.3.3.3	<i>Recording of selected academic papers</i>	16
2.3.4	Quality assessment of the data	16
2.3.5	Summarised overview of data collected and quality assessment	17
2.4	CONCLUSION	18
CHAPTER 3 DATA ANALYSIS AND RESULTS		19
3.1	INTRODUCTION	19
3.2	DATA ANALYSIS TECHNIQUE	19
3.3	PRESENTATION AND DISCUSSION OF RESULTS	20
3.3.1	Causes of SMME failures	20
3.3.1.1	<i>Lack of adequate training and education</i>	21
3.3.1.2	<i>Finance and growth</i>	21
3.3.1.3	<i>Compliance with regulation and costs relating thereto</i>	22
3.3.1.4	<i>Political legitimacy, including tax evasion</i>	22
3.3.1.5	<i>Inadequate network, power failure and lack of risk mitigation</i>	22
3.3.1.6	<i>Access to tax training and knowledge</i>	22
3.3.1.7	<i>Tax reliefs</i>	23
3.3.1.8	<i>Record keeping</i>	23
3.3.1.9	<i>Management practices, accountability and transparency</i>	23
3.3.1.10	<i>Appreciation of business fundamentals</i>	23
3.3.1.11	<i>Risk management strategy</i>	23
3.3.1.12	<i>Conversion of tacit knowledge into explicit knowledge</i>	24
3.3.1.13	<i>Reduction of incidents of system failure</i>	24
3.3.1.14	<i>Municipality service delivery</i>	24
3.3.1.15	<i>Economic deterrent theory</i>	24
3.3.2	Factors impacting SMMEs' tax compliance	24
3.3.2.1	<i>Complexity, time consumption and cost</i>	25
3.3.2.2	<i>Financial literacy education</i>	26
3.3.2.3	<i>Economic deterrence and wider behaviour theory</i>	26
3.3.2.4	<i>Monitoring and enforcement</i>	27

3.3.2.5	<i>Resource availability and utilisation</i>	27
3.3.2.6	<i>Transparency and credibility</i>	27
3.3.2.7	<i>Technical and administrative</i>	28
3.3.2.8	<i>Societal pressure and expectations of conformity</i>	28
3.3.2.9	<i>Development and business growth</i>	28
3.3.2.10	<i>Equality</i>	28
3.3.2.11	<i>Mentorship</i>	28
3.3.2.12	<i>Compliance requirements simplification</i>	29
3.3.3	<i>Tax burdens of SMMEs</i>	29
3.3.3.1	<i>Administrative costs</i>	30
3.3.3.2	<i>Skills and competence</i>	30
3.3.3.3	<i>Uneven distribution</i>	31
3.3.3.4	<i>Complex legislation and corruption</i>	31
3.3.3.5	<i>Parochial interest</i>	31
3.3.3.6	<i>Urban centralised policies</i>	32
3.3.3.7	<i>Purchase power and employment</i>	32
3.3.3.8	<i>Trade-off theory</i>	32
3.3.3.9	<i>Single payment</i>	32
3.3.3.10	<i>Business records</i>	32
3.3.3.11	<i>No tax-linked burden</i>	32
3.3.4	<i>Tax benefits</i>	33
3.3.4.1	<i>Fiscal exchange tax compliance</i>	34
3.3.4.2	<i>Access to finance, business opportunity and compliance</i>	35
3.3.4.3	<i>Job creation</i>	35
3.3.4.4	<i>Different tax rates</i>	35
3.3.4.5	<i>Adaptive strategy changes</i>	35
3.3.4.6	<i>Reduction in administration, compliance and administration costs</i>	36
3.3.4.7	<i>Bankruptcy reduction</i>	36
3.3.4.8	<i>Industry specific, 11th Schedule</i>	36
3.3.4.9	<i>Benefits theory</i>	36
3.3.4.10	<i>Single tax, simplified record keeping, and reduced returns</i>	36
3.3.4.11	<i>Enhanced decision making and increased productivity</i>	36
3.3.4.12	<i>Tax relief measures</i>	37
3.3.4.13	<i>Tax free</i>	37



3.3.4.14	<i>No tax-linked benefit</i>	37
3.3.5	Discussion of findings	37
3.3.5.1	<i>Causes of failure</i>	37
3.3.5.2	<i>Impact of tax compliance</i>	39
3.3.5.3	<i>Tax burdens</i>	40
3.3.5.4	<i>Tax benefits</i>	42
3.3.5.5	<i>Other impacts</i>	44
3.3.6	Research designs and methodologies	44
3.3.6.1	<i>Variables</i>	45
3.3.6.2	<i>Methodological classification</i>	45
3.3.6.3	<i>Research strategies</i>	46
3.3.6.4	<i>Data collection techniques</i>	47
3.3.6.5	<i>Data analysis techniques</i>	48
3.4	SUMMARY	48
CHAPTER 4	CONCLUSION	50
4.1	INTRODUCTION	50
4.2	SUMMARY OF FINDINGS AND CONCLUSION	50
4.2.1	Causes of SMMEs' failure	50
4.2.2	Factors that impact SMMEs' tax compliance	51
4.2.3	Tax burden of SMMEs	51
4.2.4	Tax benefits available to SMMEs	52
4.2.5	Conclusion	52
4.3	LIMITATIONS	53
4.4	FUTURE RESEARCH	53
4.5	CONCLUDING REMARKS	54
LIST OF REFERENCES		55
APPENDIX A	LIST OF SELECTED QUALITY ACADEMIC PUBLICATIONS	64
APPENDIX B	DECLARATION OF PLAGARISM	69
APPENDIX C	LETTER FROM LANGUAGE EDITOR	71

## LIST OF TABLES

Table 1: Abbreviations and acronyms used in this document .....	xi
Table 2: Keywords .....	15
Table 3: Quality assessment results .....	17
Table 4: Causes for SMME failures .....	20
Table 5: Factors impacting compliance .....	25
Table 6: Different tax burdens faced by SMMEs .....	29
Table 7: Tax benefits .....	33
Table 8: Secondary findings .....	44
Table 9: Nature of study .....	45
Table 10: Methodological classification .....	46
Table 11: Research strategy .....	46
Table 12: Data collection techniques .....	47
Table 13: Data analysis techniques .....	48

## LIST OF FIGURES

Figure 1: Quality assessment: Summary of results .....	18
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## LIST OF ABBREVIATIONS AND ACRONYMS

**Table 1: Abbreviations and acronyms used in this document**

<b>Abbreviation</b>	<b>Meaning</b>
ABDC	Australian Business Deans Council
BBBEE	Broad Based Black Economic Empowerment
SARS	South African Revenue Services
SEDA	Small Enterprise Development Agency
SETA	Sector Education and Training Authority
SME	Small and Medium-sized Enterprise
SMME	Small, Micro and Medium Enterprise
The Act	The Income Tax Act number 58 of 1962
VAT	Value-Added Tax

# CHAPTER 1

## INTRODUCTION

### 1.1 BACKGROUND

The South African income tax system attempts to promote investments in small, micro and medium enterprises (SMMEs) through aspects such as the turnover tax and the tax on small business corporations (Labuschagne, 2018:1). SMMEs can get support from organisations such as the National Youth Development Agency, which provides financial and non-financial assistance to youth, and the Small Enterprise Development Agency (SEDA). In 2019, there were 2,55 million SMMEs in South Africa that employed approximately 10,6 million people, including its owners, which is 66% of the employed in South Africa (SEDA, 2019:6). However, “even with the attempts to promote investments in SMMEs, it is estimated that only 10% of SMMEs continue to exist beyond the tenth year from the year in which they were established” (Bushe, 2019:1). What causes SSMEs to fail if there are so many incentives available to them?

### 1.2 RATIONALE FOR THE STUDY

Tax incentives are used to promote behaviour such as investment in SMMEs. According to Wang and Kesan (2018:1), tax incentives are used in China to impact the level of innovation. Pillay (2019:1) found that amendments to Broad Based Black Economic Empowerment (BBBEE) codes had an adverse impact on SMMEs as their BBBEE rating levels declined and this resulted in them struggling to arrange financing. These studies show how tax incentives can be used to direct behaviour, but they do not link the tax burden of SMMEs (leading to the equity of tax) to the tax benefits received by SMMEs (stemming from the fairness of tax). Studies by Mwendu, Muturi and Njeru (2019:72) discovered that there is a correlation between easy access to finance and the continuity of a SMME. However, although these studies assesses how access to finance impacts business continuity, they do not consider other factors that may impact business continuity, such as the tax burden on SMMEs and the tax benefits afforded to SMMEs.

Therefore, the aim of this study is to evaluate the relationship between the tax benefits available to SMMEs and SMMEs' tax burden as reasons for continuity.

### **1.3 RESEARCH OBJECTIVE**

The main research objective of this study is to systematically explore existing literature related to the impact of tax on the sustainability of SMMEs in South Africa by focusing on recently published selected research. The secondary objectives are:

- To determine the ways in which tax affects the success and failure rates (continuity) of SMMEs.
- To analyse whether there is a relationship between the tax benefits available to SMMEs and the tax burden of SMMEs.

The research focus of this study is directed by the following research questions:

- What are the major causes of SMME failures?
- Which factors are impacting SMMEs' ability to comply with tax requirements?
- What are the tax burdens of SMMEs in South Africa?
- What tax benefits are available to SMMEs in South Africa?

### **1.4 RESEARCH DESIGN AND METHODOLOGY**

Kumar (2019:94) regards research design as a plan, structure and strategy that allow the researcher to answer the research questions and problems. In this study, the researcher adopted the pragmatic philosophical stance to answer the research questions in section 1.3. Information for the study was gathered from existing journals and studied in depth to challenge existing beliefs and what makes them valid in an attempt to obtain a reliable solution, which may be useful in updating the use of tax to drive investors' behaviour in SMMEs and to obtain an understanding of what causes SMMEs to fail. This study adopted a correlative qualitative methodology using a systematised review to establish reliable results. According to Noble and Smith (2018:40), a systematic review studies, summarises and combines data from relevant studies to provide reliable results.

### **1.5 MAIN CONSTRUCTS OF THIS STUDY**

According to Wolgemuth, Hicks and Agosto (2017:134), construct analysis examines existing but not yet extensively explored or otherwise still concealed meanings related to research information. This research examines latent meanings that relate to the tax impact

on SMMEs in South Africa by assessing constructs that unravel how a business tax charge can impact a business' ability to grow. The main constructs assessed in this research are tax reliefs, tax burdens, knowledge of owners and tax compliance.

### **1.5.1 Tax reliefs**

According to Stols (2014:1), SMMEs in South Africa obtain tax reliefs in the form of an accelerated allowance by means of section 12E, the turnover-based tax obtained in the 6<sup>th</sup> Schedule and paragraph 57 of the 8<sup>th</sup> Schedule, derived from the Income Tax Act, No. 58 of 1962 (henceforth referred to as 'The Act').

Section 12E of The Act allows a deduction of the total cost of a plant or machinery used by a small business corporation for the purpose of manufacturing. The definition of small business corporations in section 12E includes the following:

“Any close corporation or cooperative or any private company as defined in section 1 of the Companies Act or a personal liability company as contemplated in section 8 (2) (c) of the Companies Act if at all times during the year of assessment all the holders of shares in that company, cooperative, close corporation or personal liability company are natural persons.” (Income Tax Act, No. 58 of 1962)

Although Stols (2014:45) acknowledges the positive impact of the accelerated allowance, they suggest that the gross income requirement in the definition should be adjusted to accommodate inflationary changes. This is also supported by Heiriss (2018:40). It appears that there may be shortcomings in the requirements for an entity to benefit from section 12E relief. These shortcomings will be explored to identify how they impact SMMEs.

According to Schutte, Labuschagne, Georgescu and Pop (2019:62), turnover tax was introduced to provide relief to SMMEs that qualify as micro enterprises by reducing their burden by reducing their normal tax, capital gains tax and dividends tax regulations. The 6<sup>th</sup> Schedule of The Act provides relief to persons, whether a natural person, deceased or an insolvent estate of a natural person, or a company, that has a qualifying turnover of less than R1 million. Labuschagne (2018:10) argues that it is possible for the turnover-based tax to be a burden to the taxpayer instead of providing relief as taxpayers are expected to pay taxes even when they do not make a profit. The impact of tax as a result of an

SMME's decision to register or not to register as a micro enterprise will be assessed to obtain meaningful information.

Paragraph 57 in the 8<sup>th</sup> Schedule of The Act allows a natural person to disregard all capital gains made on the disposal of active assets of a small business. The capital gains may not exceed R1,8 million during the entire life of that person and any excess to R1,8 million will be taxable. The Act requires all these active assets to be sold within 24 months from the date of the sale of the first active asset. According to Ndlovu (2016:39), a taxpayer may only opt for this paragraph 57 relief if they have decided not to register for the turnover-based tax in the 6<sup>th</sup> Schedule. It is imperative to weigh the two options alongside each other to establish the impact they have on SMMEs.

### **1.5.2 Tax burdens**

Mungwana-Zake (2018:3) claims the tax burden in South Africa is not evenly distributed as there are informal entities that should be registered taxpayers and pay tax, but that do not pay tax, which leaves the formal entities to carry the burden. In relation to informal enterprises, taxpayers are liable for the tax burden on their own account as natural persons, which may expose them to a greater tax burden than if they had registered companies. It is possible that a taxpayer that would have had tax liabilities calculated to a maximum of 28% are now charged tax on the natural person's progressive tax table at 45%, the highest tax bracket. Chauke and Sebola (2016:85) contest the notion of uneven distribution of the tax burden by placing the burden on government to reduce this uneven spread of the tax burden. The government may exert their power and push informal traders to register as companies and ultimately register for tax. This research considers the implications of the two possibilities: The unequal distribution of the tax burden and enforcement by the government to ensure compliance and fair payment.

### **1.5.3 Knowledge of owners**

Myeko and Madikane (2019:3) believe that most SMME owners do not consider record keeping crucial to determining the continued operation of a business. It may be expected that an entity that cannot assess its ability to continue operating beyond the foreseeable future is set up for failure. An owner's lack of knowledge about record keeping relates to their knowledge about their tax responsibilities, since a business owner cannot be



expected to comply with tax information record keeping if they fail to record information that relates to their own survival. Okem (2016:63) believes that lacking a particular specialised skill is not sufficient to conclude that an entity may fail because an entity may obtain knowledge from other similar entities operating within a similar environment and may rely on a readily accessible network that may share information with the entity in question. Although this is a consideration for this study, it is possible that organisations within the same network cycle may all lack a particular specialised skill, and increasing the number of SMME owners in a network cycle does not necessarily mean that the lack of knowledge and skill will be reduced.

#### **1.5.4 Tax compliance**

Naicker and Rajaram (2019:103) are of the opinion that without an understanding of the consequences of non-compliances with tax laws and the ability to discharge the responsibility to comply, SMMEs cannot be expected to pay taxes. This suggests that SMME owners may not pay taxes because they do not recognise the need to do so or they do not understand the punishment for not paying. Debeila (2018:51) believes that SMMEs are faced with many laws and regulations that consume their scarce resources, placing a major strain on SMMEs. SMMEs battle with resources, especially in the early stages of business development when there are major challenges to business continuity. One challenge is time, which must be used effectively and efficiently to successfully operate a business, that must now be used for tax compliance, which is a non-compensating activity. It is argued that almost 51% of SMMEs consider the time spent on tax compliance as very expensive because this time is spent on paying taxes on time, dealing with South African Revenue Services (SARS), and preparing and submitting returns (Naicker & Rajaram, 2019:108).

### **1.6 STRUCTURE OF THE MINI-DISSERTATION**

This research is a mini-dissertation that discusses the findings related to the impact of South African taxes on SMMEs in four chapters. The following sections provide a summary of the structure of each chapter.

### **1.6.1 Chapter 1: Introduction**

This chapter introduced the topic by providing the background and the rationale of the study, which discussed the current research topic in relation to existing research to justify the relevance of this study. The objective of the research was stated and the research questions that are important to solving the research problem were provided. This was followed by a discussion of the main constructs of the research and a summary of the structure of the mini-dissertation.

### **1.6.2 Chapter 2: Research design and methodology**

Chapter 2 explains the careful selection process and procedures used to obtain useful data for this research. It discusses and justifies the research design. This is followed by a discussion of the research methodology and a conclusion summarising the chapter.

### **1.6.3 Chapter 3: Data analysis and results**

In this chapter, the researcher explains the different types of data analysis that can be used in research and provides an overview of the selection of the applicable data analysis techniques used in this research. In addition, Chapter 3 presents the findings obtained from applying the chosen analysis technique and documents information about causes for SMME failure, factors impacting compliance, different tax burdens faced by SMMEs and the tax benefits available to SMMEs.

### **1.6.4 Chapter 4: Conclusion**

In this chapter the researcher concludes the research by providing a summary of the findings from the literature review and a conclusion on the findings. In addition, the limitations of this research are explored, creating a pathway for future research relating to this topic and making recommendations about gaps in the knowledge that may be explored.

## **CHAPTER 2**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **2.1 INTRODUCTION**

In the previous chapter, the researcher introduced the research topic by providing the background and rationale. To achieve this, the researcher discussed some existing studies to establish where this research fits into the current body of literature. In this chapter, the researcher elaborates on the concept of the research design and methodology by providing an in-depth explanation for their choice of design and methodology. The researcher also explains each chosen design element.

#### **2.2 RESEARCH DESIGN**

Kumar (2019:94) declares that a research design is necessary to choose the processes the researcher plans to follow that will lead to valid, objective, and accurate responses to the research questions and to ensure the research is done in an economic manner. This section discusses the procedures that were followed to answer the research questions and to adhere to the research objectives. Kumar (2019:94) further states that the research design determines how the researcher will communicate with others; how the study is composed; where they will collect data; how they will collect data; how the data will be analysed after collection; and how they will communicate their findings after the data analysis. Therefore, the methods, platforms and types of data used in this research, and how that information was obtained, included, excluded and analysed to achieve and communicate the findings are discussed in the following subsections.

##### **2.2.1 Philosophical stance of the study**

Moon *et al.* (2019:296) describe research philosophy as a system of approach derived from the researcher's previous knowledge, which influences how the researcher thinks and sees reality. This system of approach informs the direction a researcher will take when analysing data and information to arrive at the findings relating to their research. The following philosophies were considered for this research:

- Positivism: This philosophical stance is common for quantitative researchers as it involves experimenting (Ryan, 2018:4). It is the believe that reality is the same for

every person and that knowledge should be objective and free from bias. Positivists believe that what is observed by the researcher is true for everyone and cannot be interpreted differently. These researchers use logic and reason to validate knowledge gathered using the five senses of sight, smell, sound, taste and touch (Brough, 2018:86).

- Realism: Ryan (2018:10) refers to realism as 'critical theory' and explains that it takes the position of challenging existing beliefs and what makes them valid, thus standing between positivism and interpretivism. Realism observes social events and extracts knowledge from them by relying on observable evidence and with the intention to interpret the social events in a way that the results can be understood and acted upon (Walliman, 2017:39). As an example, realism would be useful in an environment where there is an existing vaccine for a tough flu and the researcher uses their knowledge on the flu and the existing vaccine to find new information that may lead to further improvements to the existing vaccine.
- Interpretivism: This philosophical stance focuses on the researcher instead of the researched object and the outcome of the research is influenced by the researcher's existing ideas, concepts and language (Brough, 2018:86). It could, for example, be used if a tax lecturer assesses how students may perform on an assessment using their experience, knowledge and perceptions about the topic being assessed. Interpretivists believe knowledge is subjective and based on an individual's history, experience and culture (Ryan, 2018:8).
- Pragmatism: This philosophical stance links action to change and studies the effect of action on knowledge (Goldkuhl, 2012:2). Brough (2018:15) provides two examples of pragmatism. The first is a tale of a dog trying to figure out where its master goes when they leave the dog at home and the second is the tale of a dog trying to figure out where its master will take it when the master takes the dog with them. In both instances the dog relies on previous experiences. Pragmatism studies an event or occurrence of any nature and links it to what the researcher already knows in attempt to create a hypothesis results.

This research followed the pragmatic philosophical stance because it studied the existing reality of how the tax system in South Africa impacts the ability of the SMMEs to continue operating for the foreseeable future while assessing factors that make these beliefs valid.

### **2.2.2 The nature of the study**

According to Freshwater (2019:1), it is crucial to determine the most appropriate nature of the study to respond to the research questions and reach the research objective. The nature of the study determines what type of data will be used and how this data will be analysed. If this is not done correctly, the research may be performed in a less economical manner and cost the researcher time and other resources.

The nature of research can be described as historical, descriptive or experimental. Historical research provides tools to develop new theories or sometimes modify and test existing theories by using existing knowledge and applying it to emerging conditions similar to what previously existed (Argyres *et al.*, 2019:6). Descriptive research collects traceable data and ensures it remains traceable throughout the study and performs in-depth analysis on the data to extract common and contrasting data to draw conclusions (Willis, Sullivan-Bolyai, Knafl & Cohen, 2016:1195). Experimental research uses research questions and hypotheses by analysing and interpreting data and performing experiments to validate or reject the hypotheses (Orero *et al.*, 2018:108).

This study followed the descriptive method and used traceable data in the form of published research journals. These journals were studied to identify common and dissimilar data to deduce findings by evaluating contrasting facts.

### **2.2.3 Reasoning methods**

The researcher considered the following three reasoning methods for this research:

- Inductive: In this research method, the researcher relies on past experience and knowledge to analyse the current data and formulate a conclusion by generalising and matching the data to pre-constructed sets of rules or beliefs (Walliman, 2017:17).
- Deductive: In this research method, the researcher starts from the premise of general knowledge and compares the data presented to the general knowledge to arrive at a conclusion, which may either prove their understanding or logically disprove it (Walliman, 2017:19).
- Abductive: This research method is also referred to as the scientific method and combines the inductive and deductive approach by using past experience and

knowledge and general knowledge to analyse and interpret data (Walliman, 2017:19).

The researcher chose the inductive reasoning method to analyse the data in this research and arrive at the most relevant, useful conclusion. The researcher used existing knowledge as the starting point for the research and then compared the current data with general knowledge.

#### **2.2.4 Time horizon of the study**

According to Kim *et al.*(2017:2), time horizon refers to the period in which the phenomenon is observed in order to obtain results. This may be split as follows:

- Cross-sectional: Cross-sectional time horizons require the researcher to collect the research information at a single point in time (Kumar, 2019:125). If the studied data does not change over time, a cross-sectional time horizon can be used to study the information at the chosen time.
- Longitudinal: A longitudinal time horizon studies the pattern of change over a period of time (Kumar, 2019:110). This method is relevant in studies where the researcher need to observe data on an ongoing basis.

The cross-sectional time horizon was relevant to this research as it used information about a condition and problem that currently exists.

#### **2.2.5 Unit of analysis**

Kumar (2018:70) explains the unit of analysis as a person or any other item that the data being collected relates to and provides an answer to what or who the researcher is attempting to study. The unit of analysis can be any of the following:

- Individuals: A researcher may study common problems associated with people that belong to the same organisation at the same level to identify whether there are issues that require attention within this group of individuals (Kumar, 2018:72).
- Groups: A group consists of two or more people with common features, and in this level of unit analysis the researcher would study a group to compare certain expectations or a framework to obtain an understanding about a problem or issue in that specific group (Kumar, 2018:73).

- Social artefacts or social interactions: These are objects, institutions, knowledge and other items created by human beings (Kumar, 2018:74).
- Organisations: These are formally structured groups and may include companies, religious organisations, cultural groups, colleges and departments (Kumar, 2018:73).

This study focuses on SMMEs, and thus, the unit of analysis is an organisational group.

### **2.2.6 Types of data**

According to Walliman (2017:73), there are many types of data that can be used in research studies, but the two broad categories are quantitative and qualitative data, which can use either primary or secondary data sources. These two groups are discussed here:

- Quantitative data: This data can be measured accurately and is mostly expressed in numbers. It contains a defined magnitude and the researcher may use mathematical procedures to analyse the data (Walliman, 2017:72). Quantitative data is more specific and well-structured because two people with the same level of knowledge and experience may analyse the same set of data and draw the same conclusions (Kumar, 2018:103). This data can be explicitly defined and recognised.
- Qualitative data: This data is commonly expressed in words, such as human activities and behaviour, which may range from beliefs, activities, ideas and customs (Walliman, 2017:72). Unlike quantitative data, qualitative data lacks attributes of reliability and being specific or has less of these attributes (Kumar, 2018:103).

This study used qualitative data to study data expressed in words by assessing available data on the tax systems and their impact on the business continuity of SMMEs in South Africa. Although quantitative information was used in the research, for example, to calculate the number of SMME failures over the period of the study, it did not have a major impact on the findings of the study. Therefore, the type of data will be regarded as qualitative in nature.

### **2.2.7 Sources of data**

Sources of data entail where the data used in the research was obtained and how it was obtained. This is explained below:

- Primary data: This is data that is collected through direct experience and includes sights, sounds, tastes and other tactile things (Walliman, 2017:70). This is data obtained by the researcher in their own capacity by conducting interviews, surveys, observations and questionnaires (Kumar, 2018:137).
- Secondary data: This is data that is accessed via sources where other people's experiences are captured, interpreted and recorded (Walliman, 2017:70). This data is obtained from existing platforms such as online sources (Google Scholar), mass media outputs, textbooks, books from the library, officially published documents from entities, industry journals or other published documents (Walliman, 2017:83).

This research used secondary data obtained online by searching through Google Scholar, using the following key words: SMMEs performance, SMMEs failures, SMMEs taxes, equity of taxes and fairness of taxes.

## **2.3 RESEARCH METHODOLOGY**

Moon *et al.* (2019:296) state that the research question shapes the researcher's decisions about what they want to do and how they will achieve this, thus influencing the research design. This is different from the research method, which represents actions taken by the researcher, in essence, what the researcher does. The research methodology followed in this study is a systematic literature review. The aspects of the research methodology are discussed in the following subsections.

### **2.3.1 Methodological classification**

Data collection methods are categorised by their characteristics and not by the sources from which the data was taken, and therefore, it is categorised by whether the data can be converted to numbers because that is the best format in which to analyse it or whether it can only be expressed in words (Walliman, 2017:71). This denotes the classification of data that can be quantitative, qualitative or mixed methods. These classifications are explained below:



- Quantitative data: Researchers believe there is an objective reality that exists independent of any influence, including the researcher's attempt to study it and therefore the researcher aims to study the fact pattern to obtain new knowledge using a deductive reasoning method (Almalki, 2016:290).
- Qualitative data: This type of data is a useful tool to explore and understand knowledge from the perspective of other individuals or groups of individuals who have already investigated a topic. It gives the researcher the ability to draw their own specific context from the experience and the opinions of others using an inductive reasoning method (Almalki, 2016:291).
- Mixed methods: This combines elements of quantitative and qualitative data, compensating for inherent limitations and using the inherent strengths of each classification. This gives the researcher a greater degree of understanding than if a single method was used as the researcher collects and analyses the data in a sequentially or/and simultaneously manner to integrate the data (Almalki, 2016:291).

This research draws from the knowledge gathered by other researchers who have already investigated the impact of South African tax on SMMEs, thus the researcher opted to use a qualitative data collection method.

### **2.3.2 Systematised review of the literature**

Munn *et al.* (2018:3) describe a systematic literature review as a type of research where a researcher with specialised skills identify and retrieve evidence that is foreign to their existing knowledge in order to use the new knowledge to formulate a response to existing questions. In other words, they evaluate multiple solutions that are retrieved from foreign sources to provide a singular usable solution that may assist in formulating future practices, policies and further research. In this study, the researcher extracted information from around the world and from within South Africa to obtain a new understanding of the impact of tax on the business continuity of SMMEs. Boland, Cherry and Dickson (2017:2) add that a systematic review provides traceable responses that are useful, in combination with professional judgement, in providing the best ways to facilitate improvements in practices, policies and further research. This research aimed to obtain ways to inform policies, practice and research on the impact that South African taxes have on the

business continuity of SMMEs from existing international research to offer a singular usable solution to respond to the problem in South Africa.

A systematic review can be done in the following ways:

- Critical systematic review: Multiple methods are used to identify research papers in a manner that reduces selection bias by extracting a wider range of data from a selected pool. No guided quality assessment is done. (Miskowiak *et al.*, 2017:19).
- Integrative reviews: This explores the research topic in a wider sense to identify differences in the opinions of researchers to advance the specific research question using traceable results (Gilbert *et al.*, 2019:3).
- Meta-analysis: This is a useful tool when there is as little or even no existing data to use to formulate a hypothesis ('empty synthesis') that can be used to identify gaps of knowledge in the researcher's field (Cooper, Hedges & Valentines, 2019:12).
- Meta-synthesis: This is a procedure of reviewing and aggregating responses from qualitative studies with little regard for the quality of the data (Katsakou & Pistrang, 2018:4).
- Mapping reviews: This is a systematic method to identify, screen and code studies, even though the studies themselves are not a systematic review as they do not assess the quality of data or the effectiveness of the research (Chambers, Cantrell & Booth, 2020:15).
- Systematised literature review: This type of review is limited as it does not aim to include all the available information, even though it provides a structured review of very broad literature that has been weakly produced without seeking to synthesise everything that has been written about a specific subject (Clarke & Crane, 2018:304).

This research uses a systematised literature review by collecting secondary data and assessing its quality and its ability to shape a response to the research questions.

### **2.3.3 Data collection technique**

Data in this research was obtained using Google Scholar. The setting for Google Scholar was updated to enlarge the database. To do this, the researcher clicked on the library tab on the home page of the University of Pretoria's website, and a list of commands appeared

that included Google Scholar. The researcher clicked on *Google Scholar* and search engine options appeared, and the researcher selected EBSCO @UP and University of Pretoria ProQuest Fulltext. The search engine was used to obtain high quality, academic research papers that could help the researcher answer the research questions effectively.

### 2.3.3.1 Keywords

The researcher used keywords to identify relevant data for this research, to extract data to include in the research, and to formulate a way to exclude data that was not helpful in responding to the research questions. These keywords were formulated from the title of the research and the research questions to ensure alignment between what the research attempted to resolve and the work performed. Table 2 provides the keywords used in the Google Scholar search.

**Table 2: Keywords**

Independent Words	Dependent Words		
	Broader Terms	Narrower Terms	Similar Terms
South Africa SMMEs	Sustainability Equity Fairness Forms of taxes	Business continuity Impact of tax Tax burdens Benefits of tax	Continued operation Success Consequences of tax Weight of tax Advantages

Table 2 contains the keywords used by the researcher, and the first column shows independent words, which are words that were common in every search and thus complemented each dependent word included in a search. The second column (further divided into three columns for broader terms, narrower terms and similar terms) shows depended words, which are words that changed in each search to increase the pool from which data could be extracted.

### 2.3.3.2 Search criteria

The keywords were used to extract research papers. Peer reviewed articles published in scholarly journals and post-graduate research were used. A selection process was maintained to ensure that only data relevant to the research questions was used to help

the researcher achieve the research objectives. The research criteria included the following inclusion and exclusion criteria:

Inclusion criteria:

- Year: Recent studies, not older than 5 years, were assessed to ensure that the information used is relevant to respond to the research problem.
- Country: The focus of the study is South Africa, thus it included SMMEs operating in South Africa.
- Content: Information relating to both SMMEs and Small and Medium-Sized Enterprises (SMEs) was included as different researchers use the phrase or acronym differently to refer to the same form or sets of enterprises.

Exclusion criteria:

- Country: The study aimed to find solutions in the context of South African SMMEs, thus international SMMEs were excluded.
- Content: Content that does not relate to SMMEs business continuity and the burden of taxes on SMMEs were excluded as they may relate to larger scale entities that have different challenges than SMMEs.

#### *2.3.3.3 Recording of selected academic papers*

Journals that did not satisfy the search criteria were placed aside and the included journals were added to Qiqqa. According to the Qiqqa manual (2020:9), Qiqqa helps to organise research by keeping PDFs secure and available when needed; and by ensuring all important information is highlighted and making data easily accessible. This helps the researcher find the data to read next as they perform their research by ensuring that updates of new PDFs to a selected folder are done automatically by the software. Journals that met the search criteria were saved to a folder and included in Qiqqa to ensure there is a reliable record of the data used and that the data is available when needed, providing the researcher with an effective analysis of the data and making reviewing the data easy.

#### **2.3.4 Quality assessment of the data**

The Australian Business Deans Council (ABDC) grades journals in more than 760 different fields of research (Hirschberg & Lye, 2018:2). The ABDC uses a four-scale grading tool to

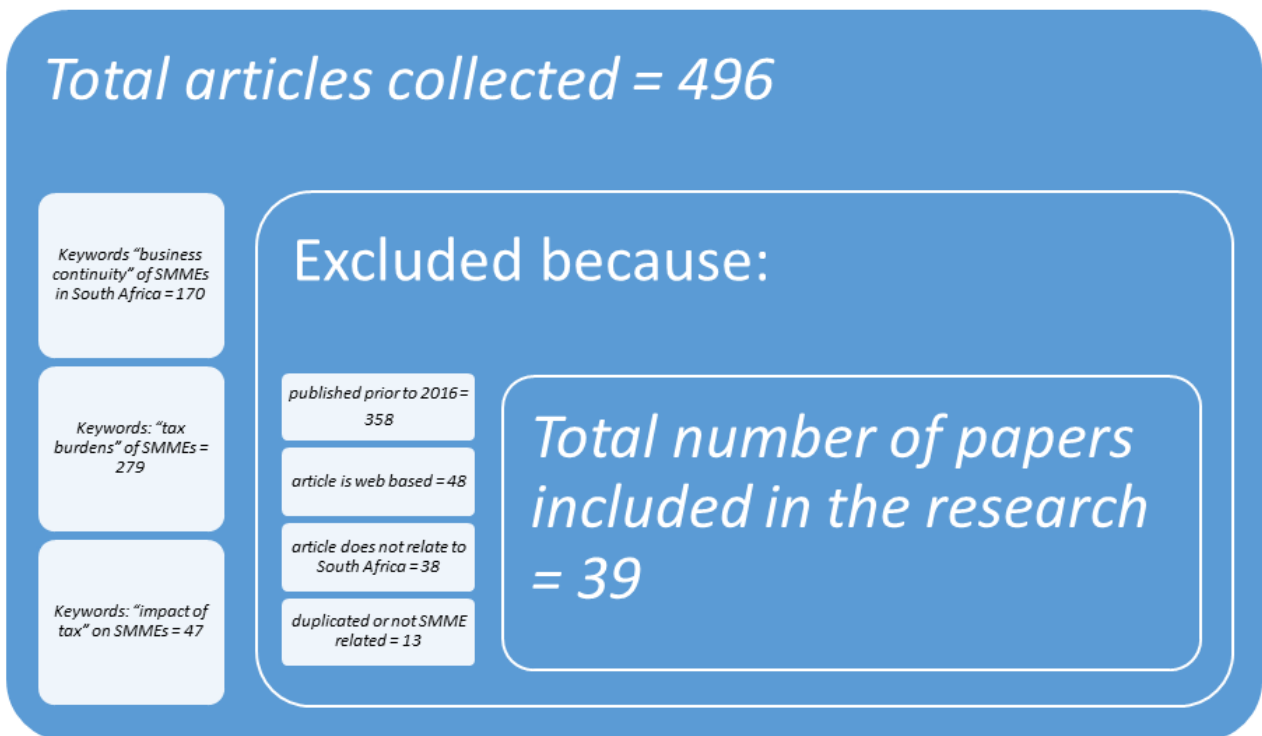
grade each journal published in the ABDC list. According to Hirschberg and Lye (2018:4), this grading can be biased in cases where journals are new, highly specialised, or local and thus not listed in major countries. These journals may not be awarded an A\* rating and therefore not receive the deserved recognition. Glover (2016:18) highlights another shortcoming of the ABDC list by suggesting that the possibilities of achieving the highest ranking is highly influenced by the field on which the journal focuses, for example, journals from the management faculty has a greater chance of making the highest rank than journals in accountancy or finance. Nevertheless, the ABDC list is a journal ranking metric that provides meaningful information and will be used in this research to validate data that may be used to obtain valuable results. The ABDC list was used to validate the academic articles captured on Qiqqa. Table 3 presents the quality assessment of the published journals used in the research.

**Table 3: Quality assessment results**

<b>Name of the Journal</b>	<b>A* Rated</b>	<b>A Rated</b>	<b>B Rated</b>	<b>C Rated</b>	<b>Not Rated</b>	<b>Total Number</b>
South African Journal of Economic and Management Sciences				X		4
African Review of Economic and Sciences				X		4
Theoretical and Applied Economics				X		1
Other					X	30
<b>Totals</b>						<b>39</b>

### **2.3.5 Summarised overview of data collected and quality assessment**

A total of 39 research articles was used to perform the research. Nine of these were articles that were published in journals with a C ranking on the ABDC list, and the rest were published as post-graduate research. Figure 1 illustrates how the researcher arrived at the 39 articles.



**Figure 1: Quality assessment: Summary of results**

## **2.4 CONCLUSION**

A total of 39 research papers were reviewed using a systematised qualitative review to obtain an understanding of the impact taxes in South Africa have on the business continuity of SMMEs. Although most of the papers used were not published in journals rated on the ABDC list, the researcher found the data to be of appropriate quality to be used in the research. This is influenced by the shortcomings of the ABDC list discussed in subsection 2.3.4, where it was pointed out that the ABDC list tends to neglect journals that are new, highly specialised or local, meaning from outside the USA or major European countries, such as the data collected in this research.

## **CHAPTER 3**

### **DATA ANALYSIS AND RESULTS**

#### **3.1 INTRODUCTION**

The previous chapter explained the research design and methodology, including how the 39 research papers were used to analyse the impact of the South African tax system on the continuity of SMMEs. In this analysis, the researcher applied a structured approach and was guided by the selected research design and methodology to ensure that a proper conclusion were reached on the researched topic. This chapter first explains the analysis technique applied and then presents and discusses the analysis of the literature and ends with a conclusion.

#### **3.2 DATA ANALYSIS TECHNIQUE**

According to Walliman (2017:100), secondary data are analysed to assess trends, patterns, developments or repetitions in certain findings. The researcher considered the following techniques to analyse the data:

- **Statistical:** Statistical data analysis can be split into descriptive and inferential analysis. Descriptive analysis illustrates how scattered data is and inferential analysis makes an assumption about the population based on the sample tested. Statistical analysis provides useful information because the researcher assesses relations or numeric data, where large numbers from a pattern may suggest commonly acceptable results in the researched topic (Walliman, 2017:131).
- **Thematic:** Thematic data analysis techniques use information in the form of data and codes. Thematic analysis is useful to code and analyse the themes of recorded qualitative data (Brough, 2018:212).
- **Combined:** It is possible to analyse data by assessing the distribution of results together with the repetition of the same data. A combined technique is useful where the researcher makes an analysis of numeric data and supports findings from the research with results obtained with the thematic technique to enhance the quality of results (Saemi & Honarvar, 2017:40).

In this research, the researcher used a thematic analysis technique to analyse the secondary data.

### 3.3 PRESENTATION AND DISCUSSION OF RESULTS

In this section, the researcher presents the analysis of the literature and presents it in such a way that a conclusion on the impact of taxes on the continuation South African SMMEs can be reached based on the discussion.

#### 3.3.1 Causes of SMME failures

**Research question:** What are the major causes of SMME failures?

Table 4 shows the major causes for SMME failures in South Africa.

**Table 4: Causes for SMME failures**

<b>Causes</b>	<b>Number of Papers</b>
Lack of adequate training and education	9
Finance and growth	6
Compliance with regulation and costs relating thereto	5
Political legitimacy, including tax evasion	4
Inadequate network, power failure and lack of risk mitigation	2
Access to tax training and knowledge	2
Tax reliefs	2
Record keeping	2
Management practices, accountability and transparency	1
Appreciation of business fundamentals	1
Risk management strategy	1
Conversion of tacit knowledge into explicit knowledge	1
Reduction of incidents of system failure	1
Municipality service delivery	1
Economic deterrent theory	1
<b>TOTAL</b>	<b>39</b>

The sources for this table are included in the discussions in the following subsections.



Table 4 provides a breakdown of the different causes that were studied. This knowledge provides the researcher with useful insight to understand the challenges faced by SMMEs.

#### *3.3.1.1 Lack of adequate training and education*

Selepe (2017:507) provides that SMMEs obtain knowledge that may potentially be inaccurate through unreliable sources and they subject themselves to self-training. Tshabalala (2017:18) proposes the inadequate education and training have an impact on the continuity of SMMEs, while Qwebani (2018:62) is of the opinion that high failure rates can be attributed to lack of training and mentoring programmes. Malambe (2016:36) upholds that there is a great lack of skills because of SMMEs' inability to adequately prepare for workplace training. Debeila (2018:51) stated the lack of skills and abilities have a significant impact on the success of SMMEs and that the sustainability of SMMEs depends on this. Derbyshire (2016:19) regards lack of financial education as a cause of business failure as SMMEs do not know how to record transactions and make appropriate decisions. According to Kativhu (2019:79), lack of knowledge and skills means SMMEs cannot respond to challenges, thus leading to their complacency or collapse. Sophocleous (2019:41) asserts that it does not matter how much finance is available to an SMME, if it is not managed by adequately equipped personnel, the business is bound to collapse. Ngibe and Lekhanya (2019:3) regard poor management skills and lack of structure, infrastructure and innovation as major contributors to SMMEs' failure.

#### *3.3.1.2 Finance and growth*

According to Kgatla (2016:35) and Zulu (2017:3), the failure of SMMEs cannot be separated from lack of finance. Dhlomo (2017:145) upholds that because of lack of access to finance, SMMEs tend to stagnate and end up failing. Ndlovu (2016:12) establishes that the reason why SMMEs cannot access finances is the risk associated with these entities. Louw (2018:136) pins the lack of finance for SMMEs to the health issues of the owners and family problems. Titus (2018:26) regards mentoring as a good way to help SMMEs solve their record keeping problems.

### 3.3.1.3 *Compliance with regulation and costs relating thereto*

According to Labuschagne (2018:34), tax compliance is a major cause of SMME failures. Mahohoma (2018:18) also suggests this and states that compliance requirements is an obstacle to SMMEs' growth. Naicker and Rajaram (2019:104) point out that there is an excessive regulatory burden on SMMEs. Ramharak (2017:17) argues that the government's corruption is a cause for SMME failure as it affects the availability of infrastructures and misuses tax revenues. Okem (2016:38) holds that the cost of working with state development agencies is the loss of SMME owners' autonomy.

### 3.3.1.4 *Political legitimacy, including tax evasion*

Ssenyonjo (2019:54) attaches SSME failure to the political legitimacy theory by saying that the nonexistence of appropriate tax incentives for SMMEs have a negative impact on their continuity. Swartz (2019:56) adds that there is more to the political legitimacy theory as some SMMEs are incurring illegal fines. Mungwana-Zake (2018:77) suggests that taxpayers' lack of confidence in the government's ability to provide services leads to SMMEs unwillingness to comply with tax regulations, which may have an adverse effect on their sustainability. Chauke and Sebola (2016:85) argue that there should be a punishment for tax evasion.

### 3.3.1.5 *Inadequate network, power failure and lack of risk mitigation*

Motsilili (2017:14) found that mobile technologies have changed the way business is done and that poor networks or lack of risk mitigation strategies may lead to SMMEs collapsing. According to Pillay (2017:8), South Africa is facing a significant power crisis that will last for many years, impacting all South Africans, including SMMEs that may not have adequate resources to source alternative energy.

### 3.3.1.6 *Access to tax training and knowledge*

Schutte *et al.* (2019:60) regard regulations as burdensome to SMMEs, with the tax legislation being the most challenging. Shiya (2018:56) is of the opinion that SMMEs have insufficient or inadequate tax-related skills and knowledge, which leads to non-compliance.

### 3.3.1.7 *Tax reliefs*

Mogashoa (2017:8) attests that SMMEs may attempt to use debt to reduce their capital costs because of the tax deductibility linked to debt financing, even though using debt to finance their business leads to an inability to repay, ultimately affecting their business continuity. According to Komape (2019:2), government used to levy taxes on foreign goods that were not levied on South African goods in an attempt to protect local goods by ensuring that they are cheaper and preferred. However, government has removed this charge to promote free trade, and this reduction of local business protection may cause SMME failures.

### 3.3.1.8 *Record keeping*

Tom (2018:3) holds that businesses fail because of managements' inability to develop adequate risk management strategies, which leads to using outdated computer hardware and software. Myeko and Madikane (2019:3) argue that a lack of sufficient education leads to an inability to keep accounting and financial records, which is directly linked to SMME failure.

### 3.3.1.9 *Management practices, accountability and transparency*

Rose (2019:17) holds that management behaviour is key to excellent business performance, which is influenced by individual considerations, intellectual stimulation, transparency, and accountability.

### 3.3.1.10 *Appreciation of business fundamentals*

Sibiya (2018:30) regards operating models as a crucial aspect to ensure that SMMEs have direction and can respond to their strategic needs. Without operating models they are destined for failure.

### 3.3.1.11 *Risk management strategy*

Okanga and Drotski (2016:1369) argue that inadequate risk management strategies may lead to SMMEs' failure.

#### 3.3.1.12 *Conversion of tacit knowledge into explicit knowledge*

Ajibade (2016:231) suggests that the failure of SMMEs is directly linked to their inability to convert tacit knowledge into explicit knowledge. They add that there may be only one employee that has the relevant knowledge, and when they leave, the business collapses.

#### 3.3.1.13 *Reduction of incidents of system failure*

Joel and Vyas-Doorgapersad (2019:8) affirm that there are two separate government departments one deals with risks and the other with fraud and corruption to ensure. This is done without intending to resolve the injustice caused by the state departments but as a means of compliance.

#### 3.3.1.14 *Municipality service delivery*

Chauke, Sebola and Mathebula (2017:405) present that municipalities' service delivery has an impact on the attitude of taxpayers and their willingness to pay taxes, taking into account their ability to pay as a result of the income the SMME's have accrued.

#### 3.3.1.15 *Economic deterrent theory*

Makgalemele (2017:60) attributes the reason for business failure to the economic theory, stating that it attributes inadequate transfer of information, which creates barriers for some SMMEs to access the finance they need for their businesses to prosper.

SMMEs are most affected by lack of knowledge and training, which is covered in 23% of the reviewed literature. This means that some SMMEs are established by people that lack the skills, knowledge and training to manage their own business. A further cause of failure is the inability of the entrepreneurs to access funding and establish growth for their enterprises. The cost of non-compliance with laws and regulations can have a devastating effect on the business continuity of SMMEs. These are the three major topics related to SMME failure, representing 51% of the themes identified from the literature.

### **3.3.2 Factors impacting SMMEs' tax compliance**

**Research question:** Which factors are impacting SMMEs' ability to comply with tax requirements?

In assessing the impact of taxes on the sustainability of South African SMMEs, the researcher considered how the requirement to comply may impact performance. Table 5 represents the analysis of the literature regarding the factors impacting compliance.

**Table 5: Factors impacting compliance**

<b>Factors Impacting Compliance</b>	<b>Number of Papers</b>
Complexity, time consumption and cost	9
Financial literacy education	7
Economic deterrence and wider behaviour theory	5
Monitoring and enforcement	4
Resource availability and utilisation	3
Transparency and credibility	2
Technical and administrative	2
Societal pressure and expectations of conformity	2
Development and business growth	2
Equality	1
Mentorship	1
Compliance requirements simplification	1
<b>TOTAL</b>	<b>39</b>

The sources for this table are included in the discussions in the following subsections.

Table 5 shows the different compliance challenges SMMEs face in South Africa. Compliance burdens show what different SMMEs go through. Even though some compliance issues may not deal specifically with taxes in South Africa, they offer guidelines to resolve tax-related compliance issues, and therefore, all the compliance issues will be considered.

### 3.3.2.1 *Complexity, time consumption and cost*

Kativhu (2019:20) confirms that the complexity of tax regulations derails the business continuity of SMMEs. Sibiya (2018:34) is of the opinion that South African taxes greatly impede the continuity SMMEs. Swartz (2019:55) argues that entities ignore compliance requirements and end up incurring additional expenses to rectify errors of initial non-compliance. Ngibe and Lekhanya (2019:10) state that SMMEs lack innovation and a

competitive edge as a result of the high tax compliance costs that consume SMME owners' efforts and time. Kgatla (2016:42) supports that tax laws are complex and that it takes a lot of time to understand it. Tshabalala (2017:56) attests that time consumption and costs have a major influence on business continuity. Louw (2018:65) argues that compliance costs take up time that could have been spent on the continuity of the business. Makgalemele (2017:15) states that the objective of the turnover tax system is to reduce the compliance and administrative burdens on SMMEs. Labuschagne (2018:34) agrees that the turnover tax system is meant to reduce compliance costs.

### 3.3.2.2 *Financial literacy education*

Derbyshire (2016:121) holds that the inability to comply to the tax laws due to SMME owners and managers' lack of financial education. Myeko and Madikane (2019:3) proclaim that lower levels of education raises questions about the level of understanding of tax laws, which deter the ability for SMMEs to comply with regulations. Schutte *et al.* (2019:61) state that most SMMEs do not comply to regulations, including tax laws, because they are not aware of them. Mahohoma (2018:34) argues that SMMEs deliberately keep inaccurate records to reduce their tax obligation and that it has no link to their lack of knowledge and skills. Ndlovu (2016:17) explains that SMMEs avoid registering for tax as a result of the retrospective application of tax laws which require taxpayers to settle liabilities that arose before they were registered taxpayers. Naicker and Rajaram (2019:108) report that most owners spend long hours on tax compliance, which is a major cost to the company, and when the owners are not performing the task, it is handed to key employees who are also expensive. Ajibade (2016:231) expounds that SMMEs fail to comply with laws and regulations as the tax knowledge often belongs to one person, who sometimes retires without passing on the knowledge.

### 3.3.2.3 *Economic deterrence and wider behaviour theory*

Mungwana-Zake (2018:77) relates compliance to active citizen participation based on economic deterrence and wider behaviour theories. Chauke and Sebola (2016:85) state that human beings have a moral fibre that revolves around profit-making and the economic deterrence theory would drive them to compare the cost of complying against the burden of getting caught. Ssenyonjo (2019:61) purports that compliance needs to be enforced by

instituting penalties on non-compliant taxpayers and excluding such taxpayers from any tax incentives. Pillay (2017:8) argues that parastatals such as ESKOM fail major business industries and the economy, including SMMEs, and therefore, it is possible that non-compliance is an illustration of dissatisfaction. Sophocleous (2019:100) upholds that there is great collaboration between SMMEs and the state and that the Microfinance Regulatory Council protects SMMEs from exploitation by financiers.

#### 3.3.2.4 *Monitoring and enforcement*

Joel and Vyas-Doorgapersad (2019:13) suggest that the Department of Trade and Industry has a significant role to play in ensuring compliance, risk assessment, prevention and detection of corruption and fraud, and that if these are well-managed, government agencies will be able to deliver services more efficiently to SMMEs. According to Malambe (2016:37), not enough work is performed to ensure that SMMEs are assisted by the Sector Education and Training Authority (SETA) to obtain adequate training, skills and expertise. According to Chauke *et al.* (2017:406), compliance may be enforced through horizontal equality or vertical equality; however, the enforcement will not be effective if municipalities do not deliver their end of the bargain. Zulu (2017:105) provides that municipal officials acknowledge their responsibility in ensuring SMME sustainability and compliance.

#### 3.3.2.5 *Resource availability and utilisation*

Komape (2019:20) states that resource constraints cause information asymmetry, which may lead SMMEs to lack the ability to compete as necessary and affect compliance. Qwebani (2018:46) states that one of the factors that affect compliance for SMMEs is a lack of adequate resources, leading owners to use what means they have to ensure the survival of their business. Selepe (2017:510) suggests that government may help to establish markets by providing the infrastructure to accommodate business development.

#### 3.3.2.6 *Transparency and credibility*

Mogashoa (2017:10) regards the transparency of SMMEs' accounting record keeping to be a major compliance issue that deters SMMEs from attempting to comply with regulations. Rose (2019:16) holds that leadership behaviour can shape the SMME culture, which determines whether SMMEs will comply with regulations.

### 3.3.2.7 *Technical and administrative*

Shiya (2018:57) suggests that there would be many changes in compliance behaviour if SMMEs accumulate the necessary technical skills and expertise. According to Dhlomo (2017:42), general management skills are necessary to secure resources and access finance and people management skills are essential for employee buy-in; without these the SMME owner is destined for failure.

### 3.3.2.8 *Societal pressure and expectations of conformity*

According to Okem (2016:46), societal pressures tend to enforce compliance and conformity. Ramharak (2017:17) explains that it would be difficult for SMMEs not to comply with regulations if the state required SMMEs to disclose more information about their operations.

### 3.3.2.9 *Development and business growth*

Okanga and Drotski (2016:1370) purport that there may be changes to business culture and processes as the business is faced with growth and development. Tom (2018:14) holds that the business development depends on entity's culture and collective blindness to matters that require management's response, and thus, an entity that has existed for many years are at greater risk if its culture does not allow it to resolve challenges.

### 3.3.2.10 *Equality*

According to Motsilili (2017:14), information technologies can help to respond to business needs such as compliance, process management and supervision; however, this is affected by the size of the business, and smaller business do not have sufficient resources to adapt and may therefore not benefit from such technologies in the same way larger entities would.

### 3.3.2.11 *Mentorship*

Titus (2018:25) holds that mentoring programmes can help SMME owners access skills and knowledge that will give them an opportunity to ease the burden on non-compliance.



### 3.3.2.12 Compliance requirements simplification

According to Debeila (2018:51), government should reduce the compliance requirements associated with the laws and regulations governing SMMEs.

Compliance mostly impacts SMMEs financially because of the time it takes to understand and interpret complex legislation, which accounts for 20% of discussions in the selected research papers. Financial literacy also accounts for 20% of the literature reviewed. Economic deterrence and wider behaviour theories account for 13% of the research analysed. These three topics account for 53% of the factors that impact the SMMEs' ability to succeed.

### 3.3.3 Tax burdens of SMMEs

**Research question:** What are the tax burdens of SMMEs in South Africa?

An analysis of the selected research papers was performed to understand the impact that South African taxes have on the sustainability of SMMEs and to establish the different burdens that are assessed in the selected research. Table 6 presents the results of the analysis.

**Table 6: Different tax burdens faced by SMMEs**

<b>Tax Burdens of SMMEs</b>	<b>Number of Papers</b>
Administrative costs	7
Skills and competence	7
Uneven distribution	5
Complex legislation and corruption	4
Parochial interest	3
Urban centralised policies	2
Purchase power and employment	2
Trade-off theory	2
Single Payment	1
Business records	1
No tax-linked burden	5
<b>TOTAL</b>	<b>39</b>

The sources for this table are included in the discussions in the following subsections.

Table 6 lays out tax burdens that SMMEs have to deal with. The information helped the researcher to plan to effectively present the response to the research problem. Every burden mentioned is tax related and the researcher considered each of them in response to the research question.

#### 3.3.3.1 *Administrative costs*

Kgatla (2016:53) agrees that there is an administrative burden linked to a lack of knowledge and skills. Mahohoma (2018:34) suggests that the compliance requirements are complex because more than one regulation is complex and there are conflicting regulations from multiple government departments. Sibiya (2018:34) holds that taxes increase the costs of starting a business and serve as a barrier for entry. According to Labuschagne (2018:46), compliance costs and the administrative burden contribute to the demise of SMMEs. Okanga and Drotski (2016:1379) point out that the use of technology may reduce costs, improve productivity, and facilitate business requirements. Ssenyonjo (2019:78) argues that the administrative burden has been reduced by the turnover tax system. Makgalemele (2017:15) attests that a reduction in administrative and compliance costs reduces taxpayers' burden as they only need to complete on tax return.

#### 3.3.3.2 *Skills and competence*

Malambe (2016:38) holds that SMMEs have to deal with the country's lack of adequate skills. According to Zulu (2017:36), SMMEs are faced with the challenge of not attracting and retaining suitably qualified personnel with the necessary skills and management expertise. Ngibe and Lekhanya (2019:2) attribute SMMEs' challenges to a lack of awareness, expertise, skills, finance, innovation and adequate staff turnover. Joel and Vyas-Doorgapersad (2019:15) emphasise that there should be efforts by employers to administer attendance to training and workshops as this will equip employees with the necessary knowledge and skills. Naicker and Rajaram (2019:99) establish that tax compliance requires a great level of expertise and time to complete and furnish returns. Derbyshire (2016:19) affirms that there is a burden on SMME owners and managers due to their lack of skills and expertise, which affects their understanding of the legal framework together with access to markets, technology and quality infrastructure.

Ramharak (2017:20) attests that most SMMEs would rather outsource the tax compliance function because of their lack of expertise.

#### 3.3.3.3 *Uneven distribution*

Chauke and Sebola (2016:86) hold that the deterrence theory is necessary because those that can pay should pay, and the resources should then be distributed to those in need. In this way SMMEs, which are small, will benefit from infrastructure paid for by large corporations. Ndlovu (2016:13) regards taxes on SMMEs to be regressive in nature, creating an unfair burden on SMMEs when compared to that incurred by corporate entities. Mungwana-Zake (2018:91) states that non-compliance stems from the uneven requirements of the tax authorities as the liability may be reduced for others if they cannot afford the payment. Pillay (2017:7) illustrates that SMMEs are impacted more load-shedding by ESKOM than larger entities because it increases business costs and leads to SMMEs failing. Qwebani (2018:9) affirms that inequality of access to economic opportunities poses a great challenge for SMMEs.

#### 3.3.3.4 *Complex legislation and corruption*

Rose (2019:5) determines that the overarching reason why SSMEs do not adhere to tax regulations is school level education and training; therefore, by focusing only on how SMMEs do not comply, one may miss the root of the non-compliance. Titus (2018:52) grants that lack of education can be overcome by connecting SMME owners who lack the requisite skills with mentors that have the requisite skills and adequate experience in the field. According to Kativhu (2019:77), SMMEs are faced with the burdens of bribes and penalties for non-compliance. Swartz (2019:56) notes that government may require SMMEs to pay taxes in addition to ordinarily calculated liability, which takes more than is necessary from their pockets.

#### 3.3.3.5 *Parochial interest*

Shiya (2018:56) states that there is SMME owners that do not know why they should pay taxes, feel that the state misuses taxes, or do not know how to file a tax return and cannot afford a specialist. Chauke *et al.* (2017:406) attest that municipalities should be held accountable if SMMEs are not receiving the services for which their taxes paid to reduce

parochial interest. Okem (2016:47) holds that SMMEs that receive aid from state agencies carry all the burdens while having to share the rewards with the agencies.

#### 3.3.3.6 *Urban centralised policies*

Sophocleous (2019:42) believes that some SMMEs carries an additional burden because they are far from a city. Komape (2019:82) states that the main markets where SMMEs conduct business are in urban areas, and therefore, rural SMMEs bear a greater burden.

#### 3.3.3.7 *Purchase power and employment*

Louw (2018:175) regards lack of financial support as a burden on SMMEs. Selepe (2017:507) confirms that SMMEs cannot access financial support, even government grants or loans.

#### 3.3.3.8 *Trade-off theory*

Tshabalala (2017:15) holds that the excessive use of debt can lead to financial distress, which causes business failure. Mogashoa (2017:60) regards the trade-off theory as a significant burden that leads to SMMEs' bankruptcy.

#### 3.3.3.9 *Single payment*

According to Motsilili (2017:14), technologies can transform data and enhance decision making; however, SMMEs do not have the opportunity to make informed decisions because they cannot afford these technologies.

#### 3.3.3.10 *Business records*

Myeko and Madikane (2019:5) indicate that only 11% of the participants involved in their study had a post matric qualification, reflecting on the inability to process necessary business records.

#### 3.3.3.11 *No tax-linked burden*

Schutte *et al.* (2019:60) hold that complex tax legislations discourage individuals from establishing SMMEs, though they do not discuss in depth the tax burden on SMMEs. Dhlomo (2017:122) studied the challenges faced by SMMEs in the tourism industry and

none of the challenges they face are tax related. Debeila (2018:51) studied the burdens of SMMEs from various industries and do not consider tax in the study. Ajibade (2016:232) discusses knowledge management but does not mention knowledge related to tax. Tom (2018:14) studied risk management strategies in information systems and does not link it to tax systems.

In summary, administrative costs, and skills and competence each account for 18% of the burden mentioned in the selected research papers. Uneven distribution of the burden appeared in 13% of the research papers, and complex legislation and corruption featured in 10% of the literature. These four topics account for 59% of the researched topics.

### 3.3.4 Tax benefits

**Research question:** What tax benefits are available to SMMEs in South Africa?

The researcher analysed the selected research papers to identify the tax benefits available to South African SMMEs mentioned in the selected research. Table 7 presents the results.

**Table 7: Tax benefits**

<b>Tax Benefits</b>	<b>Number of Papers</b>
Fiscal exchange tax compliance	12
Access to finance, business opportunity and compliance	4
Job creation	3
Different tax rates	3
Adaptive strategy changes	2
Reduction in administration, compliance and administration costs	2
Bankruptcy reduction	2
Industry specific, 11 <sup>th</sup> Schedule	1
Benefits theory	1
Single tax, simplified record keeping, and reduced returns	1
Enhanced decision making and increased productivity	1
Tax relief measures	1
Tax free	1
No tax-linked benefit	5

<b>Tax Benefits</b>	<b>Number of Papers</b>
<b>TOTAL</b>	<b>39</b>

The sources for this table are included in the discussions in the following subsections.

Table 7 depicts the tax benefits that relate to SMMEs in South Africa. It was analysed and presented in response to the research problem. Five of the 39 selected research papers do not have tax-related benefits and has been excluded from the results presentation.

#### *3.3.4.1 Fiscal exchange tax compliance*

Mungwana-Zake (2018:52) depicts fiscal exchange tax compliance as an agreement entered into by the state and its citizens, giving SMMEs that contribute an opportunity to hold the state accountable for their actions. According to Swartz (2019:58), South African companies are disappointed with the government's inability to negotiate benefits for South African companies against foreign governments. Kativhu (2019:130) attests that even with government's efforts to assist SMMEs there are shortcomings in the awarding criteria, which lead to SMMEs not benefiting. Louw (2018:218) declares that there are SMMEs that do not receive the available benefits because of lack of knowledge about the available assistance. Ramharak (2017:35) found that it is the government's responsibility to educate SMMEs as being aware of tax benefits will reduce tax evasion. Shiya (2018:57) suggests that compliance behaviour will improve once SMMEs obtain adequate tax-related information. Ndlovu (2016:17) argues that the state should share information about how taxes are used, including how businesses may benefit from services offered by the state. Joel and Vyas-Doorgapersad (2019:6) propose that the powers of the state arise from its subjects' trust, thus citizens should be able to hold the government accountable for inadequate behaviour. Pillay (2017:7) indicates that there is little to no accountability in place for the government and its agencies as SMMEs have collapsed due to the termination of services. Chauke and Sebola (2016:84) hold that accountability may be enforced by protests. Malambe (2016:50) suggests that SMMEs would benefit more if there were partnerships between government agencies and businesses. Naicker and Rajaram (2019:95) hold that SMMEs can benefit by contributing taxes through access to finance, a positive outlook as law abiding citizens, and business opportunities.

#### 3.3.4.2 *Access to finance, business opportunity and compliance*

Motsilili (2017:14) states that SMMEs do not benefit from most opportunities available to them because they do not have adequate technologies. Sophocleous (2019:29) states that the government has the responsibility to amend tax policies, support businesses and ensure access to infrastructure and finance for the benefit of SMMEs. Sibiya (2018:62) is of the opinion that government must assist SMMEs to gain access to markets, financial assistance and necessary skills. Myeko and Madikane (2019:5) confirm that some SMMEs destroy financial records to avoid incurring tax liabilities, but this inevitably impacts their ability to get financial assistance and access to other opportunities.

#### 3.3.4.3 *Job creation*

Zulu (2017:105) attests that paying taxes will help generate jobs and give SMME owners opportunities for economic independence. Mahohoma (2018:7) acknowledges that SMMEs create jobs, which ultimately contributes to the economy because the SMME, the owner and the employees pay tax. Rose (2019:5) argues that the ability to create jobs is deterred by government's inability to create an environment where businesses can operate.

#### 3.3.4.4 *Different tax rates*

Schutte *et al.* (2019:60) state that the National Treasury has focused on SMMEs, amending legislation in their favour to promote business activities. Ssenyonjo (2019:77) holds that the progressiveness of the turnover tax system benefits SMMEs through reduced tax rates. Ngibe and Lekhanya (2019:10) state that reduced tax rates and registering for a single tax instead of many types of taxes contributes positively to the sustainability of SMMEs.

#### 3.3.4.5 *Adaptive strategy changes*

Mogashoa (2017:75) considers the effect of the tax deductibility of interest as opposed to the burden of finance costs, which may lead to bankruptcy. Selepe (2017:509) provides that municipalities can help SMMEs get access to finance, training, resources and economic development.

#### 3.3.4.6 *Reduction in administration, compliance and administration costs*

According to Labuschagne (2018:18), the turnover tax system benefits SMMEs by reducing their administrative and compliance burden as well as reducing the tax rates they can apply in determining their liability. Derbyshire (2016:33) believes the purpose of the turnover tax system is reducing the number of tax legislations that SMMEs must comply with to one.

#### 3.3.4.7 *Bankruptcy reduction*

According to Komape (2019:45), government loans and grants may be a great tool to help SMMEs escape the bankruptcy trap as these are incentives are created from the tax contributions of others to fulfil SMMEs' resource and infrastructural needs. Titus (2018:32) holds that SMMEs can use mentorship programmes established by financiers to help them conduct business and reduce their chances of going bankrupt.

#### 3.3.4.8 *Industry specific, 11th Schedule*

Makgalemele (2017:17) purports that SMMEs may benefit from government grants that are tax exempt by section 12P, read with the 11<sup>th</sup> Schedule of The Act.

#### 3.3.4.9 *Benefits theory*

Chauke *et al.* (2017:406) consider the benefits theory where tax regulators provide that those that benefit the most should be the highest contributors while the municipality remains accountable for service delivery.

#### 3.3.4.10 *Single tax, simplified record keeping, and reduced returns*

Kgatla (2016:49) holds that there is a single tax that should be complied with, reducing the burden to learn about and comply with multiple tax legislations.

#### 3.3.4.11 *Enhanced decision making and increased productivity*

Tshabalala (2017:47) bases their arguments on the trade-off theory and mentions only three variables that have a significant influence on businesses' growth: equity, debt and tax. They claim that a balanced use of these factors will improve SMME owners' decision



making as they have to pay interest at a predetermined time, which influences the entity's productivity level.

#### *3.3.4.12 Tax relief measures*

According to Okem (2016:82), SMMEs will benefit from a lower tax rates because it will reduce their tax-related burden.

#### *3.3.4.13 Tax free*

Qwebani (2018:53) studied subsidised public transport, which are free from direct tax liabilities.

#### *3.3.4.14 No tax-linked benefit*

Although Dhlomo (2017:8) refers to tax benefits, they only mention it as another incentive that can enhance SMMEs' growth and continuity. Similarly, Debeila (2018:51) does not consider any benefits attached to taxes. Ajibade (2016:232) studied knowledge management in SMMEs but does not consider the positive impact it can have on tax benefits. Okanga and Drotski (2016:1372) studied the impact of information system security on e-retailers and do not mention tax benefits. Tom (2018:14) does not discuss any tax-related benefits in their study on risk mitigation strategies for information systems.

Fiscal exchange and tax compliance accounts for 31% of the benefits assessed. Access to finance, business opportunity and compliance represents 10% of the benefits evaluated, while job creation and different tax rates each make up 8%. These four topics account for 57% of the benefits relating to tax.

### **3.3.5 Discussion of findings**

#### *3.3.5.1 Causes of failure*

Mungwana-Zake (2018:13) explains that fiscal exchange is when taxpayers feel that the benefits they receive from government do not match the contribution they make through taxes. When taxes contributed by SMMEs to government are not matched by meeting the tangible needs of SMMEs, they may feel robbed and this may lead to SMMEs closing their businesses. Naicker and Rajaram (2019:109) argue that a tax reform is needed because

taxes on SMMEs lead to business closures, which directly increases unemployment and poverty. Perhaps, instead of making it easier to pay taxes and reducing the compliance costs, eliminating taxes for SMMEs should be considered. By comparing the number of active SMMEs in 2007 to those in 2013, Ssenyonjo (2019:81) demonstrates that turnover-based taxes may have been instrumental in reducing the number of active SMMEs. This shows that making it easier and simpler for SMMEs to pay taxes does not directly lead to the effective sustainability of enterprises and that it may have an impact on businesses shutting down. Turnover tax focus on the turnover of an SMME and this can lead to taxes being levied on SMMEs that is in a negative position and increasing their financial burden (Tshabalala, 2017:34).

According to Kativhu (2019:121), business knowledge and skills can help SMMEs find ways to survive and be sustainable; however, these skills are not available in ways that fit the simplistic needs of SMMEs. SMMEs are often started in a desperate effort to escape poverty when no one in the household has an income, and the owners has to run their business with insufficient knowledge and skills. Therefore, it is rare that SMME owners have the necessary skills to make strategic and competitive decisions to survive adverse business conditions. Okem (2016:27) explains that education and training enhances and motivates owners to participate in decision making, ensuring that they have the required skills for operational management. SMMEs that are in the start-up phase are generally not well equipped to respond to adverse situations and these strategic decisions normally push SMMEs out of business, and thus there is no motivation to continue operating. According to Debeila (2018:51), SMMEs have been used as a vehicle for poverty and unemployment eradication since 1995, even though their survival rate is questionable. Debeila (2015:51) also points out that one of the reasons for SMME failure is their tax burden. These business already struggle for survival, for access to finance, for access to markets and to respond to regulatory requirements, and it is doubtful that an additional burden in the form of taxes is helpful to these SMMEs.

Chauke *et al.* (2017:84) explain that wider behaviour theories deal with social and fiscal psychological theories, while economic deterrence theories deal with the reduction of tax evasion. Wider behaviour theories can be observed with value-added tax (VAT), where goods that are deemed essentials may be zero rated or exempt to influence buyers' choice. Government has high tax penalties and fines in place to scare taxpayers by

illustrating that should they be caught evading tax, they will face enormous charges that may drive them out of business. Derbyshire (2016:63) says SMMEs are faced with difficult financial decisions on a daily basis and most SMME owners are not prepared to deal with these adversities. It is alarming to imagine how these taxpayers who are not prepared to deal with complex decisions, deal with threats from the government that is supposed to protect them. Surely, out of fear, SMME owners overpay taxes to avoid penalties and do not dispute any cases in which they are bullied.

Schutte *et al.* (2019:60) state that high tax rates and compliance costs make the business environment unattractive, leading to less new SMMEs being established. If the costs associated with a certain business are high and there is no direct link between the costs incurred and the benefits received, there will be less participation. Ndlovu (2016:9) states that taxes are the highest regulatory costs incurred by private entities and each type of tax, whether turnover tax, VAT or employee tax, is another administrative burden on the taxpayers. Considering that the taxi industry that do not have to pay taxes is a SMME, SMMEs that are not in the taxi industry may feel overburdened and feel that it is unfair that they have to pay taxes that may lead to them closing their business.

#### 3.3.5.2 *Impact of tax compliance*

Ngibe and Lekhanya (2019:10) conclude that the complexity of the tax regulations means SMMEs may spend a lot of time ensuring compliance with tax matters. Time that could have been used to formulate beneficial strategic decisions. The owners and managers of SMMEs battle to find enough time and each moment spent on compliance is time that might have been used to help eradicate poverty and unemployment. Although Labuschagne (2018:10) states that the average compliance cost is R63,328, they argue that the compliance cost may be between 0,1% and 2% of the SMME's turnover. These statistics are based on the finances of stable SMMEs that make at least R300 000 a year and not on start-ups that are battling to break even. A start-up SMME can barely survive the time and costs needed to comply with SARS. Mogashoa (2017:10) points out that there is an information asymmetry in SMMEs that relates to their inability to prepare and present compliant and transparent accounting records. The history of SMMEs makes it difficult to expect that they can comply with tax regulations when they tend to battle with reporting frameworks.

Ajibade (2016:231) holds that in order for SMMEs to succeed, implied knowledge should be formally documented in protocols, schematic documents and business processes. It is crucial to transfer skills and knowledge to personnel to inspire loyalty, although it is common for SMME owners to be protective of strategic and financial information, making them the only persons in the business who has the necessary knowledge. Qwebani (2018:52) suggests that mentors for SMMEs could help to set them up for success as SMME owners are faced with problems in learning the business and getting it afloat. Mentors can include industry experts, peer groups, financial experts, tax experts, consulting firms, academics, and parastatals. Taxes can be used to stimulate learning for SMMEs by either providing additional deductions for employee skills developments or by using skills levies that the taxpayer contributes to have a parastatal assign someone to train employees (Malambe, 2016:15).

Derbyshire (2016:119) found that 60% of SMME owners and managers have little understanding of the bank balance and 96% do not understand the value of setting short-term goals. The lack of financial literacy has a huge impact on SMMEs' compliance and sustainability because it suggests that the business owners cannot make strategic decisions. Mahohoma (2018:34) argues that SMME owners and managers' lack of formal education impacts their behaviour and affects their ability to lead, influence and work with teams, and also affects their confidence, decision making, ethical compliance and strategic positioning.

Compliance costs take up time that may have been used for operational decision making, strategic decisions and fighting for survival. Ndlovu (2016:34) states that compliance costs make tax regressive because the more an SMME earns the less their tax becomes. According to Chauke *et al.* (2017:406), an ideal tax regime should be based on equality, which centres on both fair taxes being paid by subjects of the state and the fair charge of taxes based on using the benefits provided by the state. SMMEs receive little or no direct benefits from their taxes, and yet, they are expected to remain sustainable without support from government.

### 3.3.5.3 *Tax burdens*

Makgalemele (2017:15) introduces the topic of tax burdens experienced by SMMEs by pointing out that the government attempted to simplify and reduce the number of required

returns to reduce compliance and administrative burdens on SMMEs. Compliance is difficult for SMMEs as it involves understanding complex legislation, adhering to the legislation, furnishing returns on time, and paying the tax liability on time. Each of these steps has different administration requirements. Ramharak (2017:18) strengthens the argument against compliance costs by stating that many SMMEs fail because of compliance costs. Because compliance costs are such a large burden on the sustainability of SMMEs, it is suggested that charging tax on SMMEs must be reconsidered in view of the contribution SMMEs make in alleviating poverty, unemployment and reliance on social welfare.

Zulu (2017:105) states that SMMEs are scrutinised by government officials for compliance and sustainability. Which is strange as taxes are payable on a trust basis, meaning that taxpayers are expected to be trustworthy, furnish their returns and pay an accurate amount. Only when there is reason to believe a taxpayer lied does SARS scrutinise the taxpayer's financial affairs. Zulu (2017:24) expounds that SMMEs often operate in an informal environment where registration and compliance are not considered important. This creates an unfair situation where one taxpayer is registered for tax, burdened by the compliance costs, and using their time and other scarce resources to ensure compliance, while their competitor does not bother to function in a formal environment. Louw (2018:64) states that taxes strain SMMEs as owners need knowledge of VAT, the turnover tax threshold they fall in, employee taxes, unemployment insurance, provisional taxes and the payment of turnover taxes, which increase the administrative responsibilities of SMMEs. This is an additional burden for SMME owners, who are faced with strategic decisions, operational decisions and continuous problem solving. Some SMMEs battle to break even, and the owners take little or no remuneration, making it challenging to use the services of an expert.

Mahohoma (2018:21) suggests that overlapping and conflicting messages from government may make it harder for SMMEs to continue operating; for example, when one leg of government says through the presidency that government must work with SMMEs to eradicate poverty and unemployment, while another leg issues threats to close businesses through the SARS. This creates confusion for SMMEs and may drive them out of business. Joel and Vyas-Doorgapersad (2019:5) argue that SMMEs should have more awareness in the form of knowledge and skills as this gives owners and managers the

ability to face adversities, improve compliance and increase efficiency and production. An environment with knowledgeable managers and owners will mean SMMEs understand their burden and can make appropriate decisions to ensure the longevity of SMMEs.

Chauke *et al.* (2017:408) explain that the taxes is based on the final base amount paid by a taxpayer and not the percentage at which the tax is charged. SMMEs are levied tax on a sliding scale, but they also incur other costs that add to their tax burden. These costs include consultation fees for compliance with tax regulations, as they may not be able to afford employing a full time employee, or if the manager or owner can do the taxes, their valuable time, which is spent on tax administration and not on operational and strategic matters. Sibiyi (2018:34) confirms that tax systems impacts the sustainability of SMMEs and high taxes may lead to businesses closing. They add that South Africa has high tax rates and a complex tax system, which increases compliance costs. These high costs make it difficult for SMMEs to continue operating, and the best step that government can take is to increase the minimum threshold for turnover-based taxes to an amount above R1 million.

#### 3.3.5.4 *Tax benefits*

Swartz (2019:21) points out that government's decisions benefit a particular group of persons and do not prioritise job creation and economic growth for all. The tax burden is felt by all but the benefits are enjoyed by a selected few, and it is possible that those who benefit receive favours to reduce their tax burdens. As mentioned earlier, Mungwana-Zake (2018:13) portrays fiscal exchange as when taxpayers feel that the benefit they receive from government does not match the contribution they make through taxes. Thus, it should be noted that paying taxes is not in the best interest of taxpayers because even SMMEs are required to settle tax liabilities while struggling to stay in business. Louw (2018:106) assesses the reasons people start business and lists soft skills and business management skills as essential skills that business owners need. They acknowledge that none of the business owners in their study were motivated to contribute to the government for social welfare. It is clear that reducing the complexity and administrative burdens of SMMEs will not encourage people to start businesses.

Ssenyonjo (2019:37) states the taxes can only be effective if its supported by basic business education for SMMEs and a simplistic tax alternative tax that is non-presumptive.

When making taxes simplistic and non-presumptive, it should be considered whether SMMEs' required contributions will benefit them and also whether the contributing SMMEs will have to compete without protection from government against rivals that are not registered to pay tax. Louw (2018:100) states that informal training is crucial to impart business knowledge and skills, and this may be influenced by a person's age, work experience and exposure to smaller businesses. It is acceptable that formal education may influence an individual to start a business, but the level of compliance to regulations, including tax-related legislations, may not be influenced by merely attaining formal education.

Strict, complex or burdensome tax regulations push taxpayers to find loopholes so they may benefit from the regulations through non-compliance without incurring debt. To ensure compliance with complex regulations, SARS would need to employ highly skilled staff with adequate experience. Failing to do this will increase the chance of unlawful activities going undetected. Economic deterrence and wider behaviour philosophies seem to be effective in reducing the number of SMMEs that benefit from such unlawful activities in South Africa as SMMEs registering for tax increased by 63% from 2011 to 2016 (Shiya, 2018:6).

The burdens that SMMEs face because of the uneven distribution of taxes in South Africa should be taken into consideration when exploring the benefits afforded by reducing their tax burden. Sibiyi (2018:35) suggests that SMMEs are innovative in conducting their business, and they can use challenges to their favour to ensure that they are not pushed out of business by competitors who may use compliance to tax regulations as a barrier to entry. Shiya (2018:32) names three benefits of paying tax: cash flow, managerial and deductibility. Shiya (2018:32) explains that cash flow benefits are postponing tax liabilities through permissible avoidance; and managerial benefits are improved knowledge that leads to better record keeping. However, these benefits require the SMMEs to have acquired knowledge, which is expensive, and of course, these relate to SMMEs that are beyond the growth stage and need to expand. These benefits are expected to reduce SMMEs expenses through reduced compliance costs (Shiya, 2018:33).

### 3.3.5.5 Other impacts

The data analysis led to secondary findings that are worth mentioning. These secondary findings are set out in Table 8. However, as these findings were not discussed as much as the main findings, the researcher focused on the main findings.

**Table 8: Secondary findings**

<b>Constructs</b>	<b>Researcher's Name</b>
Resource availability and utilisation	Komape
Appreciation of business fundamentals	Motsilili
Business records	Myeko and Madikane
Risk management strategy	Okanga
Inadequate network, power failure and lack of risk mitigation	Pillay
Parochial interest	Rose
Urban centralised policies	Selepe
Parochial interest	Titus
Risk management strategy	Tom

Source: Authors own compilation<sup>1</sup>

### 3.3.6 Research designs and methodologies

According to Mitchell and Jolley (2012:31), research design provides the tools with which to answer the research problem by guiding the researcher to develop the research idea, identify measurable variables, collect data, choose the right design, interpret the results, and finally, communicate the findings. To understand the results obtained by the various researchers who conducted the selected research, the researcher presents the analysis of the research design and methodology that were used in these research papers.

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<sup>1</sup> The table was prepared using data from research papers referenced under Appendix A. Table 9 to Table 13 used data extracted from the same set of published journals.



### 3.3.6.1 Variables

According to Freshwater (2019:1), a crucial part of any research is determining the most appropriate nature of the study to respond to the research questions and reach the research objective. The nature of the study determines the type of data to search for and the method with which this data will be analysed. If this is not done correctly, the research may be performed in a less economical manner and cost the researcher time and other resources. As explained in section 2.2.2, the nature of a study can be historical, descriptive or experimental. Table 9 is a summary of the nature of the selected research papers.

**Table 9: Nature of study**

Nature of Study	Number of Papers
Descriptive	20
Experimental	19
<b>Total</b>	<b>39</b>

Source: Author's own compilation<sup>2</sup>

Table 9 illustrates that there is a fair split between the research papers that have a descriptive nature and those that have an experimental nature.

### 3.3.6.2 Methodological classification

Data can be categorised by referring to their characteristics instead of the sources from which the data was taken. Data can be classified as quantitative, which is data best expressed in number; qualitative, which is data best expressed in words; or mixed methods, which combines qualitative and quantitative data (Walliman, 2017:71). Table 10 presents a summary of the chosen methodological classifications used in the selected research papers.

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<sup>2</sup> Refer to Appendix A for the list of research papers used to develop the data in Table 10.

**Table 10: Methodological classification**

<b>Methodological Classification</b>	<b>Number of Papers</b>
Mixed methods	6
Qualitative	25
Quantitative	8
<b>Total</b>	<b>39</b>

Source: Author's own compilation<sup>3</sup>

Table 10 shows that 64% of the research papers used a qualitative methodological classification. This research problem does not have a lot of data that can be used to compute numeric information for the analysis, thus the observation was expected.

### 3.3.6.3 *Research strategies*

Bahari (2010:19) states that research strategies is based on the underlying beliefs and views from which the data is being studied. The researcher explored the different strategies that were used in the selected research to discover whether the authors used positivism, realism, interpretivism or pragmatism. A summary of the findings is presented in Table 11.

**Table 11: Research strategy**

<b>Research Strategy</b>	<b>Number of Papers</b>
Interpretivism	24
Positivism	10
Pragmatism	5
<b>Total</b>	<b>39</b>

Source: Author's own compilation<sup>4</sup>

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<sup>3</sup> Refer to Appendix A for the list of research papers used to develop the data in Table 10.

<sup>4</sup> Refer to Appendix A for the list of research papers used to develop the data in Table 10.

Table 11 shows that 62% of the papers selected for this research adopted the interpretivist research strategy to respond their research problem. Most selected research papers used interpretivism or positivism, with an 87% combined coverage. Pragmatism was used only five times as a research strategy.

#### 3.3.6.4 Data collection techniques

Researchers use different data collection techniques that allow them to better analyse the data used in their research. Good data collection techniques provide a better understanding of the results in response to the research questions. Table 12 summarises the data collection techniques adopted in the selected research papers.

**Table 12: Data collection techniques**

Data Collection Techniques	Number of Papers
Descriptive statistics	1
Hypothesis	1
Interviews	8
Interview and questionnaire	8
Literature review	9
Questionnaire	9
Surveys	3
<b>Total</b>	<b>39</b>

Source: Author's own compilation<sup>5</sup>

Table 12 indicates that there is a clear balance between interviews, questionnaires and literature reviews. These are common data collection techniques and it is expected that most researchers would use them, especially since most researchers opted for the qualitative methodological classification.

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<sup>5</sup> Refer to Appendix A for the list of research papers used to develop the data in Table 12.

### 3.3.6.5 Data analysis techniques

The collected data must be analysed and Table 13 presents a summary of the data analysis techniques that were used in the selected research papers.

**Table 13: Data analysis techniques**

Data Analysis Technique	Number of Papers
Analytics	14
Case studies	3
Critical conceptual analysis	7
Hypothesis and statistics	1
Judgement sampling	1
Meta-synthesis	1
Statistical analyses software	5
Subjective judgement	3
Systematic literature review	2
Thematic analysis	2
<b>Total</b>	<b>39</b>

Source: Author's own compilation<sup>6</sup>

Table 13 indicates that common analytics were used most to analyse collected data in the selected studies, followed by critical conceptual analysis. Statistical analysis software were used five times. Case studies and subjective judgement were each used in 8% of the chosen research papers, while other techniques were used less.

## 3.4 SUMMARY

This chapter presented the findings of the data analysis. The analysis revealed four main findings. These findings were more topical than the other findings and were classified as main findings and discussed in detail. The secondary findings were identified to ensure

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<sup>6</sup> Refer to Appendix A for the list of research papers used to develop the data in Table 13.

that all 39 research papers were taken into consideration. The effectiveness of the response was considered by determining the main findings and ensuring that all the research papers that respond to the main findings received detailed attention. The following chapter provides the conclusion for the research.

## **CHAPTER 4**

### **CONCLUSION**

#### **4.1 INTRODUCTION**

After selecting a data analysis technique and presenting the findings of the data analysed in the previous chapter, this chapter presents the conclusion for the research. This presentation starts by introducing the topic and then summarises the findings from the study together with the conclusion that was reached in the study. The researcher then sets out the limitations of the research and makes way for future studies through recommendations. To end the study, the researcher provides the conclusion of the study.

#### **4.2 SUMMARY OF FINDINGS AND CONCLUSION**

The main research objective of this study was to systematically explore existing literature related to the impact of tax on the sustainability of SMMEs in South Africa by focusing on recently published selected research papers. To achieve the main objective, the researcher developed research questions that shaped the research and ensured the study had adequate results. The main constructs were further developed to ensure that the research respond effectively to the research questions by analysing and presenting the findings.

##### **4.2.1 Causes of SMMEs' failure**

Tshabalala (2017:19) states that SMMEs use resources to respond to tax requirements and compliance that they could have used to ensure the success of the entity. Kgatla (2016:42) found that SMMEs are forced to use the services of qualified tax practitioners to benefit from tax incentives, which increases their operational costs. This money could have been used for research and development to enhance the chances of success for the SMME. Spending resources on tax compliance means SMMEs often remain stagnant and unable to adjust to inflation, which ends up consuming SMMEs' income. Labuschagne (2018:34) found that 85% of SMMEs outsourced their tax services to an outside party. Outsourcing may help reduce costs, especially if the cost versus benefit and other pre-acquisition assessments were properly performed. However, SMMEs mostly outsource because they do not understand tax matters, which in fact increases their costs and leads

to SMMEs' failure. One of the major challenges that cause SMMEs to fail is their inability to raise or manage finances (Mogashoa, 2017:78).

#### **4.2.2 Factors that impact SMMEs' tax compliance**

Mungwana-Zake (2018:5) attributes non-compliance to tax evasion, stating that the reasons why SMMEs decide to evade tax are unknown. Non-compliance by SMMEs is high; however, many SMME owners and managers lack the necessary skills to understand and interpret tax laws. Chauke and Sebola (2016:85) explain tax evasion as an act of non-compliance performed when one is aware of their actions. Therefore, it cannot necessarily be regarded as evasion if the SMME owners lack knowledge about taxes. However, this is not entirely true as the legality of an action or event is not affected by the knowledge of one's actions or lack thereof. Derbyshire (2016:121) holds that the responsibility to ensure that SMME owners are informed of their tax requirements, implications and liabilities rests with SARS. If SMMEs are given sufficient information to equip them to make informed tax-related decisions, it would reduce their cost burden; however, providing the information will consume their time. It is necessary to strike a balance between the time and the cost burden. There should be a choice of alternative tax incentive instruments based on the following four determining factors: economic efficiency, revenue foregone, effectiveness in stimulating investment, and tax administration (Ssenyonjo, 2019:56).

#### **4.2.3 Tax burden of SMMEs**

Louw (2018:64) found that the tax laws for SMMEs are very complex because it includes VAT requirements, the turnover thresholds, employee taxes, provisional tax for both their personal account and the SMME's, and they are also required to keep up to date with the Taxation Laws Amendment Act 15 (of 2016), which is amended annually. SMMEs already struggle with business aspects such as administration, governance, and marketing; taxes make it even harder for SMMEs to survive. The added burden reduces the prospects of SMMEs' sustainability. Kativhu (2019:32) points out that tax regulations are more detrimental to rural businesses because of lack of infrastructure that leads to the inability to raise sufficient income to discharge their tax liabilities. The tax burden rests mostly on those that have very little chance of survival. Labuschagne (2018:38) finds that 90% of the participants in their study lacked knowledge about the turnover tax system, including its

requirements, incentives and administrative requirements. Without adequate knowledge, it is difficult for SMMEs to make informed decisions, leading them to make incorrect decisions to avoid penalties. The government should be more active in equipping SMMEs with tax knowledge to help them avoid tax penalties, which would be found to be illegal if challenged in the courts (Swartz, 2019:56).

#### **4.2.4 Tax benefits available to SMMEs**

Makgalemele (2017:72) upholds that SMMEs may reduce their tax payable by applying lesser tax rates that are available to them when they pay as an SMME and not as an individual. Makgalemele (2017:72) adds that the requirements for SMMEs are much simpler than for corporate tax, which levies tax at a higher standard rate and has greater administration requirements to ensure compliance. However, these benefits are of no use if the SMMEs that are targeted lack the necessary understanding on the rules and its interpretation. Ramharak (2017:59) establishes that 80% of the SMMEs interviewed in their study were not aware of the incentives available to them, and when broken down further, 100% were not equipped to build allowance incentives and future expenditure deductions, 90% did not know about incentives relating to new assets, and 70% did not know the requirements to qualify as a small business corporation for tax purposes. With more than 70% of interviewed SMMEs not aware of the benefits, it is difficult to attest that the benefits even exist. The information should be disseminated and made available to the targeted SMMEs. The government should use agencies such as SEDA to oversee the collection of taxes and convert it into a dispensation to implement approved training programmes (Malambe, 2016:25).

#### **4.2.5 Conclusion**

The study established that the tax system have a negative impact on SMMEs as it increases their burdens while the benefits associated with taxes are relatively unknown to SMMEs. The aim of the turnover tax was to ease the burden on SMMEs, but the benefits should be assessed in relation to the burdens that SMMEs carry. The reduction of the tax liability of the entity in relation to the tax that the SMME owners would be liable to pay had they not applied the turnover tax should not be done by comparing the percentages but the absolute real values should be considered. SMME owners get cash from the SMME, either



as a salary or dividends, and thus, the money may be taxed both in the hands of the SMME and of the owner when they receive the cash. The real impact of tax on SMMEs has not been sufficiently assessed to understand whether SMME owners are better off paying taxes in their personal capacity or using the company.

### **4.3 LIMITATIONS**

The study proved challenging as a result of the following limitations:

- Lack of available data: There has not been much research on the impact of taxes on South African SMMEs. This made it difficult to assess the conclusions reached by other researchers on how taxes affect South African SMMEs.
- Timing horizon: The study followed a cross-sectional approach and limited the results to a specific time period. The impact of taxes on SMMEs would potentially be clearer if the study used research published over a longer time period.
- Nature of study: The study used a descriptive method, which limited the response to the use of existing traceable data. The research would have gathered better evidence to evaluate the impact that taxes have on SMMEs had there been sufficient time and resources to use historical method which provides tools to develop new theories, or modifying and test existing theories.
- Data source: The study used secondary data but primary data could have increased the appropriateness of the results.

### **4.4 FUTURE RESEARCH**

An experimental research design could be used to study the impact of taxes on South African SMMEs and obtain primary data through surveys, questionnaires and other methods, which might advance the knowledge about the impact of taxes on South African SMMEs. The research topic can in the future be divided into the following topics and studied separately: The burden of taxes on SMMEs in South Africa, resources available to SMMEs, business recording abilities of SMME owners or managers, and how parochial interests are affected.

#### **4.5 CONCLUDING REMARKS**

The South African tax system places a burden on SMMEs that negatively impact these businesses. SMME owners are required to spend valuable time and money, both directly and as an opportunity cost, to handle compliance matters. These costs increase the chances of SMMEs failing, which leaves many people without jobs. SMME owners and managers face challenges relating to taxes because of the complicated South African tax legislation that takes time to learn or forces SMMEs to spend money on tax specialists. This study provided relevant information to determine how taxes affect SMMEs. Further studies can be done on how taxes impact SMMEs and other ways that government can raise money without taxing SMMEs.

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Willis, D.G., Sullivan-Bolyai, S., Knafelz, K. & Cohen, M.Z. 2016. Distinguishing features and similarities between descriptive phenomenological and qualitative description research. *Western Journal of Nursing Research*, 38(9).

Wolgemuth, J., Hicks, T. & Agosto, V. 2017. Unpacking assumptions in research synthesis: A critical construct synthesis approach. *Educational Researcher*, 46(3):133-139.

Zulu, V.P. 2017. *Investigating the contributions of SMMEs toward economic development in Nongoma Local Municipality*. Master's Dissertation. Durban: University of KwaZulu-Natal. [Online] Available from: <http://ukzn-dspace.ukzn.ac.za/handle/10413/14862>

## APPENDIX A

### LIST OF SELECTED QUALITY ACADEMIC PUBLICATIONS

Ajibade, P. 2016. The role of knowledge management in improving small, micro and medium enterprises productivity: A case of Nkonkobe Municipality, South Africa. *Journal of Social Sciences*, 47(3):229-238.

Chauke, K.R. & Sebola, M.P. 2016. *Reflection on the deterrence theory of taxation in the context of revenue collection by municipalities and the South African Revenue Services*. SAAPAM Limpopo Chapter 5th Annual Conference Proceedings 2016:83-88. [Online] Available from: <http://ulspace.ul.ac.za/handle/10386/1603>

Chauke, K.R., Sebola, M.P. & Mathebula, N.E. 2017. Reflection on the ability to pay theory of taxation in the context of South African Municipalities. In *International Conference on Public Administration and Development Alternatives (IPADA), The 2nd Annual Conference on The Independence of African States in the Age of Globalisation, July 26-28, 2017*. [Online] Available from: <http://ulspace.ul.ac.za/handle/10386/1848>

Debeila, O.S. 2018. *A determination of challenges and opportunities faced by small, medium micro enterprises (SMMES) in Fetakgomo Local Municipality, Sekhukhune in Limpopo Province*. MBA Thesis. Polokwane: University of Limpopo. [Online] Available from: <http://ulspace.ul.ac.za/handle/10386/2457>

Derbyshire, L.E. 2016. *Analysing the need for financial literacy in small-and micro-enterprises*. Master's Dissertation. Potchefstroom: North-West University. NWU Institutional Repository. [Online] Available from:

[https://repository.nwu.ac.za/bitstream/handle/10394/25299/Derbyshire\\_LE\\_2016.pdf?sequence=1](https://repository.nwu.ac.za/bitstream/handle/10394/25299/Derbyshire_LE_2016.pdf?sequence=1)

Dhlomo, P.E. 2017. *A framework for small and medium tourism enterprises in Tshwane townships, South Africa*. Dissertation. UNISA. [Online] Available from:

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Joel, C. & Vyas-Doorgapersad, S. 2019. An analysis of risk management within the Department of Trade and Industry. *Journal of Contemporary Management*, 16(1):357-375.

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Kgatla, M.D. 2016. *An alternative approach to the integration of the informal sector into the South African tax base*. Master's Dissertation. Potchefstroom: North-West University. [Online] Available from:

[https://repository.nwu.ac.za/bitstream/handle/10394/25450/Kgatla\\_MD\\_2016.pdf?sequence=1](https://repository.nwu.ac.za/bitstream/handle/10394/25450/Kgatla_MD_2016.pdf?sequence=1)

Komape, K. 2019. *Performance determinants for emerging agricultural cooperatives in South Africa*. Dissertation. Cape Town: University of Cape Town. [Online] Available from: <https://open.uct.ac.za/handle/11427/30469>

Labuschagne, D. 2018. *An analysis of the turnover tax relief available to micro-enterprises in the North-West Province*. Master's Dissertation. Potchefstroom: North-West University. [Online] Available from: <http://repository.nwu.ac.za/handle/10394/31384>

Louw, L.B. 2018. *Retrenchment in the insurance industry: The small business development dividend*. Master's Dissertation. Pretoria: UNISA. [Online] Available from: <https://core.ac.uk/download/pdf/158576866.pdf>

Mahohoma, T. 2018. *The impact of entrepreneurial competencies on the performance of SMEs in the eThekweni Municipal Region, KwaZulu-Natal, South Africa*. Master's Dissertation. Durban: Durban University of Technology. [Online] Available from: [https://openscholar.dut.ac.za/bitstream/10321/3145/1/MAHOHOMAT\\_2018.pdf](https://openscholar.dut.ac.za/bitstream/10321/3145/1/MAHOHOMAT_2018.pdf)

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- Malambe, L. 2016. *Exploring skills development within the interface of public and private sectors*. Master's Dissertation. Cape Town: University of Cape Town. [Online] Available from: <https://open.uct.ac.za/handle/11427/20981>
- Mogashoa, M.T. 2017. *Capital structure decision making for SMMEs in the South African context*. Masters Dissertation. Pretoria: University of Pretoria. [Online] Available from: <https://repository.up.ac.za/handle/2263/59880>
- Motsilili, P. 2017. *Alignment of IT and business strategies in small and medium-size enterprises in the Eastern Cape province*. Master's Dissertation. Durban: University of KwaZulu-Natal. [Online] Available from: [https://ukzn-dspace.ukzn.ac.za/bitstream/handle/10413/17630/Motsilili\\_Phomolo\\_2017.pdf?sequence=1&isAllowed=y](https://ukzn-dspace.ukzn.ac.za/bitstream/handle/10413/17630/Motsilili_Phomolo_2017.pdf?sequence=1&isAllowed=y)
- Mungwana-Zake, E.N. 2018. *Perceptions of informal traders towards taxation in Buffalo City Municipality*. Master's Dissertation. Johannesburg: University of the Witwatersrand. [Online] Available from: <http://wiredspace.wits.ac.za/handle/10539/28597>
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- Qwebani, Z.N. 2018. *The effectiveness of transformation programs of subsidised public transport in KwaZulu-Natal*. Master's Dissertation. Potchefstroom: North-West University. [Online] Available from: <https://repository.nwu.ac.za/handle/10394/32357>
- Ramharak, S. 2017. *The tax education needs of SME business owners in the construction industry*. Master's Dissertation. Pretoria: University of Pretoria. [Online] Available from: <https://repository.up.ac.za/handle/2263/60517>
- Rose, E. 2019. *Transformational leadership moderating the entrepreneurial orientation and firm performance relationship*. Master's Dissertation. Pretoria: University of Pretoria. [Online] Available from: <https://repository.up.ac.za/handle/2263/68796>
- Schutte, D., Labuschagne, D., Georgescu, M. & Pop, C. 2019. An evaluation of the turnover tax system in South Africa. *Theoretical and Applied Economics*, 26(3):60-70.
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Sophocleous, M. 2019. *Access to credit for small business in South Africa towards a value-based decision framework*. PhD Thesis. Potchefstroom: North-West University. [Online] Available from: <https://repository.nwu.ac.za/handle/10394/33733>

Ssenyonjo, P. 2019. *A comparative study of tax incentives for small businesses in South Africa, Australia, India and the United Kingdom*. PhD Thesis. UNISA. [Online] Available from: <http://uir.unisa.ac.za/handle/10500/25893>

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## APPENDIX B

### DECLARATION OF PLAGIARISM

#### DECLARATION REGARDING PLAGIARISM

The Faculty of Economic and Management Sciences emphasises integrity and ethical behaviour with regard to the preparation of all written assignments.

Although the lecturer will provide you with information regarding reference techniques, as well as ways to avoid plagiarism, you also have a responsibility to fulfil in this regard. Should you at any time feel unsure about the requirements, you must consult the lecturer concerned before submitting an assignment.

You are guilty of plagiarism when you extract information from a book, article, web page or any other information source without acknowledging the source and pretend that it is your own work. This does not only apply to cases where you quote the source directly but also when you present someone else's work in a somewhat amended (paraphrased) format or when you use someone else's arguments or ideas without the necessary acknowledgement. You are also guilty of plagiarism if you copy and paste information directly from an electronic source (e.g., a website, e-mail message, electronic journal article, or CD-ROM) without paraphrasing it or placing it in quotation marks, even if you acknowledge the source.

You are not allowed to submit another student's previous work as your own. You are furthermore not allowed to let anyone copy or use your work with the intention of presenting it as his/her own.

Students who are guilty of plagiarism will forfeit all credits for the work concerned. In addition, the matter will be referred to the Committee for Discipline (Students) for a ruling. Plagiarism is considered a serious violation of the University's regulations and may lead to your suspension from the University. The University's policy regarding plagiarism is available on the internet at <http://www.library.up.ac.za/plagiarism/index.htm>.

For the period that you are a student in the Faculty of Economic and Management Sciences, the following declaration must accompany **all** written work that is submitted for

evaluation. No written work will be accepted unless the declaration has been completed and is included in the particular assignment.

I (full names & surname):	Makofe Mokhachane Lepheana
Student number:	20712643

declare the following:

- I understand what plagiarism entails and aware of the University's policy in this regard.
- I declare that this mini-dissertation is my own original work. Where someone else's work was used (whether from a printed source, the internet or any other source), due acknowledgement was given, and reference was made according to departmental requirements.
- I did not copy and paste any information directly from an electronic source (e.g. a web page, electronic journal article or CD-ROM) into this document.
- I did not make use of another student's previous work and submitted it as my own.
- I did not allow and will not allow anyone to copy my work with the intention of presenting it as his/her own work.

MML

30 September 2020

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Signature

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Date

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**APPENDIX C**  
**LETTER FROM LANGUAGE EDITOR**



WORDPLAY EDITING  
Copy Editor and Proofreader  
Email: [karien.hurter@gmail.com](mailto:karien.hurter@gmail.com)  
Tel: 071 104 9484  
Website: <http://wordplayediting.net/>

28 September 2020

To Whom It May Concern:

This letter is to confirm that *The Impact of Tax Systems on the Business Continuity of Small, Medium and Micro Enterprises in South Africa* by Makofe M. Lepheana was edited by a professional language practitioner. It requires further work by the author in response to my suggested edits. I cannot be held responsible for what the author does from this point onward.

Regards,

A handwritten signature in black ink, appearing to read "KH", is written above the name Karien Hurter.

Karien Hurter