

TAXATION COMPLIANCE BURDEN FOR SMALL BUSINESS IN SOUTH AFRICA

Mini dissertation by

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EXECUTIVE SUMMARY

TAXATION COMPLIANCE BURDEN FOR SMALL BUSINESS IN SOUTH AFRICA

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The world over it has been recognised that the small business sector plays an important, if not critical, role in the economic and social development of a country. This sector, however, states that complying with taxation regulations is a constraint on their growth, due to the costs they have to incur to become and remain tax compliant. The objective of this study is, therefore, to provide an overview of what has been researched to date in the area of tax compliance costs for small businesses in South Africa and to ensure that duplication of research efforts do not occur. In order to achieve this objective, the definition of 'small business' both from an economic as well as taxation perspective is necessary as certain grants and benefits are only available to small businesses.

What exactly constitutes the compliance costs of taxation is the next area that requires attention. This has been a topic that has been explored and defined, broadly and specifically in many studies conducted around the world. Although there is still controversy regarding what exactly constitutes taxation compliance costs, there is one definition that is generally accepted amongst most researchers. This definition includes the costs incurred in respect of the taxpayer's time on understanding the rules and applying them, the record-keeping costs, the payments made to professional advisors and incidental costs incurred by the small business. The methods and techniques used in quantifying these costs have also differed per country and per study, which makes comparisons between countries and even taxes in the same country very difficult. One of the costs of complying with the taxation regulations is the payment to tax practitioners. It is evident that tax practitioners are frequently used by small businesses both locally and internationally. The payment to these tax practitioners is usually incurred due to the fact that the small business owner neither has the time nor the expertise to deal with these matters. These tax practitioners are, therefore, a valuable

commodity when it comes to obtaining research information into tax compliance costs for small businesses as they have first hand knowledge of these costs that the small businesses face. The use of these tax practitioners and the true facts about other tax compliance costs and their impact on small businesses in South Africa was established by reviewing the studies done on this matter in South Africa.

From the studies reviewed, it was found that there has been some focus on small businesses and their tax compliance costs (with the assistance of tax practitioners in certain cases), but these are very limited. The most critical research that might still be required in the future is as follows:

1. Definition of 'small business' – including 'formal' and 'informal' small businesses
2. Definition of 'tax compliance costs'
3. Survey of **tax practitioners** to identify the principle time and cost burdens on 'formal' small businesses associated with preparing and filing tax returns for the most common business taxes, the procedures for paying taxes, and going through tax inspections or audits, including fines and other tax-related payments etc.
4. Survey of '**formal**' **small businesses**, per sector, to establish their actual compliance costs per tax and per function underlying each tax (for example: registration, payment etc).
5. Survey of the '**informal**' **small business** sector to establish their perceptions about taxation and the costs involved in becoming compliant

It is hoped that these studies will be conducted on a national basis to ensure that government is presented with representative empirical evidence in order for it to be properly informed to make the necessary changes to assist small businesses with their tax compliance burden.

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LIST OF ACRONYMS

ABS – Australian Bureau of Standards
ATO – Australian Tax Office
BEE – Black Economic Empowerment
CC – Close Corporation
DTI – Department of Trade and Industry
GDP – Gross Domestic Product
ICT – Information and Communication Technology
QSES – Qualifying Small Enterprise Scorecard
OECD – Organisation for Economic Co-operation and Development
PAYE – Pay As You Earn
SARS – South African Revenue Service
SBA – Small Business Act
SBDC – Small Business Development Corporation
SBP – Small Business Partnership for Growth in Africa
SCM – Standard Cost Model
SDL – Skills Development Levy
SEDA – Small Enterprise Development Agency
SMEs – Small and Medium Enterprises
SMMEs – Small, Medium and Micro-enterprises
STC – Secondary Tax on Companies
RSC – Regional Service Council
VAT – Value Added Tax
UIF – Unemployment Insurance Fund
UK – United Kingdom
UNISA – University of South Africa
US – United States
USA – United States of America

THE TAXATION COMPLIANCE BURDEN FOR SMALL BUSINESS IN SOUTH AFRICA: A LITERATURE REVIEW

CHAPTER 1

BACKGROUND AND NEED FOR THE STUDY

1.1 BACKGROUND

'Government is costing us more than the taxes we see, because it's difficult to see the extra cost of complying with government regulations' Hodges (2005:1).

Governmental laws and regulations are not renowned for being user-friendly. Although this may be true, regulations are still vital to the fair and sustainable working of market economies. However, even the most socially necessary regulations create costs as well as benefits, and some of these costs may be unnecessarily high (Mail & Guardian, 2005).

In the largest study of its kind in the world, the Strategic Business Partnership for Growth in Africa ("SBP") highlights the cost of regulatory compliance in South Africa. It was found that R79 billion (this constitutes 6,5% of Gross Domestic Product ("GDP")) was spent during 2004 by business in order to be compliant with government red tape (Hendrikse, 2005:2). In a more recent study, Grant Thornton (2006:1-2) investigated the trends and opinions of medium sized businesses employing between 50 and 250 people, and for a second year in a row, regulations and red tape are reported as the greatest constraint to expansion of business in South Africa. This is not a problem faced by South African businesses alone, virtually all of the completed international research in this field to date shows that tax regulatory compliance costs are large (Evans, 2003:68). Reducing regulatory costs can be very beneficial: studies by the World Bank, covering 145 countries, have demonstrated that countries with higher regulatory costs have larger informal sectors, more unemployment and slower growth (Mail & Guardian, 2005:2).

Several other patterns emerged from the various local and international studies done, among the most important being that tax compliance costs comprise a much larger proportions of total compliance costs for smaller firms (SBP, 2005:42). Thus, tax compliance costs are a relatively more important component of the regulatory burden for small firms than for larger ones (SBP, 2005:44). It can, therefore, be concluded that regulatory compliance costs are regressive: small firms bear the heaviest burden in relation to firm size. Large firms are better placed to absorb these costs, given their higher turnover (SBP, 2005:45).

With this in mind, one should not forget the importance of small businesses. According to Arendse, Karlinsky, Killian and Payne (2006:1), small businesses are universally recognized as an important driver of economic success. They are a key ingredient in the economic machine that drives many countries' economies, as job creators, sales generators and a source of tax/fiscal revenue.

In South Africa the importance of small business as a creator of jobs, particularly for those with a low skills level, is widely recognized. Small, medium and micro-enterprises ("SMMEs") contribute 36.1% of the country's GDP and employ 68.2% of the workforce in the private sector. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce. Over the last few years, the growth in employment by SMMEs has exceeded the growth in their contribution to GDP, highlighting the job creation potential of this sector of the economy (Arendse *et al.*, 2006:1).

The growing importance of the regulatory impact on small businesses to government has also been noted in a number of statements by government officials. Former president, Nelson Mandela, stated (in Davie & Hetherington, 1999:1):

"My government and I are aware of the many obstacles that have prevailed against small businesses – historical injustices which prevented the majority of South Africans from gaining access to finance and other resources, restricted their access to major markets, and indeed, prevented millions of people from becoming entrepreneurs. These practices have resulted in what is now a very distorted economy, in which so many small businesses and black businesses are confined to the margins of economic activity".

In his State of Nation address, President Thabo Mbeki (2006:14) confirmed the need to expand the SMME sector. He committed his support to help generate the necessary resources for the development of the SMME sector, stating that:

“We will also speed up the consultative process to determine the measures we must take to improve the regulatory climate to facilitate the expansion of this sector”.

Regulation costs specifically relating to small businesses and taxation were raised, in the 2005 Budget Speech made by Finance Minister, Trevor Manuel (2005:28), on 23 February 2005, in which he stated the following:

“...we have directed attention this year at the costs and complexity for small businesses of the tax code, because there is compelling evidence that simplified arrangements can assist significantly in creating an environment conducive to enterprise development”.

Furthermore, he suggested that any effective approach to assist small business requires both policy and administration model adjustments in order to be effective. The 2005 year, therefore, saw the beginning of a process of structural change that was intended to:

- Build a positive tax compliance climate in South Africa;
- Assist small business in its start-up phase;
- Reduce compliance costs and red-tape; and
- Provide tax education and assistance (Manuel, 2005:1).

Both the previous and current Presidents and the current Minister of Finance have thus given their commitment to assisting small businesses in South Africa, but the lack of capital aside, tax is the biggest single concern of small business. Davie and Hetherington (1999:2), are quoted as saying:

“The high level of taxes, the enormous volume and complexity of the tax laws, and the administrative sophistication required to comply with these laws are daunting even for well-educated entrepreneurs. For those who through no fault of their own were educationally deprived, it would be easier to climb Mount Everest without oxygen than to understand and

comply with all tax laws. There is an urgent need for simplification and preferably also for a reduction in tax rates”.

Compliance with tax laws is cumbersome and time-consuming and is frequently beyond the small entrepreneur’s ability. This situation is not new, and there has been little significant improvement since 1994 (Davie & Hetherington, 1999:1).

Specifically with regard to tax compliance costs for small business, it is only fair for government to provide small business incentives to level the playing field. However, in doing so, they should not increase complexity and compliance costs, as that would be counter-productive (Arendse *et al.*, 2006:6).

Today, despite the abolition or reform of many rules and regulations, the situation is still unfavourable for small business. The small firms sector is poorly organised and has neither the money nor the time to match the sophisticated and continuous lobbying efforts of organised labour and of the corporate world. It is essential for South Africa to become globally competitive and it is essential for competitive business opportunities to be redistributed to those entrepreneurs who were previously suppressed and disadvantaged. That great and well-proven engine for wealth and job creation, the small firms’ sector, will continue to splutter and choke until there is serious tax reform. Economic growth will be curtailed, unemployment will continue to rise, and social instability will worsen (Davie & Hetherington, 1999).

The promise of significant increases in the economic growth rate through improvements to the regulatory environment needs to be supported by detailed information about the level and incidence of regulatory costs, in order to begin to identify opportunities for intervention (SBP, 2005:18).

According to Chris Darroll (executive director of SBP), as set out in the SBP report (2005:6) on counting the cost of red tape, improving the regulatory environment will take hard work. Better information-gathering by both government and private sector is crucial to this endeavour.

1.2 NEED FOR THE STUDY

Obtaining research information regarding the scale and scope of regulatory costs is challenging. However, despite this, due to the substantial burdens that they create, especially for small businesses, the government has a responsibility to document the costs it is imposing, even if it is not in the form of accurate or precise data. To date, in South Africa, no comprehensive system exists for regular, annual accounting of such costs (Hodges 2005:9).

Vast information shortages exist that limit the base for broad SMME policy development and impact assessments. South Africa lacks a coordinated SMME policy (Chamberlain & Smith, 2006:iii). Before any detailed information-gathering endeavour, as mentioned above, can take place, it is critical to establish what has already been done in this field and from there determine what is lacking. This is what this study aims to achieve, so as to prevent any unnecessary duplication of research from occurring. This will provide small businesses, the South African Revenue Service (“SARS”), National Treasury and tax practitioners with insight into the tax compliance cost-burden that small businesses face.

1.3 OBJECTIVE OF THE STUDY / ISSUES TO BE ADDRESSED

The main objective of the study is to provide an overview of what has been researched to date in the area of tax compliance costs for small businesses in South Africa and to establish what additional research is still required in order to understand this burden better and so alleviate it where, and if, possible.

The following will be achieved in this study from reviewing the literature on the tax compliance burdens on small businesses:

- Provision of an instrument to small business organisations and advocacy groups to lobby for further research and potentially law reform.
- Initiation of future research in this area.

1.4 RESEARCH METHODOLOGY

A literature review will be done on the tax compliance costs of small businesses globally, but focusing specifically on small businesses in South Africa. The literature review will ensure as much of the available literature as possible is researched, thus providing quality and practical information.

Academic literature, a variety of reports and articles dealing with the impact of taxation administrative compliance costs on small businesses in South Africa will be the basis used for the review.

Step 1:

A literature review will be conducted from the following sources:

- The websites of:
 - SARS (<http://www.sars.gov.za>)
 - Professional auditing firm website – Deloitte (<http://www.deloitte.com>)
 - The Department of Trade and Industry (“DTI”) (<http://www.dti.gov.za>)
 - The University of Pretoria library
(<http://www.up.ac.za/asservices/ais/eco/taxweb.htm>)
 - The Development Policy Research Unit of the University of Cape Town
(<http://www.commerce.uct.ac.za/dpru/WorkingPapers/wpapers.asp>)
 - The Business Day RealBusiness [net]work (<http://www.realbusiness.co.za>)
 - New Business Development in South Africa - SouthAfrica.info
(http://www.southafrica.info/doing_business/trends/newbusiness)
 - Small Business Development Corporation (“SBDC”) (<http://www.sbdc.com.au>)
 - Small Enterprise Development Agency (“SEDA”) (<http://www.seda.org.za>)
 - SBP (<http://www.sbp.org.za>)
 - The Mail & Guardian Online (<http://www.mg.co.za>)
 - Business NZ (<http://www.businessnz.org.nz>)
 - Policy and Law Online News (<http://www.polity.org.za>)
 - South African Government Information (<http://www.info.gov.za>)

The most important keywords and phrases were entered on the ‘Google’ internet search engine – a normal search system was used. These keywords are as follows: “small business”, “compliance costs/burdens”, “red tape” and “SMME”.

- Reports issued by research institutions, educational institutions and other business institutions
- Newspaper articles and press releases

Step 2:

Review the documents found, consolidate them and conclude on them.

Step 3:

Determine what additional research is required in this area to provide SARS and National Treasury with sufficient evidence that changes are required to assist small business development.

In order to perform these steps, it is essential to first establish what is generally understood by the term “SMME” as well as “small business”. These terms have been used interchangeably in various contexts above and it, therefore, needs to be ascertained what exactly constitutes a SMME and a small business. Whether a business is classified as a small business or not thus becomes a very relevant and important issue from a South African taxation perspective as special taxation benefits/relief measures have been provided for small businesses. Thus, in **Chapter 2**, the SMME and small business definitions from a global as well as South African economic and taxation perspective will be examined and compared.

In **Chapter 3**, the definition, as well as the quantification of the compliance costs incurred as a result of regulations imposed by government, will be considered. In order to do this, the definitions used in various studies in this area as well as the methods used to measure the regulatory and administrative burdens will be examined and concluded on. Specific emphasis will be placed on taxation compliance costs and their impact on small businesses.

One of the compliance costs incurred by small businesses must be the use of accountants/tax practitioners. The use of accountants/tax practitioners by small businesses

can be regarded as a rough indicator of the complexity of regulations, specifically tax legislation. Thus, in **Chapter 4**, the findings in various studies regarding the use of accountants/tax practitioner's by small businesses will be reviewed to establish the reason for using and the extent of use of these professionals. Whether or not these professionals will become or are an important component in assisting researchers in establishing the compliance costs for small businesses.

Once all the above aspects have been examined and understood, the relevant studies that have been done in South Africa on regulatory and compliance costs will be analysed and briefly summarised in **Chapter 5**. The following aspects of each study will be considered in this chapter:

- The objective of the study;
- The type of business that the study covered;
- The area of tax compliance that was measured;
- The method used to determine the area of tax compliance;
- The findings of the study in relation to tax compliance; and
- Constraints/shortcomings of research done in the light of tax compliance cost analysis for South African small businesses.

Chapter 6, based on the literature reviewed, concludes on the matters contained in the previous chapters and highlights the areas of tax compliance for small businesses that require further research.

1.5 LIMITATIONS TO THE STUDY

The informal sector was not considered in any depth in this review.

It is not possible, based on existing data, systematically to compare tax compliance costs across countries. While a number of studies have been conducted, their coverage and methods differ so much that to compare the results too closely would be misleading. Nevertheless, it is informative to look broadly at the available international comparisons (SBP, 2005:74). Thus comparisons between South Africa and other countries is limited to the studies already performed and mentioned in this research study.

The recommendations and proposals that stem from each of the studies reviewed have not been considered in this research study, as this would constitute a lengthy review on its own. Thus the nature and merits of the recommendations have also not been investigated, reviewed or analysed in this research study. The aim of this study is to identify what research has been done with regards to the tax compliance costs for small businesses in South Africa and not to solve this dilemma in any way. The research study aims further to highlight the areas where the research done to date is lacking from a tax compliance perspective.

CHAPTER 2

SMALL BUSINESS AND SMME DEFINITIONS

2.1 Introduction

The terms “small business” and “SMME” appear to be used in various contexts, most of which are very similar. Thus, in this chapter, it will be established what the distinctions are (if any) between these two terms by analyzing their definitions both from an economic as well as taxation perspective. The economic and taxation definitions will be compared to establish if there are any similarities.

These terms will further be analysed to determine if differences exist between local and international definitions. This analysis is necessary, as from an economic as well as taxation perspective, certain grants and benefits are awarded depending on certain qualifying criteria, one of which is the status and size of the enterprise.

2.2 “Small business” and “SMME” definitions – an economic perspective

From an economic perspective, in South African as well as internationally, various distinctions are made between small and large businesses. As this research study is considering the tax compliance burden on small businesses, it is these businesses that will be investigated further by analyzing their definitions as used in an economic sense. The South African perspective and thereafter the international perspective will be dealt with. From an international perspective, mainly countries that have market-driven economies, legal systems and business philosophies that are similar to South Africa will be reviewed.

2.2.1 A South African economic perspective

Accurate data on the composition of the South African economy, particularly about the number of firms in different size bands, are hard to come by. Estimates of the number of formal and informal small and medium-sized enterprises in the country, for example, range from 906 000 to 3 million. Manuel (RSA, 1995:7), estimated the full spectrum of the small-enterprise community to be close to a million enterprises, more specifically, more than

800 000 being SMMEs. The DTI's (2003:40) best estimate on the number of trading small businesses in South Africa is between 1.8 million and 2.56 million. In a more recent study, (making conservative assumptions), SBP estimates that there are 750 000 formal enterprises (skill and capital-intensive firms) in South Africa (SBP, 2005:73).

From the South African Government's perspective, the objective definition and classification of different types of small enterprises is essential, since publicly funded support for small enterprises should only be granted to those really needing it (RSA, 1995:9). So what then has been done on unifying the definition of "small business/SMMEs" in South Africa?

From a broad strategy perspective, as set out in the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (RSA, 1995:8), the most important distinction between the small business sector is between survivalist activities, micro-enterprises, small enterprises and medium-sized enterprises, with the general term "small business" and the abbreviation "SMMEs" widely used to contrast this sector with big(ger) business. Due to the similarity of some of the obstacles facing them, survivalist and micro-enterprises are often lumped together, whereas many support agencies feel that medium-sized enterprises need not be viewed as a category warranting particular attention.

These four sectors were further defined in this White Paper as follows:

Survivalist enterprises are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business. Poverty and the attempt to survive are the main characteristics of this category of enterprises. Support strategies should primarily help these people - a large percentage of whom are women to get out of this sector. Given the large number of people involved in survivalist activities, this constitutes a vast challenge, which has to be tackled within the broader context of the Reconstruction and Development Programme (RSA, 1995:8).

Micro-enterprises are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack 'formality' in terms

of business licenses, value-added tax (“VAT”) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support (RSA, 1995:8).

Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. The enterprises will usually be owner-managed or directly controlled by the owner-community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction (RSA, 1995:8).

Medium enterprises constitute a category difficult to demarcate *vis-a-vis* the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled, though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit. In terms of this White Paper concern rests with medium-sized enterprises which face obstacles and constraints which cannot be solved through normal market forces and private-sector action (RSA, 1995:8).

The White Paper was tabled in Parliament on 20 March 2005 and the outcome was the National Small Business Act (RSA, 1996). This Act only contained the definition of a ‘small business’ and this was defined as follows:

“a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule opposite the smallest relevant size or class as mentioned in column 2 of the Schedule”.

This definition was amended in the National Small Business Amendment Act (RSA, 2004:2) to define the term “small **enterprise**” rather than “small **business**” and it was defined as follows:

“a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the Schedule and classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule”

Thus, small enterprises can be classified as micro, very small, small or medium enterprises, following a complex set of thresholds. These thresholds are defined per industry in the National Small Business Act (RSA, 1996:13) - see “Schedule” below.

Table 2.1 - Schedule

[Schedule substituted by [s. 7 of Act No. 26 of 2003](#).]

(See definition of “[small enterprise](#)” in [section 1](#))

Column 1	Column 2	Column 3	Column 4	Column 5
<i>Sector or sub-sector in accordance with the Standard Industrial Classification</i>	<i>Size of class</i>	<i>The total full-time equivalent of paid employees</i>	<i>Total turnover</i>	<i>Total gross asset value (fixed property excluded)</i>
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m

Column 1	Column 2	Column 3	Column 4	Column 5
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m

Column 1	Column 2	Column 3	Column 4	Column 5
Transport, Storage and Communication	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

Three criteria are thus prescribed in this Act to categorise businesses as micro, small, very small or medium – number of employees, annual turnover, gross asset value (fixed property excluded). Thus should an entity in the agricultural sector have 3 full-time employees, R5 million turnover and R0,50 million worth of gross assets (fixed property excluded), then according to Schedule 1, this entity would be classified as a micro enterprise as only in this category are the criteria mentioned in columns 3, 4 and 5 of the Schedule satisfied – that is the employee, turnover and gross asset criteria.

A further example would be an entity conducting business in the community, social and personal services industry that has 50 full-time employees, R13 million turnover and R6 million of gross assets (fixed property excluded). This entity would be regarded as a small enterprise as once again only in this category are the criteria as set out in columns 3, 4 and 5 of the Schedule satisfied.

It is Chamberlain and Smith’s (2006:44) view that despite the intentions encapsulated in the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa (RSA, 1995) - now the National Small Business Act (RSA,1996) - SMME policy is not coordinated or aligned.

Various government departments use different definitions of “small business”. For instance, the Black Economic Empowerment (“BEE”) Codes of Good Practice measure the BEE status of small enterprises differently to that of larger enterprises. For instance, a “micro-enterprise” is defined by it as any business where the annual turnover is less than R300 000 (BusinessMap Foundation, 2006:1).

The table below (BusinessMap Foundation, 2006:1) shows how for each business sector government defines ‘small business or enterprises’ for BEE purposes.

Table 2.2 – Definition of small business or enterprise for BEE purposes

Sector	Qualification Criteria	
	Turnover below	Employees below
Agriculture	R 4 million	100
Mining	R7.5million	50
Manufacturing	R10 million	50
Energy	R10 million	50
Construction	R 5 million	50
Retail and motor	R15 million	50
Wholesale, agency and services	R 5million	10
Catering, accommodation and other trades	R10 million	100
Transport, storage and communications	R10 million	50
Finance and business services	R10 million	50
Community, social and personal services	R10 million	100

A small enterprise for BEE purposes is thus defined differently according to its sector. The BEE Codes of Good Practice applies a different scorecard to an enterprise if it rates as a Qualifying Small Enterprise in terms of these criteria. This separate scorecard for small enterprises is known as the “Qualifying Small Enterprise Scorecard” (“QSES”). The scorecard for all other enterprises is the “Generic Scorecard”. Small enterprises will be able to apply five or more elements, of the original seven elements of BEE set for large enterprises (BusinessMap Foundation, 2006:2).

One of the elements of the QSES is ownership. In terms of the tourism BEE charter, small businesses in this sector automatically score full points for the ownership element. However, it is essential to note that the tourism charter's definition of "small businesses" is a company with a turnover limit based on the "old" Small Business Act of 1996 and, by deduction, includes "very small businesses" (with an annual turnover of less than R1m) and "micro businesses" (with an annual turnover of less than R250 000), operating within the sub-sector of "catering, accommodation and other trade". The exemption excludes medium-sized businesses with an annual turnover of less than R10m in the sub-sector (Clow-Wilson, 2005:1).

In addition to this, according to the DTI (2003:71), the definition of a 'tourism SMME' is also open to debate, as it must relate to the boundaries of the tourism economy. Theoretically, the definition of tourism SMME should include those SMME operations which fall within the scope of the travel and tourism economy as well as those operating within the travel and tourism industry. In practical terms, however, the analysis of tourism SMMEs is confined more narrowly to those particular enterprises operating within the bounds of the travel and tourism industry as such.

The Democratic Alliance in its brochure "Starting a Small Business" (Democratic Alliance, n.d.:4) states that the category that the business fits into is important when approaching an agency for funding or operational support. In terms of this brochure, a medium-sized business might employ less than 100 people, a small business less than 50 people and a micro-business less than 10 people. It then goes on to state that similarly, taking a broad view, a medium-sized enterprise might have a turnover of less than R20 million per year, a small business less than R5 million per year and a micro-business might turn over less than R0.15 million per year.

The DTI (2003:33) states that micro-enterprises are occasionally described as businesses whose turnover is below the compulsory VAT registration limit of R300 000, but this does not correspond to the official definition. It defines a "small enterprise" organisation as:

"any entity, whether or not incorporated or registered under any law, consisting mainly of persons carrying on small enterprise concerns in any economic sector and established for

the purpose of promoting the interests of or representing small enterprise concerns, and includes any federation consisting wholly or partly of such association, and any branch of such organisation” (SAICA, 2006).

The Small Enterprise Development Agency (SEDA, 2006:3), which is the Department of Trade and Industry’s agency for supporting small businesses in South Africa, states that there is no definition of a small enterprise that everyone agrees on, but it is generally a description of any enterprise with between 50 and 100 employees, and includes profit-making enterprises (businesses) as well as not-for-profit enterprises (such as co-operatives).

Furthermore, SEDA states that within the definition of a small enterprise, many people also recognize a large number of very small (or micro) enterprises, with less than five employees. According to it, small enterprises are also sometimes called SMMEs (small, medium and micro-enterprises), a term which includes the larger end of the small business sector - medium-sized businesses (which employ up to 200 people).

The definitions used in the studies that are reviewed in **Chapter 5** also vary. In the “*The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1*” by the University of South Africa (“UNISA”) (2005a), “small enterprises” are defined as enterprises with between 20 and 50 employees. Medium enterprises were defined as enterprises with between 51 and 200 employees. These criteria match those (in terms of the employee numbers) as defined in the National Small Business Act (RSA, 1996) for manufacturing enterprises.

In the “*Owners’ perceptions of factors that constrain the survival and growth of small, medium and micro agribusinesses in Kwazulu-Natal, South Africa*” study (Clover & Darroch, 2005:239), small, medium and micro-enterprises were defined according to the number of employees in the National Small Business Act (RSA,1996). That is having, 50 or less, 100 or less, and five or less full-time equivalent paid employees respectively.

According to Chamberlain and Smith (2006:iii), South Africa lacks a coordinated SMME policy, a state of affairs that is very visible in a simple problem such as a lack of consistent small business definitions.

2.2.1.1 Conclusion – South African economic perspective

It would appear that in most contexts (unless otherwise defined), the term “SMME” is used interchangeable with the term “small business”. Thus, it would appear, that most references to the term “small business” include micro and medium-sized businesses and therefore “SMME” equates to the terms “small business”. However, there does not appear to be one consistent “small business” definition that is used in an economic sense in South Africa. For the rest of this research study, the term “small business” will be used and it will be assumed to include small, medium and micro-enterprises.

2.2.2 An international economic perspective

The definitions of small businesses used by various countries around the world will now be reviewed from an economic perspective. Mainly countries that have market-driven economies, legal systems and business philosophies that are similar to South Africa were chosen to be reviewed, however, where other countries definitions of small businesses were found, these were included in the study merely for interest sake.

African Small Business definitions

According to BusinessinAfrica Online (2004:1), it would seem that there is no concrete and reliable definition of what African small businesses are. Current definitions primarily address this lack of definition by addressing what small businesses are not, making the definitions over dependent on contrasts.

United States of America (“USA”) Small Business definitions

Interestingly, according to SmallBizCRM (2006:2), the Small Business Act (“SBA”) states a small business concern is "one that is independently owned and operated and which is not dominant in its field of operation."

In terms of the SBA, a Small Business is defined as one that:

- is organized for profit;
- has a place of business in the United States (“US”);

- makes a significant contribution to the U.S. economy by paying taxes or using American products, materials or labour;
- does not exceed the numerical size standard for its industry; and
- the business may be a sole proprietorship, partnership, corporation, or any other legal form (SmallBizCRM, 2006:2).

There is a SBA small business size standard for every private sector industry in the US Economy. Size Standards (usually stated in number of employees or average annual receipts) represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA's programs and for Federal contracting programs (SmallBizCRM, 2006:2).

The US Small Business Administration therefore, does not have a uniform guideline. They state that the general rule is 500 employees or US\$6 million in the past three year's average gross receipts, but they have so many exceptions that it makes the general rule nearly meaningless. They have a search engine that gives maximum dollar amounts or number of employees that qualifies for certain small business benefits like loans, etc. For example, wholesale trade small business status is determined by number of employees (less than 100), while manufacturing is delineated by 500 or fewer employees; US\$5 million gross receipts is the criterion for services, while US\$27.5 million is the benchmark for general and home construction. Certain specialised manufacturing may have 750, 1,000 or even 1,500 employees as the key number (Arendse *et al.*, 2006:3).

New Zealand Small Business definitions

In New Zealand small businesses tend to be defined as businesses that employ fewer than 20 staff (SmallBizCRM, 2006:4).

Australian Small Business definitions

The West Australian Small Business Development Corporation defines a "small business" as:

"a business in which all the main management decisions are made by 1 or 2 people without the help of internal staff management expertise, and which has a small share of the total market and labour force which is small in comparison with the largest units in the same industry" (Holmes & Gibson, 2001:8)

The Australian Bureau of Standards (“ABS”) uses different definitions for non-agricultural and agricultural sectors:

- for the non-agricultural sector, small business was defined by reference to number of employees:
 - < 20 employees (non-manufacturing industries)
 - < 100 employees (manufacturing industries)
- for the agricultural sector, small business was defined by reference to value of agricultural operations: between A\$20,000 to A\$399,000 estimated value (ICAA, 2006:10).

The Australian Tax Office (“ATO”) defined a small business as one returning business income of < A\$10m.

In the Bell Report – 1995, the task force defined a small business as having the following characteristics:

- Independently owned and operated
- Most, if not all, capital contributed by owners and managers
- Closely controlled by owners/managers who make principal decisions
- Turnover less than A\$10m (ICAA, 2006:10).

Generally, most small businesses have fewer than 20 employees in non-manufacturing industries and fewer than 100 employees in manufacturing industries (ICAA, 2006:10).

Irish Small Business definitions

According to the Irish Small Business Forum (2006:VII), small businesses are defined as businesses employing fewer than 50 people. Similar to the USA definitions, the Irish Small and Medium Enterprises Association basically regard their membership as self-selecting, reporting that most members have fewer than 20 employees (Arendse *et al.*, 2006:3).

United Kingdom (“UK”) Small Business Definitions.

According to SmallBizCRM (2006:2), the Bolton Committee in its 1971 Report on Small Firms provides the best description of the key characteristics of a small business. This report

stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share. This report also adopts a number of different statistical definitions. It recognised that size is relevant to sector, that is, a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. In broad terms, the Small, Medium Businesses market can be defined as businesses employing between 20 and 499 employees. Similarly, it recognised that it may be more appropriate to define size by the number of employees in some sectors but more appropriate to use turnover in others. Across Government, it is most usual to measure size according to numbers of full-time employees or their equivalent.

For statistical purposes, the UK Department of Trade and Industry applies the following definitions:

- micro firm: 0 - 9 employees
- small firm: 0 - 49 employees (includes micro)
- medium firm: 50 - 249 employees
- large firm: over 250 employees

However, in practice, schemes which are nominally targeted at small firms adopt a variety of working definitions depending on their particular objectives.

European Union (EU) Small Business definitions

In February 1996, the European Commission adopted a communication setting out a single definition of small and medium enterprises (“SMEs”). The Commission intended to apply this across Community programmes and proposals. The communication explained that existing SME definitions in Community programmes were allowed to be continued to be used until 31 December 1997. After that date, the single definition was to be used (SmallBizCRM, 2006:2).

On 6 May 2003, the Commission adopted a new recommendation in order to take account of economic developments since 1996. It came into operation on 1 January 2005 and applies to all the policies, programmes and measures that the Commission operates for SMEs. For Member States, use of the definition is voluntary, but the Commission invited

them, together with the European Investment Bank and the European Investment Fund to apply it as widely as possible. The new SME definition, per the User Guide and Model Declaration (European Commission, 2005:6) is as follows:

‘The category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro’.

Within this category, “small enterprises” are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro. “Micro enterprises” are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro (European Commission, 2005:14).

These thresholds can be explained by means of the following diagram:

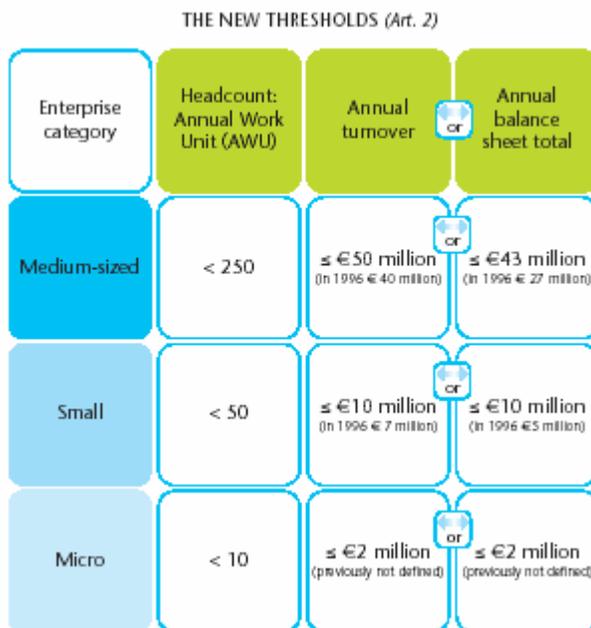


Figure 2.1 – Thresholds for new SME definition - European Commission
(European Commission, 2005:14)

Various studies performed, dealing with small businesses across the world, have used different definitions for small business, other than the ones mentioned above. One example of this for instance, is the *Doing Business in 2007: How to reform* report conducted by the

World Bank and International Finance Corporation (2006). In this study they regarded a “medium-sized” business as a company that started operations 2 years ago, is registered for VAT, has total assets to the value of R4.4m, has a turnover figure of R16.4m and employs 4 managers, 8 assistants and 48 workers.

What is regarded in the US as a small business by definition, would often be regarded as a medium-sized business elsewhere in the world. Small business definitions differ vastly in smaller countries like New Zealand and South Africa compared to their bigger counterparts in the US and the EU (SmallBizCRM, 2006:1). There are no single small business definitions mainly due to the wide diversity of these businesses. This reflects the differences in the economic and social fabric (DTI, 2003). One of the defining characteristics of the small and medium business market is its diversity; there are no neat, "one-size-fits-all" solutions to the business and administrative problems faced by small and medium sized businesses (SmallBizCRM, 2006:1).

The issue of comparability and alignment of definitions is not only an issue for this document, but raises a general concern over the lack of alignment in definition and focus of various government departments and initiatives (Chamberlain & Smith, 2006:1).

2.2.2.1 Conclusion – International economic perspective

It appears that internationally each jurisdiction has its own definitions of “small business”. Even within one of these jurisdictions, there are varying definitions depending on the association/industry/program that is being dealt with.

2.2.3 Overall Conclusion – Economic perspective

From a South African economic perspective, there is not one all encompassing definition of a “small business” that everyone agrees on. This definition diversity is not unique to South Africa, as internationally, there too is no universally accepted economic “small business” definition. Significant variations of this definition apply across regions and programmes.

One thing is therefore very clear, there are many different definitions being used around the world and specifically in South Africa. The broad range of definitions that are ascribed to

“small businesses” can make it extremely difficult for small business researchers to match up studies that have been conducted around the world or even within one specific country.

2.3 “Small business” definitions – from a taxation perspective

2.3.1 A South African taxation perspective

Relief measures or special dispensations are granted by SARS to small businesses. As the qualifying criteria to obtain these relief measures or special dispensations differ in respect of each of the individual taxes, each of the taxes will be reviewed individually.

2.3.1.1 Income Tax

Small business income tax incentives are targeted largely at manufacturing operations in South Africa, as this sector is more likely to create additional jobs, which is essential in an economy with unemployment rates in excess of 25%. Service-related concerns can also benefit, as long as they successfully negotiate at least two hurdles in the definition of a “*small business corporation*” (Arendse *et al.*, 2006:14).

A “*small business corporation*” is defined in section 12E of the Income Tax Act (RSA, 2006) and it contains the following requirements for a business to be classified as such:

- The entity must be a private company registered in terms of the Companies Act or a close corporation (“CC”) – but not an employment company;
- All its shareholders/members are natural persons;
- Its entire shareholding/members interest is held at all times during the year of assessment by shareholders/members who are natural persons;
- The shareholders/members do not hold or have any interest in any shares, at any time during the year of assessment of the company/CC, in another company (few exceptions to this rule);
- the gross income of the company/CC for the year does not exceed R14m; and
- the personal service income does *not exceed* 20% of the companies total receipts and accruals and all its capital gains.

The first hurdle that the service company must overcome is that it must not be an “employment company”. The second hurdle is that not more than 20% of the total receipts and accruals (including capital gains) of the company during the year of assessment concerned may be derived from rendering a “personal service”. The definition of a “personal service” is extremely wide-reaching and includes almost all types of services. Being classified as a personal service company not only denies the entity the small business tax concessions but also results in the entity being disallowed the deduction of almost all its expenses, and then being taxed at 34% (the highest tax rate applicable to any corporate entity) on its taxable income, which, with the denial of almost all deductions for expenditure, more closely resembles turnover. In 2005, the definition of “personal service” was amended to exclude all businesses with at least four full-time employees, which has enabled many more businesses to benefit. However, the requirement for “four or more employees” makes it difficult for many service concerns to benefit from the concessions available, particularly in the early years of operation when the number of employees may well be less than four (Arendse *et al.*, 2006:14).

The effect of being classified as being a small business corporation for income tax purposes, as set out in section 12E of the Income Tax Act (RSA, 2006), is as follows:

- No tax is payable on the first R40 000 of taxable income; only 10% tax is payable on the annual taxable income of a small business corporation between R40 000 and R300 000; and the tax rate for taxable income over R300 000 is 29%;
- A 100% write-off of manufacturing assets in the year the asset is brought into use; and
- A 100% write-off over three years (50% in the first year, 30% in the second year, and 20% in the third year) on non-manufacturing assets like computers, tills and delivery vehicles (this is an accelerated allowance in terms of the normal income tax rules) (RSA, 2006).

2.3.1.2 Capital gains tax

From a capital gains tax perspective, a small business is defined as a business where the market value of all its assets at the date of disposal date does not exceed R5 million (SARS, 2005).

Persons who operate small businesses - as defined above - such as sole proprietors, partners or owners of an interest (10% or more) in a company or close corporation are subject to certain conditions and are entitled to exclude R750 000 of the capital gain made on the disposal of active business assets when they attain the age of 55 years or the disposal is in consequence of ill-health, other infirmity, superannuation or death (RSA, 2006).

The concession, which is available only to a natural person, requires that a person disregard any capital gain made on the disposal of:

- an 'active business asset' of a small business owned by him as a sole proprietor; or
- an interest in each of the active business assets of a partnership qualifying as a small business upon his withdrawal from the partnership, to the extent of his interest in the partnership; or
- an entire direct interest, which consists of at least 10% of the equity of a company qualifying as a small business, in as far as that interest relates to assets of that small business qualifying as active business assets (Stein, 2006:12.5).

A further requirement is that if the business is sold on terms, all payments must be received within 24 months of the disposal (Huxam & Haupt, 2006:720). For example, if the disposal of the 10% holding in a company is effected over a period, the entire gain must be realized over a period not exceeding 24 months in order for the capital gain to be disregarded (Stein, 2006:12.5).

The lifetime exemption of R750 000, does not apply if the person owns more than one small business, (by way of a sole proprietorship, partnership interest or direct interest of at least 10% in the equity of a company (Stein, 2006:12.5)), and the total assets of all his small businesses exceeds R5 million in value (Huxam & Haupt, 2006:720).

2.3.1.3 Value Added Tax

Small South African businesses with taxable supplies (similar to turnover) not exceeding R300 000 over a twelve-month period are not required to register for VAT purposes and are therefore spared from having to submit VAT returns. These businesses may apply for

voluntary registration, which enables them to benefit from input tax credits on certain expenses, but also then imposes upon them the obligation to lodge VAT returns and levy output VAT. Certain small businesses are permitted to submit VAT returns every four months, instead of the normal monthly or bi-monthly requirement. In addition, certain small businesses may elect to pay VAT on the cash basis, rather than the accrual basis, if their turnover is less than R2.5 million per year.

2.3.1.4 Skills Development Levy

According to Arendse *et al.* (2006:8) to encourage small businesses to hire employees, employers paying annual remuneration not exceeding R500,000 in total are exempt from the payment of the Skills Development Levy (“SDL”), which is a 1% payroll tax.

2.3.1.5 Tax Amnesty

It is interesting to note, that SARS’ tax-base broadening efforts and “walkabouts” in informal business areas indicated that numerous small businesses were not on register or have not made full disclosure to SARS and would like the opportunity for regularisation without fear of tax liabilities arising out of past non-compliance. The Small Business Tax Amnesty and Amendment of Taxation Laws Bill (RSA, 2006a), therefore, introduced a tax amnesty for small business. This amnesty applies to the following taxes:

- Income tax;
- Employees’ tax;
- VAT;
- Withholding tax on royalties;
- Secondary tax on companies (“STC”);
- Unemployment Insurance Contributions; and
- SDL (RSA, 2006b)

What is regarded as a small business in terms of this amnesty? Any individual, unlisted company, close corporation, trust, co-operative or insolvent or deceased estate of an individual which meets certain requirements. The requirements are that:

- the individual or entity must have carried on a business;

- the gross income (turnover) of the business (or businesses if the individual or entity carried on more than one business) during the 2006 year of assessment was not more than R10 million;
- in the case of a company or close corporation all the shares or members' interests were held directly by individuals throughout the 2006 year of assessment; or
- in the case of a trust all the beneficiaries of that trust throughout the 2006 year of assessment must have been natural persons (RSA, 2006b).

Should you comply with the definition of “small business” for amnesty purposes, it does not imply that you qualify for the relief from income tax in terms of the section 12E or any other tax for that matter. Thus, careful consideration needs to be given to the definition of small business in each situation to ensure that you qualify for the benefits offered by each separate act.

2.3.1.6 Conclusion – South African taxation perspective

Although tax incentives for “small businesses” in South Africa exist, in order to be eligible for them, compliance with extremely narrow definitions must be adhered to. Each type of South African tax requires a specific and unique set of criteria in order for a business to qualify for its “small business” incentives.

2.3.2 Small business definitions – International taxation perspective

As one of the main focus areas of this chapter is to determine whether or not small business definitions vary, both locally and internationally, from a taxation perspective, a brief overview of what occurs internationally, based on findings in various reports, will be done without delving into each of the different types of taxes applicable to small businesses in each country. Furthermore, as the type of taxes vary drastically from one country to the next, income tax, as it is generally regarded as the “main” tax in almost all international countries, has been chosen as the tax to be reviewed as an overall indicator of the use of the “small business” definition from an international taxation perspective.

2.3.2.1 International findings

Arendse *et al.* (2006:3), found that in the US, Australia, South Africa and Ireland, income tax laws take a provision by provision approach to defining small business, utilizing some or all of the differentiating criteria, which is definitely not simple. One of the common themes arising in each of these countries is how to prevent a large or mid-sized business from taking advantage of favourable small business tax provisions by breaking up the whole into smaller parts and, therefore, allowing the sum of the parts to be less taxed than the whole would have been.

In the U.S. context, the above can be seen relative to the small business definition for expensing of assets placed in service during the year. A similar application of this affiliated group rule applies to one of the more commonly used measures of a small business-taxpayer's gross receipts for some defined period of time. For many US purposes, the specific measure is average gross receipts for the three prior years of not more than US\$5 million. Another common gross receipts test measure is average gross receipts for the three prior years of not more than US\$10 million. The law also includes small business measures of US\$1 million and US\$7.5 million. One of the most common US implicit measures of a 'small business' is based on the amount of taxable income. If corporate taxable income is less than US\$100,000 the tax rate is an average 22.25%. If taxable income exceeds US\$100,000, then the next US\$225,000 of the income will be taxed at 39%. Once the \$335,000 taxable income threshold is reached, then all the corporation's taxable income is taxed at the normal 34% rate that applies to medium and large corporations (Arendse *et al.*, 2006:11).

In Ireland the primary test of a small company is tax liability. Where the company's tax liability for a given year is €50,000 or less, the firm is designated as a small company for Irish tax purposes for the following year. There are no grouping provisions, the only provision being that the €50,000 limit is reduced pro-rata for accounting periods of less than twelve months. This criterion has the benefit of simplicity, and at the low Irish tax rates effectively allows firms with taxable income of €400,000 or less to be defined as small businesses. While phase-out provisions apply to Irish individual taxpayers in the areas of overall tax exemption, capital acquisitions tax and certain benefits in kind, the limit for

definition as a small company is set at €50,000 tax liability, accentuating the incentive to engage in aggressive tax planning to come below the threshold (Arendse *et al*, 2006:11).

Most of Australia's small business concessions are available regardless of the form of entity used to carry on the business: sole trader, partnership, trust or company. However, the turnover or asset thresholds used as the basis of qualification for most income tax concessions are invariably applied on a group basis. These rules are usually very complicated, grouping not only associated businesses regardless of entity structure and tracing through chains of ownership, but also grouping businesses of certain relatives of the individuals conducting a business, even though the businesses themselves may be unrelated. Tests do not just rely on formal equity holdings, but can involve looking at control, distributions, or even acting in accordance with wishes, depending on the type of entity involved. Australia for the most part adopts hard and fast thresholds for access to its small business concessions, although there are some exceptions. Turnover for access to simplified depreciation and trading stock accounting is averaged over any three of the four preceding years. The proprietor's tax liability discount, is gradually phased out from a maximum 25% at A\$50,000, to nil at A\$75,000. The remittance concessions for tax withholdings have a medium business concession as well as the more generous small business concession. Australia's small business capital gains tax concessions are only available for what are described as "active assets" of a business, which must have been held for specified minimum time periods and which exclude financial instruments and other assets that simply return a passive investment stream (Arendse *et al.*, 2006:12).

2.3.2.2 Conclusion – International taxation perspective

From a few of the international countries reviewed, it would appear that most of them use different criteria to establish if a business is a "small business" qualifying for special taxation relief/benefits for that particular country.

2.3.3 Overall conclusion – Taxation perspective

As a general concept, a country's income tax system may differentiate between small and other businesses based on concentration of shareholders; or it may be based on gross receipts, taxable income, or tax liability; it may be based on the phase of the business, or

the cost of equipment purchased; it may be based on the gross assets, size of equity raised, number of classes of stock or the company's net worth; or it might even be based on the type of assets it owns, on the type of activity it engages in etc. (Arendse *et al.*,2006:2).

Both from a South African and international taxation perspective, "small business" definitions vary based on the tax that is imposed. The criteria used to establish if a business is a "small business" qualifying for taxation relief/concessions include criteria such as turnover, assets purchased, shareholdings, etc. No single criterion is universal across South Africa or any other country, let alone, across the various taxes that are imposed by that specific country.

2.4 Overall conclusion

From an economic perspective, various countries, including South Africa, use various definitions of "small business" in order to provide economic benefits to this type of entity. Even within a country, it is difficult to find a single definition that can be used across all the government departments. For the remainder of this research study, the term "small business" (unless clearly stated and defined otherwise in a study etc.) will be used and will be deemed to include small, medium and micro-enterprises.

From a taxation perspective, although there are certain similarities between certain of the criteria, there does not appear to be a consistent approach by the South African or any international government, in respect of the taxation of small businesses.

Thus both from an economic and taxation perspective, it appears that although there are certain similarities, these are not consistent per country nor per tax imposed by each country. Thus any comparability between countries or even taxes should be approached with caution.

Potential reasons for these complexities and differences imposed by the various governments could be due to the fact that there is a large risk that small businesses may be formed to take advantage of the economic and taxation benefits accruing to smaller companies, which the business would normally not be entitled to. However, one of the government's duties, should still be to encourage entrepreneurship. To promote this it needs

to assist small businesses with the additional costs that they incur in respect the complexities in establishing and understanding these definitions.

Ensuring that a small business is a small business and that it complies with all the requirements thereof is not an easy task and is one which will result in compliance costs being incurred.

The question now arises - what constitutes “compliance costs”, and more specifically “tax compliance costs” for small businesses. This term is therefore required to be analysed in more detail. This will be done in **Chapter 3**.

CHAPTER 3

COMPLIANCE COSTS – WHAT ARE THEY AND HOW ARE THEY QUANTIFIED?

3.1 Introduction

Small businesses are subject to numerous regulations. In order to comply with these regulations, small businesses have to incur certain costs. One of these costs is compliance costs. The nature, definitions and quantification of compliance costs incurred by businesses will be reviewed in this chapter to establish if there a uniform definition and technique/method to quantify these costs. This is necessary if comparisons of these costs are to be made both locally and internationally. Specific emphasis will be placed on the **tax** compliance costs incurred by small businesses.

3.2 Regulations and regulatory costs

The Organisation for Economic Co-operation and Development (OECD, 2003) defined “regulation” as the diverse set of instruments by which governments set requirements on businesses and citizens. Regulations fall into three categories:

- **Economic regulations** intervene directly in market decisions such as pricing, competition, and market entry;
- **Social regulations** protect public interests such as health, safety, the environment, and social cohesion; and
- **Administrative regulations** are paperwork and administrative formalities through which governments collect information and intervene in individual economic decisions.

Regulatory costs impose a deadweight burden on firms and therefore should be minimised. According to Upstart Business Strategies (2004:43), the South African government has identified inappropriate regulation as one of the critical constraints facing small businesses. While considerable effort has been made to provide small business support in various other areas, progress in improving the regulatory environment for small business has lagged behind.

Limited efforts have been made in the past to give effect to this mandate. In 1997, Ntsika Enterprise Promotion Agency undertook the first national small business regulatory review, covering a number of laws. The review confirmed what was already known, that small businesses were struggling to cope with a range of laws and regulations (Upstart Business Strategies, 2004:43).

Clearly, the benefits of regulation are often substantial, but these are usually far better understood than their costs. Regulatory costs were discussed in the SBP report (2005:13) and are summarised in the following table (SBP, 2005:13):

Table 3.1 – Main types of regulatory costs

Type of regulatory cost	Examples of activities involved	Who pays?
Compliance costs	Understanding regulations with assistance from experts, proving compliance by submitting forms, etc.	Firms and (usually) their customers. Economy-wide knock-on effects
Administrative costs	Assessing submitted forms, undertaking inspections etc.	Government, taxpayers. Economy-wide knock-on effects
Efficiency costs	Buying, installing and maintaining equipment required by regulations, making choices about production techniques, number of people employed, and/or which markets to compete in, based on regulatory impacts	Firms, their employees, suppliers and customers. Local and foreign investors. Economy-wide knock-on effects
Non-compliance costs	Staying small or informal as a means of avoiding regulatory oversight or remaining below regulatory thresholds. Incurring fines, having stock confiscated or destroyed, and/or having to pay bribes as a result of attempts to evade regulatory compliance	Entrepreneurs and businesses that find themselves on the wrong side of the law. Employees of firms which fail to meet minimum standards e.g. health and safety, labour protection. Government loses revenue and/or tax payers face higher tax rates as a result of lost revenue. Economy-wide knock-on effects

As this study is concerned with the taxation compliance costs for small businesses, the compliance costs as mentioned above will now be analysed in more detail.

3.3 Compliance costs

In South Africa, the estimated aggregate recurring compliance costs for the formal sector amounted to R78,9-billion in 2004 — an amount equivalent to 6,52% of the gross domestic product. This was based on the average recurring compliance cost per firm of R105 174, and the SBP's conservative estimate of 750 000 as the number of firms affected (SBP, 2005:5).

It is clear from the SBP results that regulation creates significant efficiency costs in the South African economy. There is strong evidence, echoed by many other studies, to show that features of the regulatory environment discourage business growth and job creation in the formal economy (Mail & Guardian, 2005:2).

It is, therefore, appropriate to focus research effort, at least in the first instance, on regulatory costs, and specifically in this study, on taxation compliance costs. The SBP's survey looked in detail at two kinds of regulatory costs faced by the private sector: efficiency costs and compliance costs (Mail & Guardian, 2005:2). The compliance costs were explained as follows:

Compliance costs are pure red-tape costs: that is, they are the incremental costs incurred by business in the course of complying with regulations. They include:

- the value of time spent by business managers and staff on understanding the rules and applying them;
- interacting with the authorities to clarify matters arising; and
- the payments made for the expertise of professional advisers such as consultants, lawyers and accountants (Mail & Guardian, 2005:2).

For example, the costs of tax paperwork are compliance costs, while the tax payments themselves are not.

The Upstart Business Strategies study (2004:5) broke compliance costs down into two types – direct and indirect. These were defined as:

Direct compliance costs relate to money and time spent on formalities and paperwork (seeking permits, filling out forms and reporting to and notifying public authorities) and other direct payments necessary to comply with regulations (see diagram on the bottom of this page) and “psychic” costs (e.g. resentment at having to act as an unpaid tax collector).

Indirect or dynamic costs arise when regulations reduce the productivity and innovativeness of enterprises (Upstart Business Strategies study, 2004:5).

The study broke down **direct compliance costs**, that is, costs that businesses incur in order to comply with legislation and regulations, other than via financial transactions with the government, into two categories:

1. **Substantive** compliance costs - comprise costs that businesses incur in order to comply with the content obligations that legislation and regulations require of a production process or a product. In the case of taxation, an example of a substantive cost would be the amount paid to acquire an accounting software package (Upstart Business Strategies study, 2004:5).
2. **Administrative burdens** - defined as “the costs to the business of complying with the information obligations resulting from government-imposed legislation and regulations.” In the case of taxation, an example would be calculating the total value-added tax owed to the revenue authority for a specific tax period. Although other private cost categories can be identified, for example, psychological costs, the reviewed cost components and their subcomponents form the main determinants of the total private costs of taxation (Upstart Business Strategies study, 2004:6).

The above can be explained schematically in the following diagram (Upstart Business Strategies study, 2004:6):

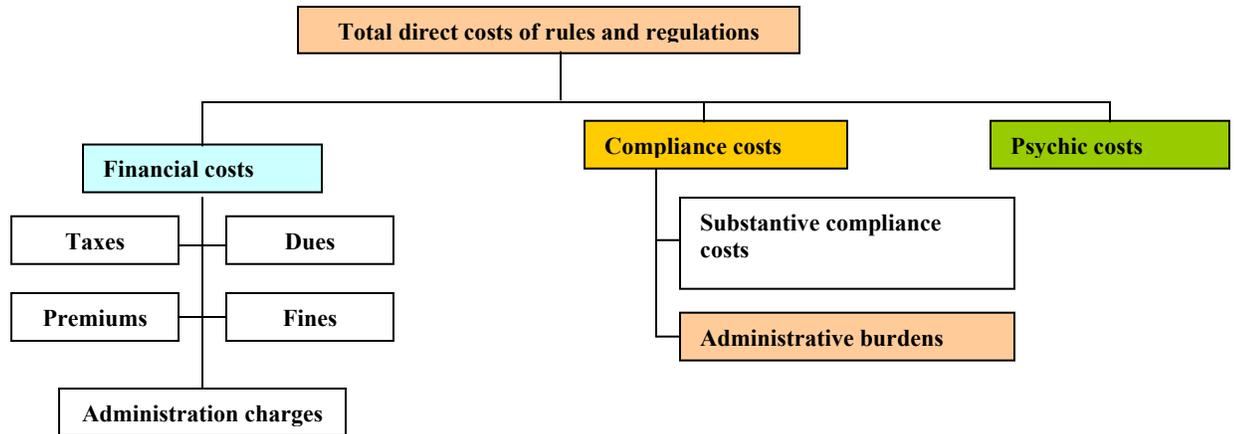


Figure 3.1 - Schematic diagram of the total direct costs of rules and regulations

These definitions were echoed in the research done by SBP (2005:14-15), Turner *et al.*(1998:95-96) and Chamberlain & Smith (2006:5-6).

It has now been established what constitutes compliance costs, but what constitutes tax compliance costs?

3.3.1 Compliance costs – a taxation perspective

According to SBP’s (2003) SME Alert, taxation ranks high as a source of regulatory cost and disincentive for small-scale entrepreneurs. Furthermore, this publication indicates that studies have shown that tax compliance absorbs a large share of the total administrative costs of businesses. In the UK, for example, tax compliance costs – on the basis of studies available – appear to account for 40% to 50% of all regulatory costs.

One source of tax compliance costs comes from tax authorities passing on administrative costs to taxpayers while a second comes from the complexity of most tax regulations (Turner *et al.*, 1998:97). Tax compliance costs thus include not only continuing internal compliance such as correctly applying tax law, keeping required records and completing tax documentation, but also time to learn about new laws or law changes, as well as external costs of obtaining professional advice or assistance (Arendse *et al.*,2006:4).

It is interesting to note, that according to Turner *et al.* (1998:100) none of the research undertaken at that stage, either in Europe or anywhere else in the world, on taxation compliance costs, had considered the role that paid advisors play in determining taxpayer attitudes towards the system. These appear to be major contributors to the costs of compliance with the tax laws.

Despite the items mentioned above and on the previous page, Evans (2006:3) feels that there is uncertainty about what should be included in the measurement of taxation compliance costs. Whilst this is an area in which there will always be debate, it is possible to identify a “hard core” of costs that are indisputably part of the costs of complying with taxation requirements. Typically these will include:

- the costs of labour/time consumed in completion of tax activities, for example, the time taken by a business person to acquire appropriate knowledge to deal with tax obligations such as Pay As You Earn (“PAYE”) or VAT; or
- the time taken in compiling receipts and recording data in order to be able to complete a tax return;
- the costs of expertise purchased to assist with completion of tax activities (typically, the fees paid to professional tax advisers); and
- incidental expenses incurred in completion of tax activities, including computer software, postage, travel etc.

Turner *et al.* (1998:96) summarized these into the following categories of compliance costs:

- taxpayer’s and unpaid helper’s time;
- tax agent fees; and
- incidental expenses.

This was mirrored by Turner *et al.* (1998:95), who incorporated these into a simplified definition - “the costs incurred by taxpayers and third parties in meeting the requirements laid upon them in complying with a given structure and level of tax”.

In addition to this generally accepted “hard core” of compliance costs, there are a number of other costs that also need to be considered – either due to their nature or due to the fact that

they are intertwined with other non-tax compliance costs but separation between the two is difficult. According to Evans (2006:3), examples of these are:

- psychological costs;
- social costs;
- computational and tax planning costs;
- commencement and recurrent costs; and
- accounting costs.

Psychological costs

There is little doubt that there will always be a measure of **psychological cost** that is induced by the operation of the tax system. Taxpayers suffer stress, anxiety and frustration as a result of attempting to comply with their taxation obligations. Unfortunately, no studies have yet managed to successfully quantify these psychological costs, although research in this area is now taking place (Evans, 2006:3).

Social costs

As well as psychological costs, there may be **other social costs** that are difficult to quantify (and which therefore tend to be ignored in the literature). An example of such social costs – which are often on the borderline with efficiency costs – is where a tax change, such as the introduction of a higher rate of VAT on a particular range of goods, causes a trader to cease to stock those goods (in order to keep tax affairs simple), thereby inconveniencing customers who have to travel further to continue to buy those goods and possibly having to pay more because of the reduction in competition (Evans, 2006:3).

Computational and tax planning costs

Compliance costs are sometimes divided into **computational** (unavoidable or involuntary) and **tax planning** (avoidable or voluntary) costs. This distinction, has caused a controversy that has not yet been (and possibly will never be) fully resolved in the tax compliance literature. Many tax lawyers and policy makers continue to insist that only computational costs constitute legitimate measures of taxation compliance costs, and attempts have been made to disentangle the two. However most modern major studies have not distinguished computational and tax planning costs in their estimates of compliance costs – if only for the obvious reason that it is often almost impossible to disentangle the one from the other.

Moreover, as noted by Slemrod and Sorum, “both kinds of costs are real resource costs of collecting the taxes” (Evans, 2006:4).

Commencement and recurrent costs

Similar problems of disentanglement account for the inclusion of both “**commencement**” (or once-only) and “**recurrent**” (or regular) costs in most estimates of compliance costs. Commencement costs may arise as a result of both legislative change and changes in the taxpayer population. Recent studies have attempted to distinguish the two, but there are, as yet, no reliable studies which focus entirely on the commencement costs of a major tax. Generally studies tend to note the distinction, recognise that the frequency of legislative and population change makes disentanglement difficult if not impossible, and integrate the two in the measurement of compliance costs (Evans, 2006:4).

Accounting costs

These are another example of the problem of disentanglement. Despite careful attempts in most modern studies to quarantine tax compliance costs from the underlying costs of being in business – referred to by Sandford in Evans (2006:4) as “**core accounting costs**” – there is almost certainly some **overlap** between business or **accounting costs and tax compliance costs** – what Allers in Evans (2006:4) refers to as “joint cost problems”. It is argued that using trained interviewers/accountants (with an awareness of core accounting functions and costs) to conduct face-to-face interviews with their selected clients enabled the participants to distinguish “incremental” compliance costs from core accounting functions. However, there is uncertainty about the extent of overlap and therefore most estimates of taxation compliance costs can only be indicative at best (Evans, 2006:4).

Thus, for small businesses, tax compliance costs, in general, include the cost of collecting, paying and accounting for tax on products or profits of the business, and on the wages and salaries of employees together with the costs of acquiring the knowledge to enable this work to be done. Using professional tax advisors is one of the main costs contributing to the cost of complying with taxation legislation. However, various uncertainties in the quantification of compliance costs do, however, arise, when trying to analyse psychological, social, computational, tax planning, commencement and recurrent costs. Another problem with these and other costs such as accounting costs, is their overlapping with tax compliance

costs. Being able to distinguish a clear cut off point between these types of costs and tax compliance costs is a task that is very difficult, if not impossible, to achieve.

It has now been established what generally constitutes compliance costs - specifically tax compliance costs - but how are these costs measured?

3.3.2 Measurement of compliance costs

In trying to quantify compliance costs the determination of time devoted to compliance activities is highly influenced by factors affecting a specific firm at any give time. It is evident that quite different results as to the value of time spent can be obtained depending on when estimates are requested. A very rough idea of the average cost of time spent on taxation compliance activities could be obtained by multiplying the average time taken by the average cost per hour. However, the resulting figures are probably misleading. Depending on various self-estimates of time and hourly costs, the annual costs for participants could range drastically (Turner *et al.*, 1998:95).

In attempting to measure tax compliance costs, Turner *et al.* (1998:95) were concerned not only with the four categories of compliance costs as mentioned previously, but also with the opportunity costs – the value of the next best use to which the resources consumed might be put if the tax did not exist. But how are these measured, if at all?

3.3.2.1 Techniques and methods used to measure compliance costs

Gary Banks, in his address to the Small Business Coalition in Canberra Australia on 20 March 2003, as read in the Upstart Business Strategies (2004:10), stated:

“In practice, measuring compliance costs is not a simple task. At this point in time, there is no generally agreed methodology, although progress is being made on a number of fronts.”

Techniques used to measure compliance costs

Evans (2003:70) states that there is a far greater emphasis on quantitative rather than qualitative techniques that are used in studies into tax compliance costs. These include surveys (invariably using questionnaires) conducted through commercial polling

organisations, or by mail, email and telephone, other interview-based methodologies, diary and case study approaches, and documentary analysis and estimating/simulating techniques. Often the studies employ a combination of these approaches. Postal surveys feature prominently, with nearly two thirds of the studies using this methodology wholly or in part. Roughly one quarter of the studies used interviewing techniques, usually on a face-to-face basis and with a structured survey instrument or script built into the process. The labour intensive diary and case study approaches tend to be the least used methodology.

Methodological approaches used to measure compliance costs

Methodological approaches for measuring regulatory burdens, thus including compliance costs, are of two types – “top-down” and “bottom-up” approaches. Top-down or “macro” methodologies are aimed at establishing government-wide estimates for regulatory burdens. Bottom-up approaches review sectors or individual estimates of regulations’ burdens, sometimes as part of broader impact assessments. Within these two broad categories, there are several approaches used to measure regulatory impact, see table 3.2 below (Upstart Business Strategies, 2004:11).

Table 3.2 - Approaches followed in measuring the impact of legislation / regulation

Method	Brief description	Some countries where method used
Bottom-up approach	<p>The method works in three stages:</p> <ul style="list-style-type: none"> • In-depth analysis during which all ‘data transfers’ between a business and a public authority (e.g. a document, a telephone call, an inspection) • The time involved in each ‘data transfer’ and the level of the person performing it (relating to professional qualification and hourly wage rate) are then determined • The data are computed to produce cost estimates 	Netherlands, Denmark, Norway, Sweden, Finland
Information collection budgets (ICB)	<ul style="list-style-type: none"> • ICB is used by the Office of Budget and Management (OMB), in consultation with each government agency, to set annual agency goals to reduce information collection burdens. • Each agency calculates its total information collection “budget” by totaling the time required to complete all its information requests. The budgeting exercise is then used to measure progress toward burden reduction goals. 	United States of America
Index-based approach	<ul style="list-style-type: none"> • A scoreboard system is used to records all the variables used in each administrative procedure or formality of any kind. Indicators are used for each procedural step and each indicator is given an index value • The index values for a formality are then added up and the total multiplied by the frequency of the procedure and by the number of persons involved 	Belgium

	<ul style="list-style-type: none"> The result gives the procedure's overall index value From the burden indexes for individual regulations, the total size of administrative burdens can be determined 	
User surveys	<ul style="list-style-type: none"> Surveys have been used to measure compliance costs directly or to measure satisfaction with the forms and/or processes used in administrative procedures 	Australia, Belgium, France, Korea
Regulatory impact analyses (RIA)	<ul style="list-style-type: none"> RIAs are more broadly-based in their concerns on regulatory impacts But also constitute a systematic means of ensuring that consideration is given to administrative burden issues during the process of developing regulation RIA constitutes an ex ante approach to burden measurement – allowing for the re-consideration of burdens before they are imposed RIA allows burdens to be placed in a broader context by requiring that burdens be weighed against the benefits deriving from the administrative procedure and consideration given to the net impact of the procedure RIA makes use of stakeholder consultation, enabling the verification of government estimates of the size of the burdens and providing a forum for alternative proposals to be discussed 	Canada, USA, UK, Mexico

* This approach, called Mistral®, was developed in the Netherlands. The approach, with slight modifications, has since been made available for public use under the name the “Standard Cost Model” and adopted and used by several countries in Europe

The top-down and the bottom-up approaches will now be examined in more detail.

3.3.2.1 a) The top-down approach

As stated before, the top-down approach is aimed at establishing government-wide estimates for regulatory burdens. The key advantage of the top-down approach is the availability of the administrative burdens and other data at the level of the individual enterprise. However, the resulting figures may not necessarily be accurate. Because this approach mostly uses mail questionnaires to gather data, the participating enterprises may interpret definitions of administrative activities differently, thus either underestimating or overestimating the administrative burdens involved. Experience shows that the variations between answers, in terms of money, are often quite substantial, mainly because most entrepreneurs or their bookkeepers have different views about the way their firms are complying with the specific information obligations (Upstart Business Strategies, 2004:12).

Differences between firms will arise because of differences in their efficiency levels. There is also a risk that respondents may omit the administrative burdens imposed by smaller or non-repetitive activities such as familiarising themselves with the obligation, receiving the information, filing, etc. There is also a risk of intermingling the administrative activities of one policy area with the administrative activities of another policy area or, even more problematically, with those of the business's regular administrative procedures. For these reasons, the results of an assessment using this approach are difficult to use, particularly with regard to monitoring administrative burdens and the outcome has often given rise to criticism (Upstart Business Strategies, 2004:12).

This is confirmed by Jeff Pope (Upstart Business Strategies, 2004:12) who states that “The critics’ overriding objection seems to be that they are extremely dubious of the ability of the postal questionnaire survey technique to yield reliable estimates of the time and costs involved in complying with tax requirements.”

This is counter-argued by Graham Bannock (Upstart Business Strategies, 2004:12) who feels that “All surveys of compliance costs are open to the criticism that the results are based on subjective assessments of respondents”.

3.3.2.1 b) The bottom-up approach

The bottom-up approach uses a specific piece of legislation or specific regulation as the starting point, in other words, the unit of analysis. Under this approach, the law or regulation in question is subjected to a detailed examination entailing the disentanglement and analysis of all information transfers and related administrative activities. Through a multi-stage process of consultations and discussions with various respondents – within firms, accountants, lawyers, employers’ bodies, and enforcement agencies – the amount of time taken to carry out each activity and the level within the firm (seniority/qualification) at which the activity is carried out are determined.

The *comparative* strengths and weaknesses of the two approaches can be summarised in the following table (Upstart Business Strategies, 2004:13):

Table 3.3 – Comparative strengths and weaknesses of the top-down and bottom-up approaches

	Top-down approach	Bottom-up approach
Representativeness of enterprises	+	–
Scope of policy/legislation/regulations covered	+	–
Quick overview of administrative burdens by policy area	+	–
Ex-post (existing law / regulation) assessment	+	+
Ex-ante (proposed law / regulation) assessment	–	+
Assessment of alternatives	–	+
Accuracy of results	–	+
Public acceptance of results	–	+
Cost of conducting the research	+	–

According to the OECD (2003:49) experiences indicate that the top-down approaches facilitate priority settings for broad burden reduction programmes, whilst bottom-up approaches are better adapted to the design and evaluation of specific initiatives to reduce burdens.

3.3.2.1 c) Conclusion on the different methods

It appears that both methods have their pros and cons. Deciding on what method to use will depend on the circumstances and scope of the study but will invariably lead to criticism from various researchers. However, as all researchers strive to achieve accurate results that are publicly accepted, it would appear that the bottom-up approach outshines the top-down approach.

3.3.2.2 Recent methodological trends in Europe

A bottom-up approach to measuring administrative burdens (Mistral), was developed and extensively used in the Netherlands some ten years ago. Subsequently, a derivative of

Mistral was developed in the Netherlands in order to meet the need for a non-proprietary measurement technique. The new technique, called the Standard Cost Model (“SCM”) is gaining increasing utilisation across Europe. For instance, the SCM is now the adopted method for measuring administrative burdens in Denmark, Sweden, Finland, Norway and the Flemish government in Belgium. The method is also being introduced for the first time in Australia. In 2002 Sweden adopted the SCM and used it in a pilot study on VAT. The method will now be used to measure administrative burdens in three other areas of legislation (Upstart Business Strategies, 2004:13). The reasons for adoption of the SCM in Sweden are set out in the table below:

Table 3.4 - The Swedish National Board for Industrial and Technical Development’s reasons for adoption of the SCM in Sweden

Factor	Detail
<ul style="list-style-type: none"> • SCM enables the measurement of single regulation obligation 	<ul style="list-style-type: none"> • High reliability in the measurement even when the area of regulation is complex • Makes it possible to identify the largest burdens in a regulation area • Makes it possible to identify potential for simplification already during the process of measurement • A good instrument for ex-ante estimates coming burdens caused by new regulations • Complete figures can be estimated by aggregation of the single obligation
<ul style="list-style-type: none"> • SCM enables continuous updates 	<ul style="list-style-type: none"> • It’s an excellent means to follow the development of the burdens
<ul style="list-style-type: none"> • SCM enables international comparison 	<ul style="list-style-type: none"> • Possibilities to benchmark internationally • International legitimacy

Following an international study on methodologies for measuring administrative burdens and a study visit to the Netherlands, Denmark switched from the earlier survey method to the SCM. The reason for this move, according to Peter Bay Kirkegaard, Danish Commerce and

Companies Agency (Upstart Business Strategies, 2004:14) is that Denmark needed a methodology that:

- Allowed detailed mapping of each piece of legislation and precise knowledge of each ministry's burdens;
- Enabled the responsible agency to give direct recommendations on which laws should be simplified;
- Could provide precise knowledge of the effects of each ministry's initiatives towards reducing the burdens; and
- Could enable international comparisons.

SCM was seen to meet all of these requirements.

The SCM therefore seems to be the most popular method used, not only in Europe but also in other countries in the world, to measure compliance costs. Reasons for this being that it provides not only the measurement of a single regulation obligation but also enables continuous updates and international comparisons.

3.4 Overall Conclusion

One of the regulatory costs that burden small businesses is the cost of compliance with taxation regulations. What exactly the compliance costs of taxation are, has been explored and defined, broadly and specifically, in many studies as mentioned in this chapter.

Although there is still some controversy regarding what exactly constitutes tax compliance costs, overall, all definitions generally appear to include the following costs:

- the value of time spent by business owners/managers/staff etc. on understanding the rules and applying them;
- record-keeping costs, that is, costs of compiling the necessary receipts and other records and costs incurred in respect of the preparation of tax returns;
- the payments made for the expertise of professional advisors such as consultants, lawyers and accountants; and
- incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities.

Various different techniques and methods are used to quantify these compliance costs. Each of these have their own merits. Deciding which one to use will depend on the specific circumstances and objectives of the study. There is, to date, no full-proof technique or method that can be utilised to measure the cost of taxation compliance costs incurred by taxpayers. Despite this, it appears that postal surveys are the preferred technique used internationally to obtain information regarding tax compliance costs. The SCM method appears to be the most favoured method used to quantify the tax compliance costs in Europe and other countries in the world.

The true facts about tax compliance costs and their burdens to small businesses in South Africa still need to be properly understood and quantified. Once these facts have been obtained, a baseline against which future progress can be measured has been established.

To quantify these costs, the necessary information regarding compliance costs is needed. Obtaining this information from a small business can be a difficult task, but their professional advisors may be able to assist with this. The frequency of use of these professional advisors and their impact on the tax compliance costs to small businesses will therefore be briefly reviewed in **Chapter 4**.

CHAPTER 4

USE OF PROFESSIONAL TAX ADVISORS

4.1 Introduction

Of all the costs of complying with tax legislation, the cost of outsourcing the tax function to professional tax advisors, accountants, bookkeepers or lawyers (collectively referred to as “tax practitioners”) by small businesses, is to a large extent, the one that has been least considered. This is despite the fact that professional advisor costs have always been a very significant component of the compliance costs for small businesses. The frequency of use of tax practitioners by small businesses will therefore be considered in this chapter by reviewing findings on this matter in various studies undertaken regarding tax compliance costs. Furthermore, the reason why these tax practitioners are used as well as the impact of their fees on the compliance costs for taxpayers will also be investigated. This will assist in establishing whether or not tax practitioners will become, or are, an important component in assisting researchers in establishing the compliance costs for small businesses.

4.2 Frequency of use of tax practitioners

From an international perspective, Evans *et al.* state that in Australia a very high proportion of taxpayers in the small business category, are known to use the services of tax practitioners and consequently will be liable for the associated fees (Turner *et al.*, 1998:97).

Turner *et al.* (1998:96), discuss a survey undertaken in 1996 on behalf of the Small Business Deregulation Task Force by the Yellow Pages Small Business Index, which interestingly revealed that 98% of small businesses in the UK were assisted by external accountants.

From a South African perspective, the study undertaken by Upstart Business Strategies CC (2004:36) in 2004 revealed that 60% of the small businesses were hiring tax practitioners.

The SBP (2005:49) study done in 2005 confirmed this notion by stating that it found that South African firms make extensive use of external professionals to help them comply with regulations.

The UNISA (2005:114) study of small and medium enterprise manufacturers in Gauteng, revealed that more small and medium manufacturers outsource (78,7%) normal income tax functions than those who handle it internally (28.0%). If this is analysed in more detail, 84,1% of small manufacturing establishments outsource their normal tax functions compared to 41,9% of medium manufacturers. Further splits were made in this report per tax function (STC, dividend tax functions, VAT, customs and excise duties, stamp duties, transfer duties, regional services council levies (“RSC”), unemployment insurance fund (“UIF”) and SDL levies, provisional tax functions, capital gains tax, employees’ tax, donations tax, workmen’s compensation and environmental levies) and per manufacturing enterprise (small or medium). Whether this is a true reflection of the entire population in South Africa, still needs to be ascertained.

SARS conducted extensive consultations with the small business sector to identify compliance burdens that could be eased without too high a cost to the fiscus. During these consultations it was identified that approximately 95% of small and medium enterprises have to outsource some of their compliance issues to tax practitioners, adding significantly to the already-high cost of compliance (Arendse *et al.*, 2006:17).

It therefore is quite evident that tax practitioners are frequently used by small businesses both locally and internationally. The fees paid to these practitioners will therefore form part of the taxation compliance costs for small businesses. The use of tax practitioners can be seen as an indication that the taxation legislation is complex. But is this the only reason for using tax practitioners?

4.3 Reasons for use

The accounting complexities of having to calculate one’s income from running a business or being self-employed are such that it is very unlikely that it will be cost-effective for such taxpayers to look after all their own tax affairs. These taxpayers tend to work long hours and unless they already have qualifications or experience in accounting or taxation, the

incremental time that would be required to understand the field and undertake the additional bookkeeping and calculations is unlikely to be available. Consequently, necessity forces the self-employed tradesman, farmer, shopkeeper or consultant etc. to engage an accountant even though the cost of employing such professionals is often regarded as outrageous. Once things have settled down and the taxpayer is comfortable with his/her new arrangements, the taxpayer may be prepared to resume preparation of his/her own return. Alternatively, having once enjoyed the luxury of having the work done by someone else, the taxpayer may be unwilling to once again take on the task (Turner *et al.*, 1998:98).

One reason given by Turner *et al.* (1998:99) to explain this behaviour is that with limited leisure time available to individuals, and increasing disposable incomes, they are prepared to pay tax practitioners to complete their returns because it is quicker and more convenient than trying to learn about the requirements themselves.

The study undertaken by Upstart Business Strategies CC (2004:35) said the reason why small businesses use tax consultants, is because they want to focus on their business and do not want to deal with administrative activities. Some of them find complying with, for example VAT, too difficult (they do not fully understand the legislation) and therefore use tax practitioners. Nevertheless, many small businesses cannot afford a tax consultant as they are already struggling to finance their business. In these cases the director of the enterprise deals with the information obligations after working hours and during weekends.

The respondents in the UNISA (2005:118) study of SME manufacturers in Gauteng, indicated the following as the main reasons for outsourcing certain tax functions:

- Own staff are unskilled in tax matters (58.7%);
- Lack of time (41.3%); and
- Outsourcing is a cheaper option than doing it internally (8.0%).

It can, therefore, be concluded that the main reasons for small businesses using tax practitioners generally stem from the lack of knowledge and/or time to comply with the taxation regulations. The decision to use a tax practitioner must have an impact on the compliance costs that the taxpayer is going to incur. This impact will be examined next.

4.4 Impact of tax practitioner fees on compliance costs

In Australia, for example, the annual compliance costs incurred by sole proprietors and small businesses for the use of the services of tax practitioners are estimated to be in the range A\$120 to A\$250 (Turner *et al.*, 1998:97).

In South Africa, the study undertaken by Upstart Business Strategies CC (2004:35) found that if a small business outsources all its information obligations to a tax practitioner, their administrative burdens are much higher than if they are dealing with it themselves, especially if they use tax software.

SBP (2005:49) in its study of large and small businesses, found that overall, an average of 33% of the cost of complying with regulations is spent on professional assistance. In respect of taxation, 42% of the cost of compliance was due to professional assistance. It was again established that the tax compliance costs were a much larger percentage of total compliance costs for smaller firms.

The UNISA (2005:118) study of small and medium manufacturers in Gauteng, revealed that the average cost of outsourcing their tax functions amounts to R13 445 per annum for small establishments and R21 462 per annum for medium establishments.

One concern about these costs is highlighted by Turner *et al.*, (1998:99) the prospect of tax practitioners over-servicing their clients. Self-interest seems likely to dictate that tax practitioners will be quick to recommend courses of action that will be likely to increase compliance costs and slow to recommend changes that will bring such costs down. Accountants and lawyers can create new avoidance schemes. These can be expected to reduce the tax liabilities of their clients in the short run, but they may increase compliance costs for both clients and other taxpayers in the future. Like other professionals, accountants can be expected to carry out their clients' wishes to the extent that these do not conflict with their own long term objectives, subject to various constraints such as competitive pressures.

Despite this, Turner (1998:99) does state that tax practitioner's fees are tax deductible; for most tax practitioner clients, this means that 40% to 50% of their bill is met by the

government. He also refers to the theory of Green and Winter on the impact of tax professionals on taxation compliance costs. This theory states that the complexity of the tax system can be regarded as providing tax practitioners with the opportunity to acquire valuable human capital. If the costs of acquiring such human capital (by the small business itself) are greater than the return to the small business, then a profession of tax practitioners can be expected to emerge. In this sense the complexity of the tax system provides tax practitioners with profitable opportunities. However, the costs of providing tax advice rise if the administration of the tax system becomes disorganized and the rules and regulations are changed too quickly. Tax practitioners involved in tax planning will then have an incentive to innovate and develop new tax avoidance schemes. When the tax authorities change tax rules in response to this, the human capital of other tax agents depreciates. They will then have to invest in acquiring knowledge about the new regulations – and this will increase compliance costs for small businesses.

The use of tax practitioners by small businesses appear to be necessary for the most part and thus form part of the compliance costs for small businesses. Obtaining information about the compliance costs (including the tax practitioner's fees) can, it appears, in the majority of cases, be obtained from the tax practitioners themselves – or is this the case?

4.5 Tax practitioners – valuable research resources?

One of the problems with small businesses is that it is not always easy to obtain information about the needs and problems of small businesses. Small business entrepreneurs may have better things to do than to sit on advisory committees. Being obliged to answer questionnaires may give valuable information to government and researchers, but paperwork that is outside the mainstream of business is one aspect of the problem of the small business entrepreneur. For that reason, it is sometimes necessary to have recourse to data collected on small business' problems and to rely on common sense and advice from business organizations and consultative bodies to decide whether it is also applicable to small businesses (Commission of the European Communities, 2002:4).

This problem was highlighted in the Upstart Business Strategies CC report (2004:23) in which it was stated that the original plan (to measure the VAT and RSC administrative burdens faced by small businesses) was to interview a total of 40 enterprises and about 8

experts (tax specialists, accountants, and bookkeepers) for each law. However, when the fieldwork for the baseline measurement got underway, it quickly became apparent that the majority of small businesses outsource their tax work rather than performing it in-house. For this reason, the majority of small businesses referred the researchers to their external bookkeeping/tax specialists. Virtually all these external specialist were able to provide data on both the taxes under review.

It is therefore quite evident that tax practitioners are valuable tools that can assist in providing information into the research of the tax compliance costs for small businesses.

4.6 Conclusion

Tax compliance costs such as tax practitioner costs, represent real resources, which have alternative uses - businesses could employ the resources used in complying with tax regulation for innovation and expansion, or improving their local and international competitiveness.

It has been established that small businesses generally require the assistance of tax practitioners due to the fact that they neither have the time nor the expertise to perform this function themselves. Tax practitioners are therefore a valuable commodity when it comes to obtaining research information into tax compliance costs for small businesses. This is mainly due to the fact that they are employed due to the lack of expertise of their clients, the small business. Thus, approaching the owner of the small business for information regarding tax compliance costs would generally lead you directly to the tax practitioner as he/she is generally the person who has all the necessary information on the small businesses' tax affairs including costs of compliance.

Whether or not tax practitioners have been approached by researchers to obtain information regarding the tax compliance costs of small businesses in South Africa, needs to be established. More importantly, it will try and be ascertained if the tax practitioner costs incurred by businesses have been taken into account and quantified in more recent studies done in South Africa, specifically with regards to the tax compliance burden for small businesses. These issues will be considered in the next chapter, where the various studies done on the tax compliance costs of small business in South Africa will be analysed.

CHAPTER 5

OVERVIEW OF COMPLIANCE COSTS STUDIES IN SOUTH AFRICA

5.1 Introduction

Internationally, various studies have been performed on the regulatory environment for small businesses. Many of these studies have focused on the tax compliance costs incurred by small businesses. Evans (2003:64-92) provided an overview of the recent (going back 20 years) research into taxation compliance costs done all over the world. However, none of the research included in this document relates to studies performed in South Africa. The purpose of this chapter is therefore to determine what studies have been performed in South Africa with regards to regulatory costs - specifically tax compliance costs for small businesses.

The studies found will be compared to each other with the aim to specifically determine what businesses were reviewed and what element of tax compliance costs were targeted. One of the aspects of tax compliance costs that will be considered when reviewing these studies is if tax practitioners were used in these studies to obtain information regarding the small business tax compliance costs and if the payments to them by small businesses were at all quantified in these studies. From this comparison, a summary will be available for future researchers that are interested in this area. This summary will hopefully prevent any duplication of efforts and highlight any gaps/shortcomings in the past research and pinpoint areas for future research.

5.2 Background – monitoring of regulatory burdens in South Africa

In its White Paper (RSA, 1995:26) on small business promotion, the government charges the DTI with the responsibility to “closely monitor and, where possible or necessary, co-ordinate and assist the regulatory reform process.”

The White Paper directs that this responsibility be carried out with particular emphasis on the following spheres:

- Investigations by different central government departments and consultations with relevant stakeholders about the appropriateness of existing and proposed legislation and regulations in the fields of **taxation**, labour (including Industrial Council agreements), zoning and building controls, tendering procedures, training requirements, health and occupational conditions, etc. and how they can be made more suitable for **small enterprises**
- Steps taken by provincial and local governments to reduce restrictive legislative and regulatory conditions.

A few *ad hoc* steps had been taken in this area in the past. These included the national small business regulatory review and the impact assessment of the Basic Conditions of Employment Act, both undertaken under the auspices of Ntsika Enterprise Promotion Agency, and the desk study on international best practice on regulatory impact assessment commissioned by the DTI in 2001.

However, there are various reasons why more studies of this nature, are required to prove to government that more needs to be done.

5.3 Reasons why studies are required in this area

Reliable statistical information is important for the small business sector to monitor policy effectiveness and facilitate forward planning. At present the statistical base is extremely poor with respect to most aspects of small-enterprise development in South Africa (Upstart Business Strategy, 2004:9).

Despite more recent relatively intensive attempts at reducing regulatory compliance costs and more specifically, tax compliance costs for SMMEs, no real impact on SMMEs has been discernable. Determining whether tax compliance costs is a perceptual rather than real problem for SMMEs is an important issue for, firstly, deciding how many resources to devote to compliance cost reduction and, secondly, for developing a successful approach to creating a more competitive regulatory environment (Chamberlain & Smith, 2006:21).

Tax regimes and other regulations applicable to SMMEs have changed considerably in the past few years and will continue changing as programmes to empower small businesses are

implemented. Therefore, it is of the utmost importance to conduct tax surveys to detect current and future issues that could impact on the tax environment applicable to SMME development (UNISA, 2006b).

Decreasing compliance costs is a continuous process – once-off changes cannot simply be made and then forgotten. It is necessary to commission a baseline study which can be continuously updated and used to inform the ongoing compliance cost reduction process (Chamberlain & Smith, 2006:20).

Whether this has been done in South Africa will now be established by reviewing the studies done on regulatory costs and administrative costs burdens in South Africa.

5.4 Review of studies done in South Africa on regulatory costs and administrative burdens

Tax compliance costs are one type of regulatory cost that is often viewed to have a large impact on small businesses. To gauge the impact of these costs on businesses in South Africa, the available studies dealing with the measurement of regulatory costs on South African businesses, particularly tax compliance costs for small businesses, will now be reviewed.

The studies reviewed are as follows:

1. *Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agri-businesses in Kwazulu-Natal, South Africa* by Clover, TA. & Darroch, MAG. (Clover & Darroch, 2005);
2. *SMME Facilitation Programme (Report Version)* by the South African Revenue Services (SARS, 2004) not yet released;
3. *Counting the Cost of Red Tape for Business in South Africa* by SBP (SBP, 2005);
4. *Measurement of Value Added Tax Act and Regional Services Councils Act - induced Administrative Burdens for South African Small Businesses* by Upstart Business Strategies (Upstart Business Strategies, 2004), commissioned by the Department of Trade and Industry;

5. *The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1* by UNISA (UNISA, 2005);
6. *The impact of taxation on SME Retailers in Gauteng, 2006 – Report 2* by UNISA (UNISA, 2006a);
7. *The Organisational impact of taxation on Small, Medium and Micro-establishments in the business services sector in Gauteng - Report 3* by UNISA (UNISA, 2006b)
8. *Recent findings on tax-related regulatory burden on SMMEs in South Africa* by Chamberlain, D and Smith A (Chamberlain & Smith, 2006);
9. *Doing Business in 2007: How to reform* by the World Bank and International Finance Corporation (World Bank and International Finance Corporation, 2006).

The following aspects of each of the studies will be considered:

- The objective of the study;
- The type of business that the study covered;
- The area of tax compliance that was measured;
- The respondents and method used to determine the area of compliance;
- The findings of the study in relation to tax compliance; and
- Constraints/shortcomings of research done in the light of compliance cost analysis for South African small businesses.

A table summarizing the comparisons of these studies is attached as **Annexure A**.

5.4.1 Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agri-businesses in Kwazulu-Natal, South Africa

5.4.1.1 The objective of the study

To obtain more information about the factors that constrain SMME agribusinesses performance so that policies and strategies to increase the survival and growth rates of these SMMEs can be identified (Clover & Darroch, 2005:238).

5.4.1.2 The type of business that the study covered

Small, medium and micro-enterprises as defined according to the number of employees in the National Small Business Act (1996). That is having, 50 or less, 100 or less, and five or less full-time equivalent paid employees respectively (Clover & Darroch, 2005:239).

5.4.1.3 The area of tax compliance that was measured

The potential constraints on the survival of the SMMEs that could be classified as issues relating to tax compliance that were listed in the questionnaire given to the SMMEs were as follows:

- Too many rules and regulations;
- Paying and complying with VAT;
- Paying a skills levy; and
- Managing employee UIF contributions (Clover & Darroch, 2005:247).

5.4.1.4 The method used to determine the area of compliance

Personal interviews with 44 out of the 266 Ithala agri-business SMME clients during October 2003 to January 2004 (Clover & Darroch, 2005:244).

5.4.1.5 The findings of the study in relation to tax compliance

Paying and registering for VAT was ranked the eighth most limiting constraint overall. This procedure was perceived by respondents to increase their cash-flow stress. Some businesses were paying a bookkeeper primarily to ensure VAT compliance. The VAT registration procedure was seen as too complex for small businesses, while owners also stated that SMMEs not registered could undercut the prices of their competitors who had registered as VAT vendors (Clover & Darroch, 2005:249).

Paying a skills levy was ranked as the nineteenth most limiting constraint. Over half of the 19 owners who paid the monthly levy considered the procedure was too complicated and that the levy was an extra tax (Clover & Darroch, 2005:249).

5.4.1.6 Constraints/shortcomings of research done in the light of compliance cost analysis for South African small businesses

- Only agri-business SMMEs were studied.
- Only certain types of taxes (VAT, UIF, SDL) were covered in the questionnaire is a further constraint.
- Only perceptions of SMMEs were asked, and no quantitative information was obtained.

5.4.2 SMME Facilitation Program (Report Version) by the South African Revenue Service

5.4.2.1 The objective of the report

The main aim of this review was to establish, list and document all the tax compliance burdens that were currently being experienced by SMMEs. This was achieved through critical discussions (workshops) held between SARS and various accounting bodies and tax practitioners (SARS, 2004:4).

The report captures the key concerns, issues and proposed solutions that were raised in the discussion held between SARS and the various accounting bodies and tax practitioners in 2004. This discussion afforded SARS the opportunity to discuss how the SMME project will impact on practitioners, as well as explore how these pivotal actors can inform and assist in the process (SARS, 2004:4).

5.4.2.2 The type of business that the study covered

The report deals solely with South Africa's Small Medium and Micro-Enterprises (SMME's). No definition of this term was provided in the document itself (SARS, 2004:3).

5.4.2.3 The area of tax compliance that was measured

The following were the key areas focused on in this document – tax administrative burdens, tax regulatory environment burdens and tax compliance cost burdens for SMMEs (SARS, 2004:5).

5.4.2.4 The method used to determine the area of tax compliance

No formal measurement of the tax compliance burdens was done in this review, it merely reviews the empirical findings of other studies on a number of qualitative insights gained during interaction with a range of individuals and organisations aware of small business concerns (SARS, 2004:5).

This reviews main aim was to establish, list and document all the tax compliance burdens that were currently being experienced by SMMEs. This was achieved through critical discussions (workshops) held between SARS and various accounting bodies and tax practitioners (SARS, 2004:4).

5.4.2.5 The findings of the study in respect of tax compliance

A list of tax compliance, administrative and regulatory burdens experienced by SMMEs was prepared and documented in the study. The following are a few of the burdens mentioned in the study:

- Absence of a consistent definition for SMMEs and lack of co-ordination in government policy (SARS, 2004:6,23);
- The most burdensome taxes for SMMEs are VAT and SDL (SARS, 2004:11-26); and
- Specific administrative burdens include too many procedures in filing for tax, too many forms to complete to function as a formal business entity, the general administratively time-consuming nature of tax, complexly written tax codes and the high frequency of submitting tax returns (SARS, 2004:11-26).

All the reported burdens were then aligned and synthesised to SARS business model utilising the SARS SMME Project Framework. The framework aligns the burdens with SARS business, that is, SARS tax products and administration process. The outcome of the alignment is an SMME Tax Compliance and Administrative Burdens Reduction Model (SARS, 2004:9).

5.4.2.6 Shortcomings of research done in light of tax compliance cost analysis for South African small businesses

- No definition was provided of what they considered to be a SMME.
- Although the tax compliance issues were listed in this report, along with proposed solutions, the actual extent of these burdens is not forthcoming. The size of the burden is not backed up with concrete monetary evidence, it is merely interested reference groups that are documenting their compliance burdens. Thus this study does not generate its own empirical data.

5.4.3 Counting the Cost of Red Tape for Business in South Africa

5.4.3.1 The objective of the report

This research surveyed the cost of regulation to the private sector. The report uses the survey results to look closely at which regulations are most costly to and troublesome for firms across a range of turnover and employment size bands. It estimates the impact of regulations on firms' plans to grow and to expand employment (SBP, 2005:5).

5.4.3.2 The type of business that the study covered

Respondents ranged from corporations on the "top 200" list of very large companies to survivalist entrepreneurs in the informal sector. The survey covered all sectors of the economy, including manufacturing, mining, construction, trade, and services. The survey included an almost entirely random core survey of 1 140 formal enterprises across the country (SBP, 2005:5).

The main sample was supplemented by a special sample of major corporations (32 cases) which, because of their small number (0.02 per cent of the total number of enterprises) would not have been adequately covered by their random sampling procedure. The major corporations were appropriately weighted to ensure that they contributed to the overall results in proportion to their limited relative numbers (SBP, 2005:22).

In addition, there were special samples – 240 firms in selected case study sectors, and a sample of 150 informal sector enterprises, comprising mainly completely informal street-level operations. It was difficult to identify enterprises in the latter sample, and extensive use was made of snowballing, in which respondents were asked to identify other similar businesses (SBP, 2005:22).

5.4.3.3 The area of tax compliance that was measured

Tax as a whole was one of the regulations that was considered in the study. The average estimated annual direct and indirect costs of complying with tax regulations as well as the cost of obtaining external support from lawyers, auditors and consultants was asked in the study. The different taxes (VAT, UIF, PAYE and RSC levies) were merely ranked in order of troublesomeness (SBP, 2005).

5.4.3.4 The method used to determine the area of tax compliance

Between February and June 2004, a total of 1 794 businesses throughout the country were interviewed in depth. Trained interviewers visited businesses personally and multiple contacts, often by telephone, were required to enlist co-operation, prepare respondents for the information required and to check and clarify responses (SBP, 2005:21).

The survey respondents were asked about the three regulations that they found most time-consuming, troublesome and costly. These three choices were combined (SBP, 2005:31).

They were asked a range of specific questions about the direct and indirect costs of complying with regulatory requirements, as well as the costs of obtaining external support from lawyers, auditors and consultants (SBP, 2005:40).

5.4.3.5 The findings of the study in relation to tax compliance

It was estimated that the total recurring compliance costs (for all surveyed regulations) for the formal sector in South Africa amounted to R78.90 billion, an amount equivalent to 6.5 per cent of GDP in 2003 and 18 per cent of SARS' revenue in 2002/03. The tax compliance costs are estimated to be R20.5 billion, roughly 26 per cent of the total compliance burden and slightly more than 1.5 per cent of GDP in South Africa for 2003 (SBP, 2005:87). The final aggregate figure for tax compliance is based on an estimate that the average annual tax compliance cost totals R27 298 (SBP, 2004: 40). This number encompasses two sub-totals, one R15 709 for tax compliance (internal) and the other R11 589 for professional fees (external) (SBP 2005: 73-74). Regarding the professional fees, it was established that South African firms make extensive use of external professionals to help them comply with regulations. Overall, an average of 33 per cent of the costs of complying with regulations is spent on professional assistance. In respect of taxation, 42 per cent of the cost of compliance was due to professional assistance. It was again established that the tax compliance costs were a much larger percentage of total compliance costs for smaller firms (SBP, 2005:49-50).

The average recurring compliance cost per firm, excluding initial registrations, was R105 174 for all sizes and sectors. The largest element in this total is tax compliance. Compliance with all taxes made up 26 per cent of the overall compliance burden, contributing R20,5 billion to aggregate compliance costs(SBP, 2005:41).

The results showed that taxes emerged as the most time-consuming and troublesome set of regulations by far. A large part of the perceived troubles associated with tax and related regulations can be explained by the costs of complying with tax paperwork. The complexity of the tax paperwork is found to be troublesome by the respondents (SBP, 2005:32).

Furthermore, from the summarised data, several patterns emerged, one of which was that tax compliance costs are much larger proportions of total compliance costs for smaller firms. Thus, the tax compliance costs are a relatively more important component of the regulatory burden for small firms than for larger ones. The red tape costs incurred through compliance with tax-related regulations are noticeably more proportional to turnover than regulatory compliance in general (SBP, 2005:42).

VAT was found to be the single most troublesome regulation for all firms except the largest ones. VAT is perceived as particularly troublesome in the Information and Communication Technology (“ICT”) and clothing and textiles sectors, and is seen far less troublesome by the pharmaceutical and automotive sectors (SBP, 2005:34).

Specific questions on the “most time-consuming and troublesome” regulations revealed that the broad category of taxes is by far the most burdensome set of regulations (SBP, 2005:32). Of total responses, 19 per cent cited requirements associated with VAT as the most burdensome set of regulations, while “SARS tax administration” formed the third most burdensome set of regulations (12 per cent of responses), requirements associated with UIF the fourth most burdensome set of regulations (approximately 10.5 per cent of responses) and regulatory requirements associated with PAYE the fifth most cumbersome and time-consuming set of regulations (roughly 8.5 per cent of responses). In the discussion of these findings, it is argued that a large part of tax compliance costs is due to the complexity of tax forms and other paperwork (SBP, 2005: 32).

If analysed by firm size, responses on the most troublesome regulations reveal that VAT is associated with the most troublesome set of regulations for the smallest categories of firms’ sizes with less than 100 employees (<5; 5-10; 11-49; 50-99), but is replaced by SARS tax administration as the most troublesome regulation for firms with more than 100 employees (SBP, 2005: 33). It is interesting to note that the firm size band that finds VAT the most troublesome is the “fewer than 50 employees” band, with approximately 32 per cent of responses in this band citing VAT as the most troublesome regulation (SBP, 2005:34). One explanation suggested for the peak in this size category is the likely perception amongst firms in this category that

their workload will increase significantly if they employ more than 50 employees (SBP, 2005: 34). However, the relevance of this explanation is questionable as the amount of compliance cost associated with VAT is more likely to be directly linked to turnover size, rather than employment size.

5.4.3.6 Constraints/shortcomings of research done in light of tax compliance cost analysis for South African small businesses

- The use of business, telephone and other area directories covering the whole country were used as a framework for selecting the sample of formal businesses. The use of these directories may have meant that the newest and smallest businesses were under represented (SBP, 2005:22).
- Semi-informal and mini-micro firms were largely excluded from the sample (SBP, 2005:22).
- This broad focus, not only on SMMEs, potentially causes the study to dilute analysis of many possible tax problems only experienced by SMMEs (Chamberlain and Smith, 2006:24).
- Respondents were asked not for exact costs but for estimates of the costs – thus the possibility that there is some degree of inflation of the costs cannot be excluded as it is assumed that it is in the interests of business to inflate their difficulties and complain about regulations (SBP, 2005:24).
- It was established when the detailed results were inspected, that the larger source of bias was the tendency to overlook or not recall a variety of costs involved in compliance (SBP, 2005:24).
- It is not clear whether the benefits arising from tax requirements such as greater access to financial management information were quantified. The resulting headline figures thus only provide an indication of *gross compliance costs*, while the issue of net compliance costs is ignored (Chamberlain & Smith, 2006:24).
- In evaluating the estimates of the total regulatory compliance cost in South Africa, it is important to keep in mind that the study, due to “top-down” approach of questions posed in the questionnaire, is prone to overestimation (SBP, 2005:24).

- Furthermore, it was not solely focused on *tax* compliance costs and thus did not delve as deep as possible into this issue (Chamberlain & Smith, 2006).
- Despite the fact that the SBP study allows for quantification of the impact of tax compliance cost by turnover size, it does not allow for the identification of particular problematic business categories. Although the employment and turnover categories are useful, it does not distinguish between the sector and nature of businesses (which will be relevant for VAT). It also does not provide details of how finances are managed, e.g. accounting software, outsourced recordkeeping, etc. The specific distribution of firms according to different turnover categories is also not clear (Chamberlain & Smith, 2006:26).

5.4.4 Measurement of Value Added Tax Act and Regional Services Councils Act-induced Administrative Burdens for South African Small Businesses

5.4.4.1 The objective of the report

The DTI commissioned a study on the cost of regulatory compliance by SMMEs. The purpose of the study was to enable the DTI to have quantitative evidence to be used to advocate for regulatory change and to motivate for the removal of regulations that are not necessary or harmful to SMMEs. The study conducted measurements of VAT and RSC levies-related administrative burdens (Upstart Business Strategies, 2004:17).

5.4.4.2 The type of business that the study covered

The original plan was to interview a total of 40 enterprises and about 8 experts (tax specialists, accountants and bookkeepers) for each law. However, when fieldwork for the baseline measurement got underway, it quickly became apparent that the majority of small businesses outsource their tax work rather than performing it in-house. For this reason, the majority of small businesses referred the researchers to their external bookkeeping/tax specialists. Virtually all these external specialists were able to provide data on both the Value Added Tax and the Regional Services Levies Act. The research team therefore decided to reduce the total number of interviews to

50 experts. During almost all the interviews, both Acts were discussed (Upstart Business Strategies, 2004:23).

5.4.4.3 The area of tax compliance that was measured

The internal time and cost, the frequency of the activity and/or the external cost to register, keep records, complete and file tax returns, communicate with SARS, deal with inspections from SARS, notify SARS of changes and deregister for VAT and RSC levies were the areas of tax compliance that were asked in the questionnaire (Upstart Business Strategies, 2004:51-55).

5.4.4.4 The method used to determine the area of tax compliance

The study followed an approach that focussed on administrative burdens, the cost for business related to transferring information to government and/or its agencies, and used the “bottom-up” measurement approach (Upstart Business Strategies, 2004:18).

The bottom-up approach was chosen because it enables the assessment of possible cost reductions and increases the accuracy of the results and their public acceptance. In addition, the bottom-up approach allows for less regulatory knowledge on the part of enterprises. The study used the Mistral[®] method to quantify the costs (Upstart Business Strategies, 2004:13).

5.4.4.5 The findings of the study in relation to tax compliance

The measurement VAT and RSC levies-related administrative burdens showed that companies that have to comply with RSC and/or VAT have to deal with **structural** (record keeping and tax/levy return) and **once-off administrative burdens** (registration for taxes, communication with SARS, inspections by the Commissioner, notification of changes and de-registration of VAT and RSC levies). This leads to the conclusion that enterprises are more focused on annoyances than on the real administrative burdens in terms of money spent on complying with legislation. The Regional Services Councils Act was selected by small business as burdensome

(Upstart Business Strategies, 2004:20). However, the total cost per enterprise is low. It seems likely they selected the Act because they do not know what is done with the levies they pay, thus viewing the levy as an unnecessary expense. A key lesson from this is that there is a difference between annoyance and actual burdens (Upstart Business Strategies, 2004:20).

The report stated that the government should aim to reduce both (administrative) burdens and annoyances. However, in the context of economic development through the reduction of regulatory cost, the government should focus on actual burdens rather than on annoyance (Upstart Business Strategies, 2004:43).

A further finding was that it is much more expensive to outsource recordkeeping and completion of the tax return than to do it in-house. While the average annual cost per enterprises for outsourced recordkeeping and completion of the tax return is R9 051, performing the same function manually within the firms costs R3 020. (Chamberlain & Smith, 2006:30).

It was also established that advanced tax software for recordkeeping and calculation of final VAT can significantly reduce the administrative burden. In fact, using tax software is by far the cheapest option for complying with VAT requirements. While manual recordkeeping and completion of the tax return have an average cost per enterprise of R3 020 per annum, the average cost per enterprise for performing the same functions using tax software only costs R1 476 per annum (Chamberlain & Smith, 2006:31).

Interestingly, once-off burdens such as registration of VAT, communication with the SARS, inspections by the Commissioner, notification of changes and deregistration for VAT were found not to be the greatest contributors to total compliance costs of VAT. Rather, it was the structural or recurring burdens, namely record-keeping and completion of the tax return, that make the greatest contribution to total VAT compliance cost. The aggregate compliance cost of VAT costs South African firms approximately R4.3 billion per annum. If it is assumed that not all so-called once-off burdens occur within any specific year, it can be concluded that the annual VAT

compliance cost per average SMME is an amount between R6 027 and R8 414 (Chamberlain & Smith, 2006:31).

5.4.4.6 Constraints/shortcomings of research done in light of tax compliance cost analysis for South African small businesses

- The study only focuses on two specific taxes – Value Added Tax and Regional Service Council Levies.
- The small sample of specialists consulted in gathering the required information casts some doubt on the statistically representative nature of the findings (Chamberlain & Smith, 2006).
- No definition of “small business” was provided in the study.
- The Mistral® approach is characterised by the fact that the administrative activities enterprises would carry out in the absence of legislation/regulation are not included in the final quantitative estimates of compliance costs (UBS, 2004:19). To do this, the study makes the assumption that only 25% of recordkeeping activities can be directly ascribed to tax compliance and that the other 75% of recordkeeping activities are due to essential management activities and thus to the benefit of the firm (UBS, 2004:27). The analysis is quite sensitive to this assumption, particular in cases where recordkeeping is outsourced. The internal cost of time spent on recordkeeping, as used here, may be misleading. The study should not only quantify the time estimated to be spent on compliance with tax as an annual salary is paid irrespective of work done. If 25 % of time is spent on compliance, 25% of the annual salary of an employee should be allocated to recordkeeping (Chamberlain & Smith, 2006:30).
- Although the study marks an important step forward in the area of improving the regulator environment for small business, it only lays a good basis for a larger programme of measurement of administrative burdens covering a wider range of legislative areas.

5.4.5 The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1

5.4.5.1 The objective of the study

Determination of the status and structure of tax management and administrative skills in the SME industry. More specifically, the objectives of the study were as follows:

- Identify government grants and fiscal incentives for manufacturing SMEs;
- Determine the tax skills required by SMEs, by analyzing the taxation legislation that affects manufacturing SMEs;
- Evaluation of taxation legislation to determine compliance requirements for manufacturing SMEs;
- Determine the level of awareness and utilization of tax incentives for manufacturing SMEs;
- Determine which tax functions are outsourced by manufacturing SMEs and to whom it is outsourced;
- Establish the current training and updating practices followed by manufacturing;
- Compile a profile of tax management and administrative skills within manufacturing SMEs;
- Identify possible future skills requirements within manufacturing SMEs;
- Determine the perception of manufacturing SMEs regarding the service they receive from SARS; and
- Assist regulators and legislators in formulating appropriate future strategies for manufacturing SMEs (UNISA, 2005:4-5).

5.4.5.2 The type of business that the study covered

Small and medium enterprises in the manufacturing industry in Gauteng were the focus of this study. Small enterprises were defined as enterprises with between 20 and 50 employees. Medium enterprises were defined as enterprises with between 51 and 200 employees (UNISA, 2005:94).

Very small enterprises were ignored as it was assumed that the tax function in enterprises of this kind would probably not be structured and would most probably be run by only one person (UNISA, 2005:4).

5.4.5.3 The area of tax compliance that was measured

The cost of administering tax functions/responsibilities for all the taxes incurred by manufacturing SME's in Gauteng were established in this survey. To indicate the manner in which SMEs deal with tax administrative burdens, the average percentage of full-time administrative workforce dealing with tax management and administrative functions was also established (UNISA, 2005:4).

The outsourcing of tax functions and the costs thereof were mentioned in the questionnaire. The penalties and interest charges levied for non-compliance was also touched on and quantified (UNISA, 2005:4).

5.4.5.4 The method used to determine the area of compliance

The data collection method was initially restricted to a combination of e-mail and fax surveys. However, this approach did not deliver the desired sample result. As alternative strategy, additional personal face-to-face interviews were conducted with those respondents who initially defrayed from a self-administered approach but were willing to participate via an interviewer-administrated approach (UNISA, 2005:94).

The Bureau of Market Research's register of manufacturers was used as a sample frame to select the sample units (UNISA, 2005:95).

5.4.5.5 The findings of the study in relation to tax compliance

Most SMEs are of the opinion that the burden to comply with tax regulations has increased over the past three years. On average, approximately R9 700 per annum is devoted to managing tax functions/responsibilities (UNISA, 2005:xvii).

Furthermore, it was found that SMEs show a strong preference towards tax consultants and tax update courses and seminars as sources to inform staff on tax matters (UNISA, 2005:xviii). The findings revealed that the average cost of outsourcing some of their tax functions amounts to R13 445 per annum for small establishments and R21 462 per annum for medium establishments (UNISA, 2005:118).

The cost of taxation was further illustrated by the fact that almost one out of every four full-time administrative staff members employed by the establishments deal with tax matters. In order to save some costs, establishments can choose to outsource some of the tax work. However, 21% of the respondents stated that certain tax functions that had previously been outsourced, were no longer outsourced mainly due to the high cost of outsourcing (UNISA, 2005:127).

A full 33% of the respondents had previously been liable for penalties, averaging almost R15 146 per annum. A further 10.7% were liable for interest due to the late payments or late submissions by SMEs (UNISA, 2005:128).

5.4.5.6 Constraints/shortcomings of research done in the light of compliance cost analysis for South African small businesses

- The type of business that was covered in the report - SME - was specifically defined in the study and thus should be taken into account if comparisons are to be done with other studies in the future in this sector.
- Although there is logic in the rationale in selecting only the SMEs in the manufacturing industry in Gauteng, the results from the study cannot be said to be representative of the whole country (only 75 manufacturing establishments responses were used in the analyses of the results).

5.4.6 The impact of taxation on SME Retailers in Gauteng, 2006 – Report 2

5.4.6.1 The objective of the study

The report investigates the impact of taxation on the SMEs in the retail sector. It further aims to identify any similarities or the major differences with regard to tax administration between the two sectors (retail and manufacturing) (UNISA, 2006a:1-2). More specifically, the objectives of the study were as follows:

- Classify small businesses as micro, small and medium enterprises and indicate their geographic distribution and sectoral contribution to economic growth and employment;
- Classify the retail industry according to business activities;
- Determine the tax skills status and requirements of SMEs by analyzing the taxation legislation/regulations that affect SME retailers in particular;
- Determine the level and utilization of tax incentives by SME retailers;
- Determine the nature of tax outsourcing by SME retailers;
- Determine the current tax training and development practices of SME retailers;
- Identify future tax skills requirements of SME retailers;
- Determine the experience with and perception of retail SMEs regarding the services rendered by SARS;
- Assist regulators and legislators in formulating appropriate future strategies for SME retailers; and
- Assist sector education training authorities, in particular the wholesale and retail SETA in developing skills programmes applicable to the retail industry in particular (UNISA, 2006a:4-5).

5.4.6.2 The type of business that the study covered

Small and medium enterprises in the retail industry in Gauteng were the focus of this study. Small enterprises were defined as enterprises with between 20 and 50 employees. Medium enterprises were defined as enterprises with between 51 and 200 employees (UNISA, 2006a:33).

Survivalist retail enterprises (mostly micro-establishments) such as hawkers, tuck-shops and shebeens were excluded from the research analysis (UNISA, 2006a:8).

5.4.6.3 The area of tax compliance that was measured

The tax management and administrative functions and skills needs for all the taxes incurred by SME Retailers in Gauteng were covered in the study, however, this merely indicates what skills are lacking and is not necessarily an indication of a compliance burden.

However, the SME experience with contacting SARS was also touched on in the study. The following details were established:

- The average number of telephone calls by SMEs prior to effectively addressing enquiry;
- The average time to answer telephone calls;
- The average number of minutes waited prior to being attend to without an appointment;
- the average number of working days it takes SARS to respond to written correspondence;
- the average number of working days it takes SARS to respond to process tax returns; and
- the average number of working days before receiving VAT and Income Tax refunds from SARS (UNISA, 2006a:59).

5.4.6.4 The method used to determine the area of compliance

An interviewer-administrated telephonic interview approach was used to collect data from the sample of SME retailers operating in Gauteng. This method was further supplemented with a self-administered approach for respondents preferring to receive the questionnaire by fax and completing and returning it again via the same distribution method. The telephone method proved to be very effective in terms of cost and suited the research method in terms of the quantity of data being collected for the survey (UNISA, 2006a:34).

The Bureau of Market Research's register of retail establishments was used as a sample frame to select the sample units (UNISA, 2006a:34).

5.4.6.5 The findings of the study in relation to tax compliance

Compliance costs are incurred when an SME owner/ its staff/its tax practitioner have to spend time dealing with SARS on taxation matters. It was found that the current service standards, as endured by the retail SMEs, is as follows:

- SARS takes, on average, 7 minutes to answer incoming calls;
- It takes approximately three telephone calls, on average, to effectively address tax enquiries; and
- SARS takes, on average, 17 minutes to attended to individuals not having an appointment (UNISA, 2006a:59).

SME retail establishments were also asked to indicate whether they had to wait for more than 30 minutes for any appointments made with SARS. In this regard 17,6% of small retailers and 26,8% of medium retailers confirmed that they had waited more than 30 minutes despite an appointment having been made. Of all retail SMEs who made appointments, approximately one out of five indicated that they had waited more than 30 minutes (UNISA, 2006a:59).

The time delays to refund overpaid taxes are crucial to small and medium business as they normally operate on a tight cash flow basis and delays with refunds could have serious financial impacts on the business (UNISA, 2006a:61). With regards to refunds, the following was established:

- It takes SARS approximately 10 weeks (54 working days) to return refunds on VAT. According to the Service Charter and Service standards released on 19 October 2005, the aim is to process VAT refunds within 21 working days of receipt.
- It takes SARS approximately 15 weeks (79 working days) to return refunds on tax returns, which also fall short in terms of the expectations of the Service

Charter. SARS should strive by 2007 to process Income Tax refunds within 30 working days from the assessment date (UNISA, 2006a:61).

The study found that the majority of SMEs perform all tax functions, with the exception of Customs and Excise duties, internally (UNISA, 2006a:63).

5.4.6.6 Constraints/shortcomings of research done in the light of compliance cost analysis for South African small businesses

- The type of business that was covered in the report - SME - was specifically defined in the study and thus should be taken into account if comparisons are to be done with other studies in the future in this sector.
- The use of “employee numbers” as the criteria to categorise the business as an SME is economically speaking the least appropriate since it does not reflect the extent of economic activity and fails to reflect the true labour creation abilities of these businesses since many employ mainly casual staff to retain flexibility (UNISA, 2006a:8).
- Although there is logic in the rationale in selecting only the SMEs in the retail industry in Gauteng, the results from the study cannot be said to be representative of the whole country (250 retail establishments responses were used in the analysis of the results).
- Although various areas surrounding tax compliance were established, only the average number of days etc. were established. The actual compliance costs involved in these areas of compliance were not quantified.
- From the findings in this study it cannot be determined whether problems identified by formal micro-enterprises are unique to those specific establishments. It is therefore recommended that a survey be conducted in one of the sectors already investigated, i.e. manufacturing or retail, or that a study is conducted amongst small, medium and micro-enterprises of another sector. The latter approach will enable the researchers to determine whether problems identified relate to the size of the business or the sector it operates in (UNISA, 2006a:66).

5.4.7 The Organisational impact of taxation on Small, Medium and Micro-establishments in the business services sector in Gauteng - Report 3

5.4.7.1 The objective of the study

Determination of the status and structure of tax management and administrative skills in the SME industry. More specifically, the objectives of the study were as follows:

- Provide a profile of micro-, small, and medium enterprises and indicate their geographic distribution and sectoral contribution to economic growth and employment;
- Provide a profile of the business services industry according to business activities;
- Determine the tax skills status and requirements of SMMEs by analysing the taxation legislation/regulations that affect business services SMMEs in particular;
- Determine the level and utilisation of tax incentives by business services SMMEs;
- Determine the nature of tax outsourcing by business services SMMEs;
- Identify future tax skills requirements of business service SMMEs;
- Determine the experience and perception of business services SMMEs regarding the services rendered by SARS;
- Assist regulators and legislators in formulating appropriate future strategies for business services SMMEs; and
- Assist sector education training authorities, in particular the SETA for Finance, Accounting, Management Consulting and Other Financial Services in developing skills programmes related to the business services industry in particular (UNISA, 2006b:4-5).

5.4.7.2 The type of business that the study covered

Small, medium and micro-enterprises in the business services industry in Gauteng were the focus of this study. Small enterprises were defined as enterprises with between 21 and 50 employees. Medium enterprises were defined as enterprises with

between 51 and 200 employees. Micro-enterprises were defined as enterprises with between 1 and 20 employees (UNISA, 2006b:40).

Business service establishments in the informal economy (non-VAT registered establishments) were excluded from the study (UNISA, 2006b:8).

5.4.7.3 The area of tax compliance that was measured

The time taken for SARS to adjust incorrect assessments, resolve tax queries telephonically, verbally or face-face, pay VAT and income tax refunds and quantify the cost of training staff in taxation matters.

5.4.7.4 The method used to determine the area of compliance

An interviewer-administrated telephonic interview approach was used to collect data from the sample of business services SMMEs operating in Gauteng. Financial managers, general managers, accountants and owners of business services SMMEs were targeted as the sample elements/respondents. This method was further supplemented with a self-administered approach for respondents preferring to receive the questionnaire by fax and completing and returning it again via the same distribution method. The telephone method proved to be very effective in terms of cost and suited the research method in terms of quantity of data being collected for the survey (UNISA, 2006b:40).

5.4.7.5 The findings of the study in relation to tax compliance

SMMEs experience of contacting SARS:

- SARS takes approximately 8 minutes to answer incoming calls;
- An average of five telephonic calls are required to address tax enquiries effectively; and
- Clients without an appointment wait an average of 28 minutes prior to being attended to (UNISA, 2006b:57).

Business services SMMEs were also asked to indicate whether they ever had to wait for more than 30 minutes for any appointments they had with SARS. In this regard, 26,1% of micro business services establishments and 15,3% of small business services establishments confirmed that they had waited more than 30 minutes for an appointment made with SARS. Of all business services SMMEs, at least two out of every ten indicated that they had waited more than 30 minutes for an appointment made with SARS (UNISA, 2006b:57).

With regards to correspondence with SARS, it was found that SARS takes approximately:

- Just more than a month (34 working days) to respond to written correspondence; and
- Eight weeks (44 working days) to process tax returns, excluding delays due to queries (UNISA, 2006b:58).

To refund SMMEs their VAT and income tax takes SARS approximately:

- 10 weeks (59 working days) to return refunds on VAT; and
- 13 weeks (68 working days) to return refunds on tax returns (UNISA, 2006b:58).

The outsourcing (use of tax practitioners) of all tax functions by these SMMEs was considered in this study and it was found that:

- Less than half (42,2%) the business services SMMEs handle corporate income tax functions internally while most (54,2%) outsource this function; and
- There is hardly any difference between the proportion of micro- and small business services establishments that deal with secondary tax functions internally and those who outsource these functions. A far larger proportion (68,2%) of medium SMMEs handles these tax functions internally than those who outsource this tax function (32,0%) (UNISA, 2006b:60).

It appears that these SMMEs are more competent in dealing with the following taxes (on the basis of the fact that more SMMEs deal with the following taxes internally rather than outsource these functions):

- VAT
- UIF

- SDL
- Employees' tax
- Workmen's compensation (UNISA, 2006b:42).

It is also clear that more business services SMMEs outsource the following taxes compared to the number that deal with them internally:

- Corporate income tax
- STC
- Customs and excise
- RSC levies
- Provisional tax (UNISA, 2006b:52).

Micro-establishments spent an average of R6 000 per annum on external tax skills-related training pertaining to managers and an average of R7 283 per annum on external tax training in respect of employees. Small and medium establishments spent an average amount of R12 583 and R10 000 per annum respectively on external tax skills-related training pertaining to managers. Small establishments spent an average of R18 900 per annum on external tax training in respect of employees. On average, SMMEs spent R7 848 on employee training and R6 726 on manager's training (UNISA, 2006b:67).

The study found that the majority of SMMEs outsource the bulk of their tax functions. There are several SMMEs that do perform certain functions of a routine nature internally. Generally, micro-enterprises outsource more of their tax functions than medium enterprises (UNISA, 2006b:60).

Furthermore, it is interesting to note that approximately more than a third (35,0%) of SMMEs believe that the burden to comply with government tax regulations has increased substantially (UNISA, 2006b:73).

It is clear that SMMEs show the greatest preference for:

- Reduced penalties/interest charges by SARS; and
- SARS helpdesk (UNISA, 2006b:75).

Besides the top two listed preferences, micro-establishments also show preference for direct access to SARS assessors while small establishments also show preference for reduced tax rates for SMMEs (UNISA, 2006b:75).

Analysts are cautioned not to over-generalise the survey findings in terms of other industries, geographical areas or employee size groups (UNISA, 2006b:77).

5.4.7.6 Constraints/shortcomings of research done in the light of compliance cost analysis for South African small businesses

- The type of business that was covered in the report – SMME - was specifically defined in the study and thus should be taken into account if comparisons are to be done with other studies in the future in this sector.
- Although there is logic in the rationale in selecting only the SMEs in the business service industry in Gauteng, the results from the study cannot be said to be representative of the whole country (130 business services establishments responses were used in the analyses of the results).
- Although various areas surrounding tax compliance were established, only the average number of days etc, were established. The actual compliance costs involved in these areas of compliance were not quantified.
- The use of tax practitioners was considered in detail in this report, however, the costs of using these practitioners was not quantified.

5.4.8 Recent findings on tax-related regulatory burden on SMMEs in South Africa

5.4.8.1 The objective of the report

To gauge the impact of the tax compliance cost on small business in South Africa. This document critically reviewed three available studies on the impact of tax compliance costs on South African SMMEs (Chamberlain & Smith, 2006:i).

The three studies reviewed were:

- *Counting the Cost of Red Tape for Business in South Africa by SBP (2005);*
- *Measurement of Value Added Tax Act and Regional Services Councils Act-induced Administrative Burdens for South African Small Businesses by Upstart Business Strategies (2004), commissioned by the DTI; and*
- *SMME Facilitation Program (Report Version) by the South African Revenue Services (SARS, 2004).*

The country's performance in an international context was also reviewed. New Zealand and the United Kingdom were specifically investigated and used as an illustration of what can be achieved in a regulatory best practice environment.

5.4.8.2 The type of business that the study covered

The scope of this review, while aimed at SMMEs in general, was to some extent determined by the content and definitions used in the three studies reviewed. While the studies mainly focus on SMMEs, the SBP (2005) study also covered large firms and "major corporations". The SARS (2005) study implicitly included survivalist enterprises through its coverage of the formal/informal economic divide.

5.4.8.3 The area of tax compliance that was measured

Although the focus was on tax compliance costs, the review also touched on issues related to the total tax-related regulatory burden for SMMEs and contextualised the discussion within broader SMME development debate and policy.

5.4.8.4 The method used to determine the area of tax compliance

A literature review was performed by comparing the three documents containing studies already done on tax compliance costs.

5.4.8.5 The findings of the study in relation to tax compliance

The review showed that, although the studies did groundbreaking work, there are still a number of gaps in our understanding of the burden and particularly identifying the exact components (Chamberlain & Smith, 2006:42).

The surveys confirm that tax compliance burden ranks highly for SMMEs but the estimates of cost to individual SMMEs and the economy still needs to be debated (Chamberlain & Smith, 2006:43).

Two cautionary notes from international experience were highlighted in the study:

1. Do not expect reductions in the tax compliance burden to unlock the SMME market

Although important for long-term development, reducing the burden of tax compliance is unlikely to result in dramatic development of the SMME market in the short-term. It is more likely to be a catalyst or facilitator of development rather than a driver of growth. Drivers for growth will come from improvements in the general economic environment and demand conditions combined with initiatives to empower individuals to start their own businesses. This finding is echoed in the SARS study, which concludes that “small business will not live or die by SARS intervention alone”. It is also confirmed by the experience of international jurisdictions, which found that incremental improvements in the tax compliance burden have not directly resulted in substantial growth in the SMME market. This does not negate the fact that the cumulative impact of such changes may be substantial, but simply serves to temper the expectations of what can be achieved over the short-term (Chamberlain & Smith, 2006:47).

2. Heed international experience on potential distortions introduced by well-meaning policy

The experience of the UK provides an interesting insight into the trade-offs faced by policy and the potential distortions introduced into the market. On the one hand, a high compliance burden on specific firm types disincentivises entrepreneurs to grow their business beyond a certain level. On the other, improving the tax regime for particular types of firms has resulted in entrepreneurs opting for company types that are inappropriate to its business (Chamberlain & Smith, 2006:48).

5.4.8.6 Constraints/shortcomings of research done in light of tax compliance cost analysis for South African small businesses

- No definition of “small business” was provided in the study. Furthermore, the study only reviewed three other studies done in this area. Subsequent studies have been done and thus the analysis is not currently up to date.
- Only two overseas countries were used as a benchmark for a regulatory best practice environment.

5.4.9 Doing Business in 2007: How to reform

5.4.9.1 The objective of the study

This report investigated the regulations that enhance business activity and those that constrain it. Quantitative indicators on business regulations and their enforcement were obtained from 175 countries over time. Regulations affecting 10 areas of everyday business were measured, of which one was taxation. This report thus assessed the impact of regulations on the ease of doing business within specific countries (World Bank and International Finance Corporation, 2006:i).

5.4.9.2 The type of business that the study covered

In order to make responses comparable across countries, a standardised case study was developed with certain assumptions in respect of the company being considered.

The company that was considered was a company that started operations, in the country's most populous city, on 1 January 2004 and has the following characteristics:

- Is 100% domestically owned and has five owners, all of whom are natural persons;
- Has a start-up capital of 102 times income per capita at the end of 2004;
- Performs general industrial or commercial activities. Specifically, it produces ceramic flowerpots and sells them at retail. It does not participate in foreign trade (no import or export) and does not handle products subject to a special tax regime, for example, liquor or tobacco;
- Owns two plots of land, one building, machinery, office equipment, computers and one truck and leases another truck;
- Does not qualify for investment incentives or any special benefits apart from those related to the age or size of the company;
- Has 60 employees - four managers, eight assistants and 48 workers. All are nationals, and one of the managers is also an owner;
- Has a turnover of 1,050 times income per capita;
- Makes a loss in the first year of operation;
- Has the same gross margin (pre-tax) across all economies;
- Distributes 50% of its profits as dividends to the owners at the end of the second year;
- Sells one of its plots of land at a profit during the second year; and
- Is subject to a series of detailed assumptions on expenses and transactions to further standardize the case (World Bank and International Finance Corporation, 2006:1).

This company was regarded as a “medium-sized” business in the report (World Bank and International Finance Corporation, 2006:1).

5.4.9.3 The area of tax compliance that was measured

The respondents were asked the total tax that the business must pay in its second year of operation and the process for doing so. All taxes, from corporate income tax to VAT to advertising or environmental tax, and all applicable deductions and exemptions were taken into account to calculate the total tax burden (World Bank and International Finance Corporation, 2006:74).

The respondents were required to document the number of payments the company would have to make to the tax authorities, as well as the time required to prepare and file tax payments.

The results from these questions were provided, and rankings on the ease of paying taxes were calculated. These were calculated as the average of the country rankings on total taxes, number of payments and time required to comply (World Bank and International Finance Corporation, 2006:2).

5.4.9.4 The method used to determine the area of tax compliance

Respondents (5 000 local experts, including lawyers, business consultants, accountants, government officials and other professionals routinely administering or advising on legal and regulatory requirements) were asked to review the financial statements and a list of transactions of a standardised firm. The business started with the same financial position in every country (World Bank and International Finance Corporation, 2006:1).

5.4.9.5 The findings of the study in relation to tax compliance

It was established that firms in 90% of surveyed countries rank tax administration among the top five obstacles to doing business (World Bank and International Finance Corporation, 2006:47).

Globally, South Africa is placed in the 74th position in terms of the ease of paying taxes. The top five countries in this survey were Maldives, Ireland, Oman, United Arab Emirates and Hong Kong. It is interesting to note that the United States is placed 62nd, not far ahead of South Africa. Other countries of interest are New Zealand which is ranked 10th and Australia which is ranked 35th (World Bank and International Finance Corporation, 2006:1).

5.4.9.6 Constraints/shortcomings of research done in light of tax compliance cost analysis for South African small businesses

- It presented a single, very detailed, hypothetical case to the respondents, and asked them to answer all the questions from that particular case. Thus the actual tax compliance costs were not established, but an estimate thereof was basically made.
- The methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing procedures may take longer if the business lacks information or is unable to follow up promptly (World Bank and International Finance Corporation, 2006:1).
- Furthermore, due to two of the central assumption, (that the medium-sized business has 60 employees and an annual turnover of 1 050 times annual per capital income), this business is immediately placed far above any South African definitions for small business. A survey of small business was thus not employed, limiting the statically representative nature of findings (Chamberlain & Smith, 2006:7).

5.5 Summary of the studies reviewed

To try and compare the studies on a line by line basis would not lead to any beneficial information due to their diversity in objectives, types of businesses and areas of tax compliance covered. However, what is evident is that there is still a vast information-shortage on the tax compliance costs for small businesses in South Africa. Overall, the major shortcomings of the studies performed in South Africa in relation to compliance costs for South African small businesses, can be summarised are as follows:

Table 5.1 – Major shortcomings of the compliance cost studies performed in South Africa in the light of tax compliance cost analysis for South African small businesses

Shortcoming	Explanation
Type of business studied	No single type of business nor definition of a “small business” was used across all these studies – thus meaningful comparisons not possible
Shortcoming	Explanation
Nature of tax compliance costs	Not specifically and consistently defined or reviewed in each study
Specific tax related compliance costs studied	Not all the different types of taxes were considered to obtain the total tax compliance burden
Quantification of tax compliance costs	Different estimates and techniques used - estimates and perceptions were used to quantify the burden, not actual costs
Use of tax practitioners	Only used in three out of the nine studies performed - they could provide valuable insight into the tax compliance costs for small businesses
Representativeness of the sample	No nation-wide study has been done with respect to the total tax compliance burden for South African small businesses - only certain taxes and sectors in the economy have been studied
No benchmarking	No comparisons done between the different types of taxes, small businesses, or with international countries

Once the above shortcomings have been addressed, a need still exists for a baseline study that can act as a benchmark against which the progress made by government and regulators (from year to year) can be measured.

From the studies reviewed above, it is clear that small business tax surveys are not only important to support national accelerated and shared growth strategies and sustainable development, but they are also important for understanding current and future tax issues anticipated to shape the tax environment (UNISA, 2006b:4).

5.6 Conclusion

It can be seen from the studies performed in South Africa, that there has been some focus on small businesses and their tax compliance costs, even if it was not the main focus of each the studies. The definition of “small business” is the first aspect that is still not clear or consistently defined or used in the studies performed. The second aspect of uncertainty is the scope of “compliance costs”. It appears that not even the “hard core” components of tax compliance costs were measured adequately in a study. Each study focused on particular area/s of tax compliance costs, with most of them ignoring the effect of the tax practitioner costs on the compliance costs to small businesses. It can also be concluded that not all the South African taxes were covered in these studies, although certain taxes were reviewed in some depth. Another fact that is evident from the review is that tax practitioners, in the majority of cases, do not appear to have been approached to assist with the quantification of the tax compliance costs for small businesses, despite their ability to do so.

It appears that researchers have adopted a variety of methodologies and techniques to quantify the tax compliance costs for businesses. Personal interviews seem to be the preferred technique used to survey small businesses in South Africa. The bottom up approach appears to be the most favoured method used in quantifying the compliance costs in South Africa. This is in line with the international trends in this area.

Whilst some of these studies have focused on all South African businesses, irrelevant of their size, there are a few that have had their main focus on small businesses. As a result, there is now South African literature, albeit limited and varied, available which can provide a useful reference point for studies relating to tax compliance costs for small businesses. It will also hopefully prevent any duplication of research efforts from occurring should government/researchers not be aware of what has been done to date in this area.

The shortcomings in the studies in relation to the total tax compliance burden for South African small businesses have revealed that there is a huge need to expand on research initiatives into this area. It is recommended that any future research in this area incorporate the following:

- A clear objective that deals specifically with tax compliance costs for small businesses;

- A concise and nationally agreed upon definition of “small business” and “compliance costs”;
- A sample that is representative of the total South African small business community; and
- A methodology that provides the most accurate information regarding the quantification of tax compliance costs.

It is hoped this future research will “drill down” into the specifics of the tax with the highest compliance costs and then “reach out” to all the other taxes, and in so doing provide a benchmark against which progress in this area can be measured, both locally and internationally.

The specific potential areas for future research into the tax compliance costs for small businesses as well as a summary of comments provided in this and previous chapters will be presented in **Chapter 6**.

CHAPTER 6

SUMMARY AND CONCLUSION

6.1 Introduction

The objective of this study is to provide an overview of what has been researched to date in the area of tax compliance costs for small businesses in South Africa. The reasons for doing this is, firstly, to ensure that duplication of research efforts does not occur and, secondly, to try and highlight areas where future research is required. This chapter will summarise what has been found thus far and will specify the critical areas where future research is required with regards to the tax compliance costs for small businesses.

6.2 Summary of findings in previous chapters

Governments have realized that small businesses play an important role in economic prosperity and that they also tend to be disproportionately affected by regulations. Small businesses, whatever their definition, also play a central role in all the economic activity of South Africa. They are a key source of jobs, a breeding ground for business ideas and a main driver of innovation, employment, social and local integration.

However, internationally and in South Africa, there is no one uniform definition of “small business” neither from a tax nor economic perspective. Reasons for this appear valid, especially due to the diversity of the small business sector and the tax regulations applicable to it.

A further issue that has been debated in many studies is what exactly constitutes the “tax compliance costs” that are faced by small businesses. Overall, there is general consensus that these costs include:

- the value of time spent by business owners/managers/staff etc, on understanding the rules and applying them;

- record-keeping costs, that is, costs of compiling the necessary receipts and other records and costs incurred in respect of the preparation of tax returns;
- the payments made for the expertise of professional advisers such as consultants, lawyers and accountants;
- incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities.

Of the above costs, the least considered is the cost to the tax practitioner. As these tax practitioners are frequently used by small businesses, largely due to lack of time and the necessary expertise on the part of the small business owner, their relevance becomes important in the quantification of tax compliance costs for small businesses. Reason for this being that they are able to provide all the necessary information on the tax compliance cost for the small business as generally, they are the persons who perform these compliance functions for their clients and thus know exactly what it costs the small business to remain tax compliant.

The measurement of the tax compliance cost burden for small businesses is essential as this will provide concrete empirical evidence of the size of the burdens faced by these entities. This empirical evidence can then be used to convince SARS and the National Treasury that there is a need to change the way things are being done either procedurally or legislatively.

Various techniques and methods have been adopted locally and internationally to measure the tax compliance burden. It appears that postal surveys are the internationally preferred technique, whereas in South Africa, the face-face interview technique is predominantly used to obtain information regarding tax compliance costs for small businesses. Internationally, the preferred method of quantifying the compliance costs is the SCM. In South Africa, the “previous version” of the SCM, the Mistral method, has been used in one study performed.

Keeping track of all the research performed in this area is a difficult, but critical, task. This study provides an overview of the research performed into the tax compliance costs of small businesses and gives insight into the breadth and depth of each of study found. This overview highlights the variety in the time periods, geographical spread, taxes and methodologies employed in these studies. The findings of each study (in relation to tax

compliance costs) were established and from this, the major shortcomings in relation to the total tax compliance burden for South African small businesses were summarized. It is evident that there exists a vast information-shortage in this area in South Africa. Future research is therefore required.

6.3 Future research required

From the findings in this review, it is obvious that more detailed information is needed with regards to:

- the definition of small business both from a tax and economic perspective; and
- the specific areas of compliance within each tax that prove to be a burden to small businesses.

Further research should thus be performed per tax and per tax function (registration, returns, objections and appeals etc.) to obtain the exact Rand amount it costs to be tax compliant. This research should be conducted by questioning the appropriate persons in the small businesses themselves, but preferably, their tax practitioners should be used for this purpose. Surveying these tax practitioners/accountants/bookkeepers could potentially provide more accurate information as it is usually these persons who do in fact actually perform the tax compliance functions on behalf of the small businesses.

The critical areas for further research can therefore be summarised as follows:

1. Definition of “small business” – including “formal” and “informal” small businesses;
2. Definition of “tax compliance costs”;
3. Survey of **tax practitioners** to identify the principle time and cost burdens on “formal” small businesses associated with preparing and filing tax returns for the most common business taxes, the procedures for paying taxes, and going through tax inspections or audits, including fines and other tax-related payments etc;
4. Survey of “**formal**” **small businesses**, per sector, to establish their actual compliance costs per tax and per function underlying each tax (for example, registration, payment etc.); and

5. Survey of the “**informal**” **small business** sector to establish their perceptions about taxation and the costs involved in becoming compliant.

Ideally, the last three surveys should be performed on a national basis to ensure that government is presented with representative empirical evidence in order for it to be properly informed before formulating and implementing legislative changes that could or will result in compliance costs being incurred by small businesses. The results of surveys 3 and 4 could be compared to each other to establish if there are any discrepancies between the information provided by the small business and that provided by tax practitioner on behalf of the small business itself.

These studies will assist in fostering political support for the development of a policy on the reduction of the tax compliance burdens faced by small businesses. Furthermore, using the information provided from these studies will help form the basis for evaluating policy initiatives needed to improve and sustain long-lasting government efforts. This basis can then be used as a “benchmark” against which the government can compare their progress made in reforms that they have introduced.

6.4 Conclusion

South African small businesses say that complying with the tax laws is a constraint on their growth due to the costs that they have to incur to become and stay compliant. However, government is only willing to change these laws if the small businesses’ concerns and burdens are supported by detailed empirical evidence about the level of incidence of tax compliance costs.

Thus better information-gathering is needed in order to alleviate this crucial problem. The true facts about tax compliance costs need to be understood and quantified. To date, only a few studies have touched on this area, but none have provided the empirical detail needed to gain an exact picture of the overall and specific problems faced by small businesses in complying with tax laws. The above mentioned studies should thus be carried out as a matter of urgency. But efforts by researchers and SARS should not stop there. These initial studies should be used to determine the trends over time and should be adapted as changes are made by SARS.

The overall long-term aim should be how to reduce the tax compliance burden as a whole. It is a tough assignment, but one that is more important than ever to restore small businesses' confidence and support their entrepreneurial spirit and dynamism. It is hoped that the South African government will adjust their priorities in order to generate more of such relevant research.

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ANNEXURE A - SUMMARY OF SOUTH AFRICAN REGULATORY COST STUDIES

Description	Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agri-businesses in Kwazulu-Natal, South Africa	SMME Facilitation Programme (Report Version) by the South African Revenue Services	Counting the Cost of Red Tape for Business in South Africa	Measurement of Value Added Tax Act and Regional Services Councils Act- induced Administrative Burdens for South African Small Businesses	The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1	The impact of taxation on SME Retailers in Gauteng, 2006 – Report 2	The Organisational impact of taxation on Small, Medium and Micro-establishments in the business services sector in Gauteng - Report 3	Recent findings on tax-related regulatory burden on SMMEs in South Africa	Doing Business in 2007: How to reform by the World Bank and International Finance Corporation
Date of study	Oct 03 – Jan 04	2004	Feb 04 – Jun 04	September 2004	Aug 05 – Oct 05	Nov 05 – Jan 06	Nov 05 – Jan 06	March 2006	April 2006
Objective of review:									
1. Regulations in general	Obtain more information about the factors that constrain SMME agri-businesses performance so that policies and strategies to increase the survival and growth rates of these SMMEs can be identified.	Not applicable.	Survey the cost of regulation to the private sector. The report uses the survey results to look closely at which regulations are most costly to and troublesome for firms across a range of turnover and employment size bands. It estimates the impact of regulations on firms' plans to grow and to expand employment.	Study the cost of regulatory compliance of SMMEs. The purpose of the study was to enable the DTI to have quantitative evidence to be used to advocate for regulatory change and to motivate for the removal of regulations that are not necessary or harmful to SMMEs.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Investigate regulations that enhance business activity and those that constrain it. Quantitative indicators on business regulations and their enforcement obtained from 175 countries over time.
2. Tax regulations	Not applicable.	Establish, list and document all the tax compliance burdens that were being experienced by SMMEs.	Not applicable.	The study conducted measurements of VAT and RSC levies-related administrative burdens.	Determination of the status and structure of tax management and administrative skills in the SME industry. More specifically, the objectives of the study were as follows: <ul style="list-style-type: none"> Identify government grants and fiscal incentives for manufacturing SMEs; Determine the tax skills required by SMEs, by analyzing the taxation legislation that affects manufacturing SMEs; Evaluation of taxation legislation to determine compliance requirements for manufacturing SMEs; Determine the level of awareness and 	Investigate the impact of taxation on the SMEs in the retail sector. It further aims to identify any similarities or the major differences with regard to tax administration between the two sectors (retail and manufacturing). More specifically, the objectives of the study were as follows: <ul style="list-style-type: none"> Classify small businesses as micro, small and medium enterprises and indicate their geographic distribution and sectoral contribution to economic growth and employment; Classify the retail industry according to business activities; 	Determination of the status and structure of tax management and administrative skills in the SME industry. More specifically, the objectives of the study were as follows: <ul style="list-style-type: none"> Provide a profile of micro-,small, and medium enterprises and indicate their geographic distribution and sectoral contribution to economic growth and employment; Provide a profile of the business services industry according to business activities; Determine the tax skills status and requirements of SMMEs by analysing the taxation 	To gauge the impact of the tax compliance cost on small business in South Africa. This document critically reviewed three available studies on the impact of tax compliance costs on South African SMMEs. <p>The three studies reviewed were:</p> <ul style="list-style-type: none"> Counting the Cost of Red Tape for Business in South Africa by SBP (2005); Measurement of Value Added Tax Act and Regional Services Councils Act- induced Administrative Burdens for South African Small Businesses by Upstart Business Strategies (2004); 	Regulations affecting 10 areas were measured, of which one was taxation . This report thus assessed the impact of regulations on the ease of doing business within specific countries.

					<p>utilization of tax incentives for manufacturing SMEs;</p> <ul style="list-style-type: none"> • Determine which tax functions are outsourced by manufacturing SMEs and to whom it is outsourced; • Establish the current training and updating practices followed by manufacturing SMEs; • Compile a profile of tax management and administrative skills within manufacturing SMEs; • Identify possible future skills requirements within manufacturing SMEs; • Determine the perception of manufacturing SMEs regarding the service they receive from SARS; and • Assist regulators and legislators in formulating appropriate future strategies for manufacturing SMEs. 	<ul style="list-style-type: none"> • Determine the tax skills status and requirements of SMEs by analysing the taxation legislation/regulations that affect SME retailers in particular; • Determine the level and utilization of tax incentives by SME retailers; • Determine the nature of tax outsourcing by SME retailers; • Determine the current tax training and development practices of SME retailers; • Identify future tax skills requirements of SME retailers; • Determine the experience with and perception of retail SMEs regarding the services rendered by SARS; • Assist regulators and legislators in formulating appropriate future strategies for SME retailers; and • Assist sector education training authorities, in particular the wholesale and retail SETA in developing skills programmes applicable to the retail industry in particular. 	<p>legislation/regulations that affect business services SMMEs in particular;</p> <ul style="list-style-type: none"> • Determine the level and utilisation of tax incentives by business services SMMEs; • Determine the nature of tax outsourcing by business services SMMEs; • Identify future tax skills requirements of business service SMMEs; • Determine the experience and perception of business services SMMEs regarding the services rendered by SARS; • Assist regulators and legislators in formulating appropriate future strategies for business services SMMEs; and • Assist sector education training authorities, in particular the SETA for Finance, Accounting, Management Consulting and Other Financial Services in developing skills programmes related to the business services industry in particular. 	<p>and</p> <ul style="list-style-type: none"> • <i>SMME Facilitation Programme (Report Version) by the South African Revenue Services (SARS).</i> <p>The country's performance in an international context was also reviewed. New Zealand and the UK were specifically investigated and used as an illustration of what can be achieved in a regulatory best practice environment.</p>	
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Description	Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agribusinesses in Kwazulu-Natal, South Africa	SMME Facilitation Program (Report Version) by the South African Revenue Services	Counting the Cost of Red Tape for Business in South Africa	Measurement of Value Added Tax Act and Regional Services Councils Act- induced Administrative Burdens for South African Small Businesses	The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1	The impact of taxation on SME Retailers in Gauteng, 2006 – Report 2	The Organisational impact of taxation on Small, Medium and Micro-establishments in the business services sector in Gauteng - Report 3	Recent findings on tax-related regulatory burden on SMMEs in South Africa	Doing Business in 2007: How to reform by the World Bank and International Finance Corporation
Type of business covered in study	SMME.	SMME.	Very large to survivalist entrepreneurs in the informal sector.	Small businesses – but they referred the researchers to their external bookkeeping/tax specialists. Interviews of 50 experts finally done.	SME. Very small enterprises were ignored.	SME. Survivalist retail enterprises (mostly micro-establishments) such as hawkers, tuckshops and shebeens were excluded.	SMME. Business service establishments in the informal economy (non-VAT registered establishments) were excluded.	SMME. determined by the content and definitions used in the three studies reviewed. Thus covered large firms to survivalist enterprises.	Medium-sized (refer to shortcomings).
Classified according to:									
1. Number of employees	50 or less, 100 or less, and 5 or less full-time equivalent paid employees respectively.	No definition of this term was provided in the document itself.	No definition of these terms were provided in the document itself.	No definition of this term was provided in the document itself.	Small enterprises - between 20 and 50 employees. Medium enterprises - between 51 and 200 employees.	Small enterprises - between 20 and 50 employees. Medium enterprises - between 51 and 200 employees.	Small enterprises - between 21 and 50 employees. Medium enterprises - between 51 and 200 employees. Micro - between 1 and 20 employees.	Determined by the definitions used in the three studies reviewed.	Has 60 employees - 4 managers, 8 assistants and 48 workers. All are nationals, and 1 of the managers is also an owner.
2. Sector of the economy	Agri-businesses	Not specified.	Automotive, agri-processing, clothing & textiles, ICT, pharmaceuticals & tourism.	Not specified.	Manufacturing industry.	Retail industry.	Business services industry.	Various.	General industrial or commercial activities.
3. Geographical area	Kwazulu Natal	Not specified.	South Africa.	South Africa.	Gauteng.	Gauteng.	Gauteng.	Various.	Operations, in the country's most populous city, on 1 January 2004.
4. Other	Not applicable.	Not applicable.	Not applicable	Not applicable.	Not applicable.	Not applicable.	Not applicable.	Not applicable.	In order to make responses comparable across countries, a standardised case study was developed with certain assumptions in respect of the company being considered.

									<p>The company that was considered was a company that has the following characteristics:</p> <ul style="list-style-type: none">• Is 100% domestically owned and has 5 owners, all of whom are natural persons;• Has a start-up capital of 102 times income per capita at the end of 2004;• Owns 2 plots of land, 1 building, machinery, office equipment, computers and 1 truck and leases another truck;• Does not qualify for investment incentives or any special benefits apart from those related to the age or size of the company;• Has a turnover of 1,050 times income per capita;• Makes a loss in the first year of operation;• Has the same gross margin (pre-tax) across all economies;• Distributes 50% of its profits as dividends to the owners at the end of the second year;• Sells one of its plots of land at a profit during the second year; and• Is subject to a series of detailed assumptions on expenses and transactions to further standardize the case.
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Description	Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agribusinesses in Kwazulu-Natal, South Africa	SMME Facilitation Program (Report Version) by the South African Revenue Services	Counting the Cost of Red Tape for Business in South Africa	Measurement of Value Added Tax Act and Regional Services Councils Act- induced Administrative Burdens for South African Small Businesses	The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1	The impact of taxation on SME Retailers in Gauteng, 2006 – Report 2	The Organisational impact of taxation on Small, Medium and Micro-establishments in the business services sector in Gauteng - Report 3	Recent findings on tax-related regulatory burden on SMMEs in South Africa	Doing Business in 2007: How to reform by the World Bank and International Finance Corporation
Area of tax compliance measured									
1. Taxes covered	VAT, UIF, SDL.	Tax as a whole.	Tax as a whole & then specifically VAT, UIF, PAYE and RSC levies.	VAT and RSC levies.	All taxes.	All taxes.	All taxes.	Tax as a whole.	All taxes.
2. Tax Regulations	Rules and regulations dealt with in general.	Tax regulatory environment burdens in general.	Tax was one of the regulations that was considered in the study.	Not dealt with specifically.	Not dealt with specifically.	Not dealt with specifically.	Not dealt with specifically.	Touched on issues related to the total tax-related regulatory burden.	Process for paying taxes.
3. Tax costs and administration	<ul style="list-style-type: none"> • Paying and complying with VAT; • Paying a skills levy; and • Managing employee UIF contributions. 	<ul style="list-style-type: none"> • Tax administrative burdens; and • Tax compliance cost burdens. 	The average estimated annual direct and indirect costs of complying with tax regulations as well as the cost of obtaining external support from lawyers, auditors and consultants was asked in the study. The different taxes were merely ranked in order of troublesomeness.	The internal time and cost, the frequency of the activity and/or the external cost to register, keep records, complete and file tax returns, communicate with SARS, deal with inspections from SARS, notify SARS of changes and deregister were the areas of tax compliance that were asked in the questionnaire.	The cost of administering tax functions/ responsibilities for all the taxes were established. To indicate the manner in which SMEs deal with tax administrative burdens, the average percentage of full-time administrative workforce dealing with tax management and administrative functions was also established. The outsourcing of tax functions and the costs thereof were mentioned in the questionnaire. The penalties and interest charges levied for non-compliance was also touched on and quantified.	The tax management and administrative functions and skills needs for all the taxes were covered in the study. The SME experience with contacting SARS (telephone calls, waiting time for help, response time, receiving refunds) was also touched on.	The time taken for SARS to adjust incorrect assessments, resolve tax queries telephonically, verbally or face-face, pay VAT and income tax refunds and quantify the cost of training staff in taxation matters was considered.	Focus was on tax compliance costs in general.	Total tax that the business must pay in its second year of operation was considered. The number of payments the company would have to make to the tax authorities, as well as the time required to prepare and file tax payments was also documented.

Description	Owners' perceptions of factors that constrain the survival and growth of small, medium and micro agri-businesses in Kwazulu-Natal, South Africa	SMME Facilitation Program (Report Version) by the South African Revenue Services	Counting the Cost of Red Tape for Business in South Africa	Measurement of Value Added Tax Act and Regional Services Councils Act- induced Administrative Burdens for South African Small Businesses	The status of Tax Management and Administrative Skills of SME Manufacturers: Gauteng 2005 – Report 1	The impact of taxation on SME Retailers in Gauteng, 2006 – Report 2	The Organisational impact of taxation on Small, Medium and Micro-establishments in the business services sector in Gauteng - Report 3	Recent findings on tax-related regulatory burden on SMMEs in South Africa	Doing Business in 2007: How to reform by the World Bank and International Finance Corporation
<p>Techniques and methods used to determine the tax compliance costs/burdens</p> <p><u>1. Technique</u></p> <p>With who? USE OF TAX PRACTITIONERS</p> <p><u>2. Method of measurement</u></p>	<p>Personal interviews.</p> <p>Agri-business SMME .</p> <p>Not applicable.</p>	<p>Critical discussions (workshops).</p> <p>SARS and various accounting bodies and tax practitioners.</p> <p>No formal measurement of the tax compliance burdens were done in this review, it merely reviews the empirical findings of other studies on a number of qualitative insights gained during interaction with a range of individuals and organisations aware of</p>	<p>Personal interviews and multiple contacts, often by telephone.</p> <p>Formal Businesses – owners and senior managers.</p> <p>Estimated costs were asked.</p>	<p>Personal interviews.</p> <p>50 experts (tax specialists, accountants & bookkeepers).</p> <p>“Bottom-up” measurement approach - Mistral® method was used to quantify the costs.</p>	<p>Initially restricted to a combination of e-mail and fax surveys. However, this approach did not deliver the desired sample result. As alternative strategy, additional personal face-to-face interviews were performed.</p> <p>SME enterprises – financial managers, general managers, accountants and owners.</p> <p>Estimated time and costs were asked.</p>	<p>Telephonic interview approach supplemented with a self-administered approach for respondents preferring to receive the questionnaire by fax and completing and returning it again via the same distribution method.</p> <p>SME establishments - financial managers, general managers, accountants and owners.</p> <p>Experiences and perceptions were asked.</p>	<p>Telephonic interview approach supplemented with a self-administered approach for respondents preferring to receive the questionnaire by fax and completing and returning it again via the same distribution method.</p> <p>SMMEs - financial managers, general managers, accountants and owners.</p> <p>Experiences and perceptions were asked.</p>	<p>Literature review.</p> <p>Comparing three documents containing studies already done and available on tax compliance costs.</p> <p>Not applicable.</p>	<p>Conference calls, written correspondence and country visits.</p> <p>Lawyers, business consultants, accountants, government officials and other professionals routinely administering or advising on legal & regulatory requirements.</p> <p>Estimated time and costs were asked.</p>

		small business concerns.							
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<p>Findings</p> <p>1. General regulations</p> <p>2. General Tax Regulations</p>	<p>Not specifically mentioned.</p> <p>Paying and registering for VAT was ranked the 8th most limiting constraint overall. This procedure was perceived by respondents to increase their cash-flow stress.</p> <p>Paying a skills levy was ranked as the 19th most limiting constraint. Over half of the 19 owners who paid the monthly levy considered the procedure was too complicated and that the levy was an extra tax.</p>	<p>Absence of a consistent definition for SMMEs and lack of co-ordination in government policy.</p> <p>The most burdensome taxes for SMMEs are VAT and SDL.</p>	<p>The total estimated recurring compliance costs (for all surveyed regulations) for the formal sector in South Africa amounted to R78.90 billion, an amount equivalent to 6.5% of GDP in 2003 and 18% of SARS revenue in 2002/03.</p> <p>VAT is associated with the most troublesome set of regulations for the smallest categories of firms' sizes with less than 100 employees. SARS tax administration seen as the most troublesome regulation for firms with more than 100 employees.</p> <p>Other rankings of the most burdensome set of (tax) regulations:</p> <ul style="list-style-type: none"> • "SARS tax administration" - 3rd • Requirements associated with UIF – 4th • Regulatory requirements associated with PAYE - 5th. 	<p>Not specifically mentioned.</p> <p>The RSC levy Act was selected by small business as burdensome. However, the total cost per enterprise is low. It seems likely they selected the Act because they do not know what is done with the levies they pay, thus viewing the levy as an unnecessary expense. A key lesson from this is that there is a difference between annoyance and actual burdens.</p>	<p>Not specifically mentioned.</p> <p>Most SMEs are of the opinion that the burden to comply with tax regulations has increased over the past three years.</p>	<p>Not specifically mentioned.</p> <p>Not specifically mentioned.</p>	<p>Not specifically mentioned.</p> <p>More than a third (35,0%) of SMMEs believe that the burden to comply with government tax regulations has increased substantially.</p>	<p>There are still a number of gaps in our understanding of the burden and particularly identifying the exact components of regulation.</p> <p>The surveys confirm that tax compliance burden ranks high for SMMEs but the estimates of cost to individual SMMEs and the economy still needs to be debated. Two cautionary notes from international experience were highlighted in the study:</p> <ol style="list-style-type: none"> 1. Do not expect reductions in the tax compliance burden to unlock the SMME market 2. Heed international experience on potential distortions introduced by well-meaning policy 	<p>These were dealt with in detail in this study, but not applicable to this study.</p> <p>Firms in 90% of surveyed countries rank tax administration among the top 5 obstacles to doing business.</p> <p>Globally, South Africa is placed in the 74th position in terms of the ease of paying taxes.</p>

<p>3. Specific tax compliance issues</p> <ul style="list-style-type: none"> Tax compliance costs 	<p>Not specifically mentioned.</p>	<p>Not specifically mentioned.</p>	<p>Tax compliance costs are a relatively more important component of the regulatory burden for small firms than for larger ones.</p> <p>The average recurring compliance cost per firm, excluding initial registrations, was R105 174 for all sizes and sectors. The largest of this is tax compliance.</p> <p>Compliance with all taxes made up 26% of the overall compliance burden, contributing R20,5 billion to aggregate compliance costs.</p> <p>The tax compliance costs are estimated to be R20.5 billion, roughly 26% of the total compliance burden and slightly more than 1.5% of GDP in South Africa for 2003. The final aggregate figure for tax compliance is based on an estimate that the average annual tax compliance cost totals R27 298. This number encompasses two sub-totals, one R15 709 for tax compliance (internal) and the other R11 589 for professional fees (external).</p>	<p>The structural or recurring burdens, namely record-keeping and completion of the tax return, make the greatest contribution to total VAT compliance cost.</p> <p>While manual record-keeping and completion of the tax return have an average cost per enterprise of R3 020 per annum, the average cost per enterprise for performing the same functions using tax software only costs R1 476 per annum</p> <p>The aggregate compliance cost of VAT costs South African firms approximately R4.3 billion per annum. If it is assumed that not all so-called once-off burdens occur within any specific year, it can be concluded that the annual VAT compliance cost per average SMME is an amount between R6 027 and R8 414.</p>	<p>On average, approximately R9 700 per annum is devoted to managing tax functions/responsibilities.</p> <p>The cost of taxation was further illustrated by the fact that almost one out of every four full-time administrative staff members employed by the establishments deal with tax matters.</p>	<p>Compliance costs are incurred when an SME owner/ its staff/its tax practitioner have to spend time dealing with SARS on taxation matters.</p>	<p>Micro-establishments spent an average of R6 000 per annum on external tax skills-related training pertaining to managers and an average of R7 283 per annum on external tax training in respect of employees. Small and medium establishments spent an average amount of R12 583 and R10 000 per annum respectively on external tax skills-related training pertaining to managers. Small establishments spent an average of R18 900 per annum on external tax training in respect of employees. On average, SMMEs spent R7 848 on employee training and R6 726 on manager's training.</p>	<p>Not specifically mentioned.</p>	<p>Not specifically mentioned.</p>
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<ul style="list-style-type: none"> Admin issues 	<p>The VAT registration procedure was seen as too complex for small businesses.</p>	<p>Specific administrative burdens include too many procedures in filing for tax, too many forms to complete to function as a formal business entity, the general administratively time-consuming nature of tax, complexly written tax codes and the high frequency of submitting tax returns.</p>	<p>Not specifically mentioned.</p>	<p>Advanced tax software for record-keeping and calculation of final VAT can significantly reduce the administrative burden. In fact, using tax software is by far the cheapest option for complying with VAT requirements.</p>	<p>Not specifically mentioned.</p>	<p>It was found that the current service standards, as endured by the retail SMEs, is as follows:</p> <ul style="list-style-type: none"> SARS takes on average, 7 minutes to answer incoming calls; It takes approximately 3 telephone calls, on average, to effectively address tax enquiries; SARS takes on average, 17 minutes to attend to individuals not having an appointment; 17,6% of small retailers and 26,8% of medium retailers confirmed that they had waited more than 30 minutes despite an appointment having been made; and Of all retail SMEs who made appointments, approximately 1 out of 5 indicated that they had waited more than 30 minutes. <p>With regards to refunds, the following was established:</p> <ul style="list-style-type: none"> It takes SARS approximately 10 weeks (54 working days) to return refunds on VAT- falls short of SARS Service Charter; and It takes SARS 	<ul style="list-style-type: none"> SARS takes approximately 8 minutes to answer incoming calls; An average of 5 telephonic calls are required to address tax enquiries effectively; Clients without an appointment wait an average of 28 minutes prior to being attended to; 26,1% of micro business services establishments and 15,3% of small business services establishments affirmed that they had waited more than 30 minutes for an appointment made with SARS; and Of all business services SMMEs, at least 2 out of every 10 indicated that they had waited more than 30 minutes for an appointment made with SARS. It takes SARS approximately: <ul style="list-style-type: none"> just more than a month (34 working days) to respond to written correspondence; 8 weeks (44 working days) to process tax returns, excluding delays due to queries; It takes SARS approximately 10 weeks (59 working days) to return refunds on VAT; and 13 weeks (68 working 	<p>Not specifically mentioned.</p>	<p>Not specifically mentioned.</p>
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<p>Outsourcing</p>	<p>Some businesses were paying a bookkeeper primarily to ensure VAT compliance.</p>	<p>Not specifically mentioned.</p>	<p>South African firms make extensive use of external professionals to help them comply with regulations. Overall, an average of 33% of the costs of complying with regulations is spent on professional assistance. In respect of taxation, 42% of the cost of compliance was due to professional assistance. The final aggregate figure for tax compliance is based on an estimate that the average annual tax compliance cost totals R27 298. This number encompasses two sub-totals, one R15 709 for tax compliance (internal) and the other R11 589 for professional fees (external) .</p>	<p>It is much more expensive to outsource record-keeping and completion of the tax return than to do it in-house. While the average annual cost per enterprises for outsourced record-keeping and completion of the tax return is R9 051, performing the same function manually within the firms costs R3 020.</p>	<p>SMEs show a strong preference towards tax consultants and tax update courses and seminars as sources to inform staff on tax matters. The findings revealed that the average cost of outsourcing some of their tax functions amounts to R13 445 per annum for small establishments and R21 462 per annum for medium establishments. 21% of the respondents stated that certain tax functions that had previously been outsourced, were no longer outsourced mainly due to the high cost of outsourcing.</p>	<p>approximately 15 weeks (79 working days) to return refunds on tax returns, - also falls short of the Service Charter.</p> <p>The study found that the majority of SMEs perform all tax functions internally, with the exception of Customs and Excise duties.</p>	<p>days) to return refunds on tax returns.</p> <p>The study found that the majority of SMMEs outsource the bulk of their tax functions. There are several SMMEs that do perform certain functions of a routine nature internally. Generally, micro-enterprises outsource more of their tax functions than medium enterprises.</p> <p>Less than half (42,2%) the business services SMMEs handle corporate income tax functions internally while most (54,2%) outsource this function. There is hardly any difference between the proportion of micro- and small business services establishments that deal with secondary tax functions internally and those who outsource these functions. A far larger proportion (68,2%) of medium SMMEs handle these tax functions internally than those who outsource this tax function (32,0%).</p> <p>It appears that these SMMEs are more competent in dealing with the following taxes (on the basis of the fact that more SMMEs deal with the following taxes internally rather than outsource these functions): VAT UIF SDL Employees' tax Workmen's compensation.</p>	<p>Not specifically mentioned.</p>	<p>Not specifically mentioned.</p>
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<ul style="list-style-type: none"> Penalties and interest 	Not specifically mentioned.	Not specifically mentioned.	Not specifically mentioned.	Not specifically mentioned.	<p>A full 33% of the respondents had previously been liable for penalties, averaging at almost R15 146 per annum. A further 10.7% were liable for interest due to the late payments or late submissions by SMEs.</p>	Not specifically mentioned.	<p>More business services SMMes outsource the following taxes compared to the number that deal with them internally: Corporate income tax Secondary tax on companies (STC) Customs and excise RSC levies Provisional tax.</p> <p>It is clear SMMes show the greatest preference for reduced penalty/interest charges by SARS.</p>	Not specifically mentioned.	Not specifically mentioned.
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<p>Shortcomings</p> <p>1. Type of enterprise</p>	<ul style="list-style-type: none"> Only agri-business SMMEs were studied. 	<ul style="list-style-type: none"> No definition of the SMME reviewed was provided in the study. 	<ul style="list-style-type: none"> The use of business, telephone and other area directories covering the whole country may have meant that the newest and smallest businesses were underrepresented. Semi-informal and mini-micro firms were largely excluded from the sample. Although the employment and turnover categories are useful, it does not distinguish between the sector and nature of businesses (which will be relevant for VAT). The specific distribution of firms according to different turnover categories is also not clear. 	<ul style="list-style-type: none"> No definition of small business was provided. 	<ul style="list-style-type: none"> SME - specifically defined in the study and thus should be taken into account if comparisons are to be done with other studies in the future in this sector. 	<ul style="list-style-type: none"> SME - specifically defined in the study and thus should be taken into account if comparisons are to be done with other studies in the future in this sector. The use of "employee numbers" as the criteria to categorise the business as an SME is economically speaking the least appropriate since it does not reflect the extent of economic activity and fails to reflect the true labour creation abilities of these businesses since many employ mainly casual staff to retain flexibility. 	<ul style="list-style-type: none"> SMME - specifically defined in the study and thus should be taken into account if comparisons are to be done with other studies in the future in this sector. 	<ul style="list-style-type: none"> No definition of small business was provided. 	<ul style="list-style-type: none"> A single, very detailed, hypothetical case of a company was given and respondents were asked to answer all the questions from that particular case. Due to two of the central assumption, (the medium-sized business has 60 employees and an annual turnover of 1 050 times annual per capital income), this business is immediately placed far above any South African definitions for small business. A survey of small business was thus not employed, limiting the statically representative nature of findings.
<p>2. Type of tax and area of tax compliance</p>	<ul style="list-style-type: none"> Only certain taxes were covered in the questionnaire (VAT, UIF, SDL). 	<p>Not applicable.</p>	<ul style="list-style-type: none"> Not solely focused on tax compliance costs and thus did not delve as deep as possible into this issue. Despite the fact that the SBP study allows for quantification of the impact of tax compliance cost by turnover size, it does not allow for the identification of particular problematic business categories. It also does not provide details of how finances are managed, e.g. accounting software, outsourced record-keeping, etc. 	<ul style="list-style-type: none"> Only focuses on two specific taxes – VAT and RSC levies. 	<p>Not applicable.</p>	<p>Not applicable.</p>	<p>Not applicable.</p>	<p>Not applicable.</p>	<p>Not applicable.</p>
<p>3. Quantification of tax compliance costs</p>	<ul style="list-style-type: none"> Only perceptions of SMMEs were asked, and no quantitative information was 	<ul style="list-style-type: none"> Although the tax compliance issues were listed in this report, along with proposed solutions, the actual extent of 	<ul style="list-style-type: none"> The broad focus of the study, not only on SMMEs, potentially causes the study to dilute analysis of many possible tax problems only experienced by SMMEs. 	<ul style="list-style-type: none"> The Mistral® approach used is characterised by the fact that the administrative activities enterprises would carry out in the absence of legislation/regulation 	<ul style="list-style-type: none"> Although there is logic in the rationale in selecting only the SMEs in the manufacturing industry in Gauteng, the 	<ul style="list-style-type: none"> The results from the study cannot be said to be representative of the whole country (250 retail establishments responses were used in the analyses of the results). 	<ul style="list-style-type: none"> The results from the study cannot be said to be representative of the whole country (130 business services establishments responses were used in the analyses of the 	<p>Not applicable.</p>	<ul style="list-style-type: none"> The methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing procedures may take

	<p>obtained.</p>	<p>these burdens is not forthcoming.</p> <ul style="list-style-type: none"> The size of the burden is not backed up with concrete monetary evidence, it is merely interested reference groups that are documenting their compliance burdens. Does not generate its own empirical data. 	<ul style="list-style-type: none"> Respondents were asked not for exact costs but for estimates of the costs – thus the possibility that there is some degree of inflation of the costs cannot be excluded as it is assumed that it is in the interests of business to inflate their difficulties and complain about regulations. It was established when the detailed results were inspected, that the larger source of bias was the tendency to overlook or not recall a variety of costs involved in compliance. It is not clear whether the benefits arising from tax requirements such as greater access to financial management information were quantified. The resulting headline figures thus only provide an indication of <i>gross compliance costs</i>, while the issue of net compliance costs is ignored. 	<p>are not included in the final quantitative estimates of compliance costs.</p> <ul style="list-style-type: none"> To do this, the study makes the assumption that only 25% of record-keeping activities can be directly ascribed to tax compliance and that the other 75% of record-keeping activities are due to essential management activities and thus to the benefit of the firm. The analysis is quite sensitive to this assumption, particular in cases where record-keeping is outsourced. The internal cost of time spent on record-keeping, as used here, may be misleading. The small sample of specialists consulted in gathering the required information casts some doubt on the statistically representative nature of the findings. 	<p>results from the study cannot be said to be representative of the whole country (only 75 manufacturing establishments responses were used in the analyses of the results).</p>	<ul style="list-style-type: none"> Although various areas surrounding tax compliance were established, only the average number of days etc. were established. The actual compliance costs involved in these areas of compliance were not quantified. From the findings in this study it cannot be determined whether problems identified by formal micro-enterprises are unique to those specific establishments. 	<p>results).</p> <ul style="list-style-type: none"> Although various areas surrounding tax compliance were established, only the average number of days etc. were established. The actual compliance costs involved in these areas of compliance were not quantified. The use of tax practitioners was considered in detail in this report, however, the costs of using these practitioners was not quantified. 		<p>longer if the business lacks information or is unable to follow up promptly.</p> <ul style="list-style-type: none"> The actual tax compliance costs were not established, but an estimate thereof was basically made.
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4. Other	Not applicable.	<ul style="list-style-type: none">• Only reviewed 3 other studies done in this area. Subsequent studies have been done and thus the analysis is not currently up to date.• Only two overseas countries were used as a benchmark for a regulatory best practice environment.	Not applicable.						
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