1.1 BACKGROUND

Jean-Baptiste Colbert, Louis XIV's Comptroller-General of Finances, once said that the art of taxation consists in plucking the goose so as to obtain the largest number of feathers with the least amount of hissing (Colbert, n.d.).

Colbert’s comment raises a number of questions: When are more feathers being plucked than the goose can afford to lose? How many feathers is the goose giving up, compared to others? Is it justifiable for the goose to start hissing about the number of feathers that it is giving up? How does the goose feel about the plucking of its feathers? These questions relating to Colbert’s metaphorical goose can also be asked about a taxpayer. When is the tax burden too much for a taxpayer to bear? How heavy is the tax burden of one taxpayer compared to others’ tax burden? Is it justifiable for taxpayers to complain about the effect of the tax burden on their ability to make a living? And how does the taxpayer perceive the tax burden?

The tax burden imposed on taxpayers is not a new topic. In 1776, Adam Smith already referred indirectly to the tax burden of taxpayers in two of his four tax maxims (Smith [1776] 2003:1231). His first maxim deals with the aspect of tax equity amongst taxpayers, in other words, the fair distribution of the tax burden among taxpayers in proportion to their capabilities. The fourth maxim deals with the issue of an economy of collection – it states that every tax ought to take as little and keep out as little as possible from the pockets of taxpayers. This maxim can be interpreted as implying that the costs of tax administration must be kept to a minimum to reduce the impact of these costs on the tax burden of taxpayers.
There is evidence in the economic literature that the debate around the tax burden of taxpayers goes back even further. According to Kennedy’s (1913) essay on taxation in England in the period from 1640 to 1799, the tax burden was already a topic of discussion throughout the 17th and 18th centuries. The two aspects that stand out in the period covered by his essay are the tax burden on poor people and the issue of tax equity amongst different taxpayers.

Today, the phenomenon of the tax burden of taxpayers is still a contentious topic that is debated and studied in countries around the world. The tax burden is a common theme in publications under the auspices of the World Bank, for instance, in work by Bird (2009) and Essama-Nssach (2008). In publications by the International Monetary Fund (IMF), the topic also frequently appears, for example, in studies by Keen et al. (2011) and Poirson (2006). Another important organisation that frequently does tax burden-related research is the Organisation for Economic Co-operation and Development (OECD), which annually undertakes research on the impact of personal income taxes and social security contributions on the income of households in the 34 OECD member countries\(^1\) (OECD, 2011). From the literature, it is evident that individual member countries are also debating and studying the tax burden within these countries, for example, in Australia, the United Kingdom and the United States of America (USA).

The government in Australia initiated a study on the country’s tax system in 2006 (Warburton & Hendy, 2006). One of the focus areas of the research was the overall level of the tax burden in Australia, compared to the tax burden in other countries (Warburton & Hendy, 2006:vii). In an earlier Australian study, the question of who bears the tax burden in Australia formed the topic under investigation (Harding & Warren, 1999). Wood (1999) investigated the tax burden of home-owner residential property taxes in Australia as it affects

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\(^1\) The member countries at the time of this study were Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States (OECD, 2012).
citizens’ net personal wealth. These examples of studies relating to the tax burden are just a few from the extensive Australian literature on the topic.

In the United Kingdom, the tax burden has also been the subject of several studies. For instance, the Office for National Statistics (2009) analysed the effect that taxes and benefits have on the income of households in the United Kingdom. This analysis included comparisons between different income quintile groups, as well as between various types of household. The tax burden was also the topic for research by Townsend (2003), who defines the burden of taxation as a representation of the share of income that is paid out as taxes. Another United Kingdom study was done by Clark and Dilnot (2002), who analysed long-term trends in the tax burden and in government spending. These studies are just a small selection from the plentiful literature in the United Kingdom on the tax burden.

In the USA, the tax burden is a hotly debated topic, and has been the subject of numerous studies. One study done in Boston, Massachusetts, set out to establish the beliefs of one segment of society about the poor and how that view differed from the views of other segments of society in relation to tax burdens (Williamson, 1976). Fullerton and Rogers (1993) investigated the question (originating from the debates around tax policies) of who bears the ultimate tax burden. Lav (1998) focused on the question of how much tax a typical family pays. Other studies in the USA include one by the National Bureau for Economic Research (NBER) on the question of whether it pays to work (Gokhale, Kotlikoff & Sluchinsky, 2002:3). Another is a survey by the Tax Foundation on the attitudes of taxpayers, asking questions such as whether respondents consider the amount of federal income tax they pay as too high, about right or too low (Chamberlain & Hodge, 2006:4).

The tax burden has also been explored in a number of socio-economic studies in the USA. For example, in one such study, Dickert-Conlin, Fitzpatrick and Hanson (2005:1) used micro-simulation to measure the cumulative burden on low-income households resulting from explicit taxes (State and federal income, and payroll taxes) and implicit taxes (the reduction of programme benefits as
earnings rise). A study on public opinion on taxes under the auspices of the American Enterprise Institute for Public Policy Research (AEI), found that, in various surveys done over the previous 70 years, only a very small percentage of Americans reported feeling that the total amount of taxes they paid were too low, whereas the majority of the respondents were of the opinion that their taxes were too high (Bowman & Rugg, 2011:3-5). An article by Colvin (2004:52) claims that the rich keep getting poorer, showing that wealthy people in the USA are hit the hardest by taxes.

The tax burden of households in the USA is also a contentious issue in the political environment. In one study of the tax burden of households types, Caputo (2005:3-4) analysed the distribution of the federal tax burden, the share of after-tax income and the after-tax income under different presidential administrations from 1981 to 2000 in order to determine the extent to which the different household types bore the brunt of the federal tax burden under the different presidents.

In the South African tax environment, similar questions are debated by taxpayers, policy-makers, academics and various other role-players, for example, the question of whether the poor must pay tax was debated in a study by Steenkamp (1994). The Human Sciences Research Council (HSRC, 2000) undertook a public opinion survey on taxes in South Africa in 2000 in which 44% of the respondents indicated that they would be willing to pay more taxes, on condition that the government improved important services such as education, policing and health. Equally, 44% of the respondents indicated that they were not willing to pay more taxes under any conditions. Among the respondents who earned more than R12 500 per month, three out of five indicated that they were not willing to pay more taxes, even if paying more meant that government services would improve (HSRC, 2000). Research by the HSRC four years later showed that a perception of high levels of taxation and a perceived decline in the standard of public services were some of the main reasons why skilled persons emigrated from South Africa (HSRC, 2004). Oberholzer (2008) found that taxpayers were of the opinion that, although it is fair to pay taxes, the tax burden in South Africa was too high and should be
reduced. A study by the Bureau of Market Research at the University of South Africa (UNISA) on the income and expenditure patterns of households in South Africa found that for the period from 2007 to 2008, the income tax burden comprised 11% of the total spending of the surveyed households (Masemola & Van Wyk, 2009).

The vexed issue of individual taxpayers’ tax burden in South Africa also led to an acrimonious debate in Parliament in 2008. It was suggested that although lower- and middle-income earners had been paying less tax since 1999, higher income earners had been paying more tax. Mr Maans of the Democratic Alliance (DA) asked Mr Trevor Manuel, then the Minister of Finance, whether the budget surplus was the result of an increase in the tax burden, together with a lower rate of increase in expenditure, rather than a decrease in government spending. The Minister replied that the relative tax burden of ‘all individual taxpayers’ had been reduced over the years, and that the surplus was the result of the strength of the economic growth, supported by higher commodity prices (Pressly, 2008:1).

The tax burden in general also forms a frequent topic for debate and discussion in the popular media in South Africa. The annual budget presented by the Minister of Finance is frequently debated in the media with specific reference to the tax burden. For instance, in an article in Business Africa (2001:8) commenting on the 2001 budget, it was argued that the tax burden was too heavy for taxpayers in South Africa, and that personal taxes had gone up from 10% of the gross domestic product (GDP) in the late 1960s to 21% in 1999. By contrast, six years later, the financial magazine Finweek published an article by Munnik (2007:9), who points out that, in the 2007 budget, the Minister of Finance lifted the tax burden on individuals, which resulted in taxpayers’ having more money available to them. The question ‘Are South Africans really overtaxed?’ was debated in a magazine article by the then Chief Director of Tax Policy at the National Treasury, a Rhodes University professor, a tax consultant, an economist and the head of the Taxation Department at the University of

2 Note that the discussions and debates cited from the popular media are based on opinions and are not the result of focused research studies.
Cape Town (Theunissen, 2005:54). Jones (2010) asked a similar question in his article ‘How much tax do you really pay each month?’ In another magazine article, Jooste (2009:16) comments that ‘individual taxes and the related hidden costs are putting immense pressure on individuals and it might just kill them – financially that is’. In the discussion forum of The Times, the editor claims that the income of the middle classes is under attack in the form of increased tax pressure and he demands that this practice end forthwith (Hartley, 2009).

In these debates and discussions, the ever-increasing demand for government income in the form of imposts of various kinds, such as an increase in electricity tariffs (NERSA, 2010), is frequently used as an example of the impact of taxation on the middle classes in South Africa. The media also complain that local government plays an unfortunate role in increasing the tax burden of the middle class, who make up most of the limited number of individuals who pay tax in South Africa (Slabbert, 2010). Slabbert (2010) cites the comments of two of South Africa’s best-known economists, Mike Schüssler and Dawie Roodt, on increases in municipal charges since 2008 and the effect that these increases have had on middle income households in the country. According to these economists, South Africans paid 72.2% more for municipal services in the third quarter of 2010 than they did in the same period in 2008. Schüssler argued that by the third quarter of 2010, the amount that people paid for municipal services and rates was equal to the total amount of personal income tax paid by individuals in South Africa. He expressed the opinion that this tax burden was too high and was not sustainable. If the increase in citizens’ tax burdens was not limited, all income would go to the government in five years time, according to Schüssler (cited by Slabbert, 2010). Roodt commented that this sharp increase in tariffs for municipal services was not distributed equitably amongst citizens in the country, and that the effect of this was that the increase for the middle class was even greater than 72.2%. He also mentioned that the medium-term municipal budgets announced by the Department of National Treasury for the subsequent two years would increase the burden even further, by 25% (cited by Slabbert, 2010).
These debates and discussions, together with a number of others in the academic literature and popular media (which cannot all be covered here, given the scope of the study), serve as an indication that the tax burden is a highly contentious issue in South Africa, just as it is in other countries. The tax burden is a source of contention and concern, not only in government, academia and the media, but also, and perhaps most importantly, amongst those who experience the burden of taxes in real life, namely the individual person as a taxpayer.

The maxims that Adam Smith formulated in 1776 spell out principles that are still important today: government needs fiscal support from its subjects, but the taxes that a government levies should keep as little as possible out of the pockets of the people (Smith, [1776] 2003:1231). Smith’s theory is honourable and makes intuitive sense, but it does not answer the question of whether, in its calculation of the fiscal support it needs from its subjects, a government takes into account the tax burden as perceived by the individual taxpayer. In other words, does the government really know the impact of its fiscal policy on the individual taxpayers as it is experienced by them in real life? If not, there may be a vast difference between the expectations of a government and those of its subjects regarding taxes. It is therefore very important that, when a government formulates its fiscal policy, this policy is based on models that contain thoroughly researched information. In not taking the perspective of the goose that lays the golden eggs into account, the government might be killing the goose without realising it, until it is too late.

1.2 RATIONALE FOR THE STUDY

Mill (1861:118), a 19th century British philosopher, political economist and civil servant, said on politics and society: ‘The interest of government is to tax heavily: that of the community is, to be as little taxed as necessary expenses of good government permit.’ In view of Mill’s claim, it is necessary to try to determine the point at which the taxes levied by government are justified in terms of the expenditure required for good governance, and where the taxpayers perceive the tax burden placed upon them as acceptable.
Stamp (1921:201) emphasises the importance of considering the taxpayers’ point of view. Stamp argues that taxation questions may be looked at from three angles: that of the taxpayer, that of government and that of the community as a producing or economic society. This argument is in line with the contention in the current study that taxpayers’ perspective of their tax burden must be considered in the process of fiscal policy-making or any other process that may have an impact on the tax burden. Doing so will contribute to a better understanding by the government and policy-makers of how individual taxpayers perceive the overall tax burden imposed upon them and reduce the gap between the expectations of government and those of taxpayers.

The importance of understanding how taxpayers perceive the tax burden is also stressed by Brennan and Buchanan (1980:225), who claim that public economists’ main concern has always been to provide advice to government decision-makers on how the State should tax its citizens and how it should use its taxing powers. In their opinion, it is essential to introduce models that also take into account those who suffer the burdens of taxation, in other words, those who are the potential subjects of a government’s powers of fiscal exaction (the taxpayers), an aspect often neglected by public economists.

Mendoza, Razin and Tesar (1994:1) claim that a reliable measure of tax rates is essential in order to develop a quantitative analysis and the application of theories related to taxation, thereby helping to transform the theory into an adequate policy-making tool. This argument in part provides the rationale for this study, in that it posits the need for a conceptual framework to evaluate the tax burden, which would then include the tax burden as perceived by individual taxpayers in South Africa. This is necessary to ensure that policy-makers consider all the important factors in any quantitative analysis. Mendoza et al.’s (1994:1) view is in line with that expressed by Amusa (2004:117) in a South African study on the macroeconomic approach to estimating effective tax rates. Amusa (2004:117) comments that, given the country’s economic and political history, the efficient mobilisation and maximisation of tax revenue represents a critical policy objective. These studies highlight the importance of complete and
accurate information for the formulation of an acceptable and equitable fiscal policy. If policy-makers do not take the perspective of the tax burden held by individual taxpayers into account, the information used in any quantitative analysis may be based on incomplete and inaccurate information. This may in turn lead to policy decisions that could have a negative impact on the taxpayers and the economy as a whole.

In South Africa, as elsewhere, it is very important for policy-makers to base their formulation of fiscal policies on scientifically researched information that includes important aspects such as how the tax burden is perceived by the individual as a taxpayer. They have to be sensitive to the fact that any changes to the fiscal policy may have a considerable impact on individuals as taxpayers in this country. Conversely, resistance from such taxpayers could have a critical effect on the South African economy, especially because at present only a very small proportion of the total population in South Africa contributes to the revenue pool: any reduction of this pool has a significant impact on the economy as a whole. Aaron and Slemrod (1999:8) comment as follows in relation to the small proportion of the population that contribute to tax revenue in South Africa:

- ‘[b]ecause income inequality is extreme, all personal income tax and most revenue are collected from a small proportion of the population’;
- ‘[t]he personal tax is levied at steeply progressive rates on domestic source incomes of individual filing units’;
- ‘only 5.8 million people, or about 23 percent of the adult population, filed returns in 1998’; and
- ‘[t]he most affluent 20 percent of the population receive 74.3 percent of household income and pay 94.3 percent of personal income tax’.

The situation has not changed much for South African taxpayers since 1999. Table 1 and Table 2 (overleaf) illustrate this, drawing on statistics from Statistics South Africa (2012) and the National Treasury (2012).
Table 1: Summary of the population and the labour force in South Africa

<table>
<thead>
<tr>
<th>Detail</th>
<th>Number (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of individuals between the ages of 15 and 64 years (working population)</td>
<td>32 670</td>
</tr>
<tr>
<td>Number of individuals not economically active</td>
<td>14 929</td>
</tr>
<tr>
<td>Number of individuals making up the labour force</td>
<td>17 741</td>
</tr>
<tr>
<td>Number of individuals in the labour force that are employed</td>
<td>13 497</td>
</tr>
<tr>
<td>Number of individuals in the labour force that are unemployed</td>
<td>4 244</td>
</tr>
<tr>
<td>Percentage of the labour force that are unemployed</td>
<td>24%</td>
</tr>
</tbody>
</table>

Note: These statistics reflect the end of the last quarter of 2011.
Source: Adapted from Statistics South Africa (2012)

Table 2: Summary of taxpayers and contributions in South Africa

<table>
<thead>
<tr>
<th>Detail – 2012 budget</th>
<th>Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated numbers used in the budget (thousands):</td>
<td></td>
</tr>
<tr>
<td>• Total number of individual taxpayers</td>
<td>11 041</td>
</tr>
<tr>
<td>• Number of the total who are below the income tax threshold³</td>
<td>4 864</td>
</tr>
<tr>
<td>• Number of total who are above the income tax threshold</td>
<td>6 177</td>
</tr>
<tr>
<td>Budgeted revenue from taxes (Rand millions):</td>
<td></td>
</tr>
<tr>
<td>• Taxes on income and profits</td>
<td>58% R475 729</td>
</tr>
<tr>
<td>• Taxes on payroll and workforce</td>
<td>1% R 11 131</td>
</tr>
<tr>
<td>• Taxes on property</td>
<td>1% R 8 627</td>
</tr>
<tr>
<td>• Value-added tax</td>
<td>25% R209 675</td>
</tr>
<tr>
<td>• Domestic taxes on goods and services</td>
<td>10% R 84 879</td>
</tr>
<tr>
<td>• Taxes on international trade and transactions</td>
<td>4% R 36 359</td>
</tr>
<tr>
<td><strong>Total budgeted revenue from taxes:</strong></td>
<td>100% R826 401</td>
</tr>
<tr>
<td>Income tax budgeted figures (Rand millions):</td>
<td></td>
</tr>
<tr>
<td>• Total income tax</td>
<td>R475 729</td>
</tr>
<tr>
<td>• Contribution to the total by individual taxpayers for the year</td>
<td>R286 252</td>
</tr>
<tr>
<td>• Percentage contribution by individual taxpayers</td>
<td>60%</td>
</tr>
</tbody>
</table>

Note: Figures in the annual budget presented to Parliament towards the end of February 2012.
Source: Adapted from the National Treasury (2012:50, 153)

³ The income tax threshold is in essence the taxable income amount from where an individual taxpayer actually begins to incur an income tax liability. The threshold in the 2012 Budget for persons below the age of 65 years is R60 000 (National Treasury, 2012:50).
Using the statistics in Table 1 and Table 2 as an underpinning, the position of the individual taxpayers in South Africa can be interpreted as follows:

- Of an estimated population of 50 587 000 (Statistics South Africa, 2011b:3), only 6 177 000 (those above the tax threshold), or around 12% of the total population, are responsible for income tax to the amount of R286 252 million, on average R46 341 per individual taxpayer.

- The progressive income tax rates, as they appear in the 2012 budget, start with a minimum rate of 18% (on a taxable income up to R150 000), increasing progressively up to a maximum rate of 40% (on a taxable income above R580 000) (National Treasury, 2012:50).

About 6 656 100, or around 60%, of the total number of individual taxpayers fall into the first category on the scales (National Treasury, 2012:50). However, of these, 4 864 000 are below the tax threshold, and therefore do not contribute to the income tax revenue (Table 2). The remaining 1 792 100 in this category contribute around R11 297 million to the total income tax of R286 252 million – around 4% of the total and on average R6 304 per individual taxpayer in this category per year. Individual taxpayers in the top category of the scales number around 277 550 (National Treasury, 2012:50). In total they contribute around R108 789 million, or 38%, to the total of R286 252 million – an average of R391 962 per taxpayer in this category per year. The remaining 4 107 400 individual taxpayers in the middle categories are burdened with the remaining 58%, which amounts to about R166 166 million – on average, R40 455 per individual taxpayer per year.

- The top three categories of the scales comprise 15% of the total number of individual taxpayers (National Treasury, 2012:50). This 15%, in total, earn an estimated taxable income of R801 379 million, around 49% of the total estimated taxable income. Their contribution to the total income tax amounts

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4 The number of persons at the end of the last quarter of 2011 (Statistics South Africa, 2012) does not correspond exactly to the number of persons in the 2012 budget (National Treasury, 2012). However, the purpose of citing these figures is only to illustrate the small number of individual taxpayers in South Africa in relation to the total population and to place their situation into perspective.
to an estimated R200 353 million, which constitutes 70% of the total income tax revenue from individuals.

- Of the total adult working population of 32 670 000, only around 6 177 050, or 19%, effectively, can be expected to submit a return for income tax purposes.

The purpose of these figures is to highlight the fact that there is not a large pool of individual taxpayers that contribute to the revenue pool in South Africa and that any change in the fiscal policy may therefore have a material impact on the tax burden of this small number of individual taxpayers. Any big increase in the tax burden of these taxpayers may give rise to resistance from them. In turn, this may be detrimental to both the economy and the country as a whole. The following situation is an example of such a potential problem.

One of the ways that taxpayers already use in South Africa to express their resistance to the heavy tax burden is to emigrate to other countries. In a study by the HSRC on reasons why South Africa loses so many highly skilled citizens to other countries, it was found that one of the main reasons people gave was their perception that the levels of taxation in South Africa are too high (HSRC, 2004:2). Other evidence that the tax burden plays a role in taxpayers’ decision to emigrate can be found in Vogt’s (2009) article ‘Tax rules have advantages for employees’. The article discusses the tax benefits of moving employees to Switzerland, arguing that the applicable overall tax charge on employment income makes Switzerland attractive not only for investors, but also for their employees (Vogt, 2009:32). The message of this article is that investors and employees are beginning to consider relocating to countries where the overall tax burden for a company and its employees is lower than in other countries. Although this is not the only factor influencing such a decision, it plays an important part in making the decision to emigrate or not. If individuals as taxpayers in South Africa start to emigrate more and more, it may lead to a further increase in the tax burden of the remaining taxpayers. Such a scenario could be very damaging to the country’s economy.
Various economists have studied the tax burden of individual taxpayers in South Africa. In one study, the progressivity of personal income tax in South Africa for the period from 1989 to 2003 was investigated by Nyamongo and Schoeman (2007:478), who explain that the progressivity of tax has long been the subject of discussion in economics and that it is important to determine whether a tax complies with the fairness principle, which underpins a good tax. Their results suggest that the progressivity of personal income tax in South Africa increased over the period under review, but they added that this increase may be attributed in part to an increase in the number of taxpayers who fall into the higher income groups (Nyamongo & Schoeman, 2007:478). Their comments on their findings echo the perceptions of many individual taxpayers that the tax burden for higher income earners in South Africa was, and still is, very high. The main criticism against this kind of economic study is that the study is often based on an analysis and the interpretation of statistics, without any consideration of how the tax burden is perceived by an actual individual taxpayer in a real-life context.

Another study examined the impact of changes to the tax policy on women in South Africa since 1994. Smith (2000:1) correctly points out that most analyses of government budgets and their differential impact on men and women tend to focus only on the expenditure side of the budget. In other words, these analyses consider the budgets only from the government’s point of view. Very little attention is paid to the revenue side, or the taxpayers’ point of view. This supports the contention of the current study that it is important to consider the tax burden as perceived by individuals as taxpayers in South Africa.

Oberholzer (2008) found in her study on the perceptions of South African taxpayers that 73.46% of the respondents were of the opinion that it is fair to pay taxes. However, 77.31% of the respondents believed that income tax should be reduced, and 82.31% were of the opinion that the value-added tax (VAT) rate should be reduced (Oberholzer, 2008:102). In the same survey, it was found that 63.08% of the respondents believed that wealthy people should pay more tax, and that there was a perception amongst taxpayers that ‘wealthy people’ paid too little tax. Conversely, ‘wealthy people’ in their turn believe that
their tax burden is too high (HSRC, 2000:1). This difference between the perceptions of individual taxpayers may be an indication that the way in which these taxpayers perceive the tax burden is vastly different. What neither Oberholzer’s (2008) study nor the HSRC (2000) study considered is the context in which these taxpayers’ perceptions about the tax burden were formulated. In other words, does the actual tax burden as perceived by taxpayers support the perceptions of the taxpayers in these studies?

The accounting and auditing firm PriceWaterhouseCoopers has designed a total tax contribution framework for large companies in South Africa and various other countries. The objective of this framework is to enhance transparency regarding the aggregate amount of tax contributed to the fiscus by these large companies. This framework was developed because there is a perception that large companies are not paying their fair share in taxes, with the result that other taxpayers, including individuals, have to pay more taxes (PriceWaterhouseCoopers, 2009:26). As part of their second report on the total tax contribution, the 2008 data were used to calculate the percentage of salaries and wages that consist of ‘people taxes’. These taxes, for the purposes of the study, include Pay-As-You-Earn (PAYE), the Occupational injuries and disease levy, the Skills Development levy (SDL) and contributions to the Unemployment Insurance Fund (UIF). The total percentage for the participating companies was 22.7% of salaries and wages. This 22.7% is made up of 1.7% paid by the companies and 21% collected by the companies from employees (PriceWaterhouseCoopers, 2009:26). These figures indicate that the tax burden of employees in those companies is 21%, on average, of the salaries and wages paid. One problem with these statistics is that they are calculated as a percentage of the total salaries and wages of these companies, which include the salaries and wages of employees who do not necessary pay income tax on their earnings from employment – for instance, people below the tax threshold. Therefore it does not provide an accurate indication of the tax burden for individual taxpayers.

The PriceWaterhouseCoopers (2009) report further indicates that there is a perception and debate amongst the different groups of taxpayers that the tax
burden of one group is higher than that of another group. Unfortunately, this report mainly examines the tax burden of companies in South Africa and only to a very limited extent that of the individual employees of these companies. To have a meaningful debate on the issue of the tax burden of individual taxpayers, it is necessary to develop a similar tax contribution framework that can be used for evaluating the tax burden of individual taxpayers in South Africa. This framework must have similar objectives for assessing individual taxpayers to the objectives of assessing the total tax contribution for companies in South Africa. Just as the total tax contribution for companies takes into account the perspective of the tax burden of companies, the framework for individual taxpayers should consider the perspectives of individuals of their tax burden.

Kyle Mandy (2009:2) examined the question of how tax relief to individuals over eight years (the 2001/02 to 2009/10 tax years) affected the average tax rates of individuals in South Africa. He used practical examples, combined with hypothetical salary packages that increase over time, taking inflation into account. The results from these calculations demonstrated that low-income earners had experienced a decrease of 50% of the average tax rate since the 2002 tax year. For middle-income earners, it was 20%, and for high-income earners, it was 12.5%. However, he pointed out that these calculations do not paint the full picture of the tax burden for individuals in South Africa – as he put it: ‘As we all know, Manuel usually gives with the one hand while taking a bit with the other’ (Mandy, 2009:1). The ‘bit’ that Trevor Manuel (the then Minister of Finance) takes is in the form of indirect taxes, which makes it difficult to compare the tax burden for individuals in South Africa over a given period. Mandy (2009:2) also warns that ‘the shift of a significant portion of the aggregate individual tax burden from low-income earners to middle- and high-income earners’ is a matter for concern. His article contributes to the debate around the tax burden of individuals in South Africa. It also highlights the need for a conceptual framework from which consistently to evaluate and compare the tax burden of individual taxpayers in South Africa.

Such a conceptual framework is deemed important to ensure that the quantitative models used by policy-makers make use of reliable and consistent
methods for evaluating the tax burden, not only from the government’s and the community’s points of view, but also from the taxpayers’ point of view, as stressed by Stamp (1921:201). The development and use of such a conceptual framework is particularly important in the South African context because of the limited number of individual taxpayers who make a material contribution to the revenue pool that sustains the government.\(^5\)

From the debates and studies in South Africa cited above, it is clear that some claim that the tax burden of individual taxpayers has increased over the years, while others argue that the tax burden has decreased. Some claim that the tax burden of high-income earners is not high enough, while these taxpayers perceive the tax burden to be too high for them. These contradictory perceptions relating to the tax burden carried by the individual taxpayers in South Africa do not arise in a vacuum, but originate from some basis for these taxpayers’ perceptions relating to their tax burden. The differences may in part be attributed to the different methodologies and assumptions underpinning the evaluation and interpretation of the tax burden by economists, politicians, accountants and academics. Thus something that is clearly absent from the South African literature on the tax burden of individual taxpayers in the country is a point of reference such as a conceptual framework that can be used for a consistent evaluation of the tax burden of individual taxpayers in South Africa – not only objectively, in terms of the legally imposed tax burden, but also subjectively, in terms of how the tax burden is perceived by taxpayers.

\(^5\) See Table 1 and Table 2 of the present study.
1.3 RESEARCH OBJECTIVES

The primary objective of the present study is to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa.6

The main objective is supported by the following secondary objectives:

• to establish and define the theoretical constructs required as an underpinning to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa;
• to formulate a conceptual framework from theoretical constructs for evaluating the tax burden of individual taxpayers in South Africa; and
• to apply the theoretical constructs from the present study in a real-life context, with the purpose of validating these theoretical constructs.

1.4 SCOPE AND LIMITATIONS OF THE STUDY

The main objective of this study is to develop a conceptual framework that can be used as a basis to evaluate the tax burden of individual taxpayers in South Africa. Important elements of the scope of the study are explained below:

• The study is limited to natural persons as taxpayers in South Africa, and does not include corporate entities, trusts, and other similar entities.
• The study involves baseline research and the purpose is not to generalise the findings to the whole population in South Africa. Overall, the study focuses on exploratory research. The conceptual framework developed in the present study must be regarded as an initial framework. One of its objectives is to encourage future research to build on to, and to refine, this initial framework.
• The purpose in defining a ‘tax’, as it was formulated in the present study, was to create a consistent foundation from which a government impost can be classified for the purposes of evaluating the tax burden of individual

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6 For the purposes of this study, the term ‘individual taxpayers in South Africa’ must be interpreted as referring to natural persons as taxpayers in South Africa.
taxpayers in South Africa. Therefore, it is by no means claimed that the definition used in this study is a comprehensive definition that makes provision for all circumstances where a definition of a tax is required.

- The present research does not claim, or try to create the impression, that the conceptual framework developed in this study is an economic model in the domain of economics as a discipline. Although the present study refers to and uses terminology frequently found in the economic literature, these terms must be read in the context within which they are used in the present study.

- In defining the imposed tax burden for the purposes of this study (see Chapter 2), the present study refers to the concept of tax shifting and the effect this practice may have on the tax burden. However, the debate around the concept of tax shifting and the methods of determining the final resting place of the tax (as debated in the economic and public finance literature) was not included in the scope of the present study.

- The analysis of the South African public service structures and financing was carried out at a particular time and in a particular context. Any changes after the analysis in the present study were not considered or included in the study, and therefore the results from any future analysis may differ in some respects.

- The effect of the stabilising function of government on the tax burden of individual taxpayers in South Africa was not considered. The reason for this was that this function relates to macro-level studies in Economics as a discipline, whereas the present study focuses on a micro-level, namely individual taxpayers.

- The present study includes benefits that taxpayers receive from government in measuring the tax burden. For the purposes of the study, these benefits from government were limited to those benefits that taxpayers receive in cash from government. Non-cash benefits provided by government to the taxpayers were excluded from the present study. The fair allocation of non-cash benefits to individual taxpayers, as found in the literature, is a long-standing topic for debate, but the purpose of the present research was
neither to debate nor to develop methods for allocating these non-cash benefits from government.

1.5 RESEARCH METHOD

The study commences with a review of the relevant literature to establish the theoretical constructs required for the study. The outcome of the literature review forms the theoretical basis for the conceptual framework and also provides clarity on the constructs underpinning the conceptual framework developed in this study.

The literature review is followed by a validation of these theoretical constructs in a real-life context, using multiple case studies. A total of nine specifically selected individual taxpayers’ households are included in the case study research. The data from each case study were collected by means of an interview with the participants, using a standard interview schedule. The multiple or collective case study method for collecting data was deemed the most suitable for this study, because the personal circumstances of each individual taxpayer vary and it was necessary to record details about the various factors that may have had an impact on the tax burden of an individual taxpayer. The primary data collected from each case study present a snapshot of the interviewees’ situation at a particular point in time, making the study a cross-sectional study, as described by Saunders, Lewis and Thornhill (2007:148).

The research is exploratory in nature and it is hoped that it will encourage further research and debate on the topic in future. The study does not use statistical hypothesis testing – it is qualitative, with an interpretive orientation. The purpose of the research is to understand the phenomenon of the tax burden in depth, rather than to understand the relationship between variables, as described by Henning, Van Rensburg and Smit (2004:3). The main objective of the present study is to develop a conceptual framework from the theoretical constructs underpinning the phenomenon, and to validate these theoretical
constructs in the ‘real world’, as described by Leedy and Ormrod (2005:135) and Robson (1993:146).

The case study research concentrated on very sensitive personal information on the participants. Therefore, informed consent was obtained from each of the participants in the case study research. The informed consent forms explain the confidentiality with which the information was treated and the anonymity of each participant in detail. The approval of all the relevant parties was obtained where necessary, and the approval of the Research Ethics Committee of the Faculty of Economic and Management Sciences at the University of Pretoria’s was obtained before the fieldwork commenced.

1.6 STRUCTURE OF THE THESIS

The main outcomes of the present study are presented in the format of a thesis. The structure of the thesis is explained and summarised below.

1.6.1 Chapter 1: Introduction

Chapter 1 provides an introduction and background to the present study. It also sets out the primary research objective of the study, as well as the secondary objectives that support the primary objective. The rationale for the research is given and the scope of the study is delimited. The research method is briefly explained, and a short overview of the chapters is provided.

1.6.2 Chapter 2: The imposed tax burden

Chapter 2 identifies and defines the theoretical constructs that are relevant to the main and secondary objectives of the study. This literature review analyses the concept of the ‘imposed tax burden’ to ensure that the correct construct is used for the conceptual framework and to provide clarity on exactly what is evaluated in this study. This chapter forms part of the theoretical basis for the
conceptual framework developed in the study for evaluating the tax burden of individual taxpayers in South Africa.

1.6.3 Chapter 3: The imposed tax burden in South Africa

Chapter 3 analyses and clarifies the imposed tax burden of individual taxpayers in South Africa, using the theoretical constructs relating to the tax burden set out in Chapter 2 as an underpinning.

1.6.4 Chapter 4: The perceived tax burden

Chapter 4 defines the theoretical constructs that are relevant to the tax burden as it is perceived by individual taxpayers in South Africa. This chapter analyses the concept of the ‘perceived tax burden’. The literature review in this chapter is used to provide clarity on the constructs used to construct the conceptual framework developed in the present study.

1.6.5 Chapter 5: Formulating the conceptual framework

Chapter 5 formulates a conceptual framework based on the theoretical constructs established and defined in the preceding chapters of this study.

1.6.6 Chapter 6: Validating the conceptual framework

Chapter 6 describes the research strategy that was followed to validate the conceptual framework presented in Chapter 5 in a real-life context.

1.6.7 Chapter 7: Data analysis

Chapter 7 explains the method for analysing the primary data from the validation process described in Chapter 6, and presents the results of the data analysis.
1.6.8 Chapter 8: Conclusion

Chapter 8 brings the study to its conclusion. The chapter summarises the findings and conclusions from the other chapters, explains the contribution and limitations of the present study, and also makes suggestions for future research.