

# PRIVATE SECURITY COSTS AS A TAX DEDUCTION FOR INDIVIDUALS IN SOUTH AFRICA

by

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## ABSTRACT

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The high levels of crime in South Africa are a popular topic of conversation amongst South Africans. As a result of the high levels of crime in South Africa, many South Africans employ private security companies in order to protect themselves and their property. The opinion exists that these private security costs should be allowed as a deduction against their taxable income. The study investigates certain factors that may influence crime, the private security industry and these companies' perception on the duties of the South African Police Service. In order to determine private security companies' perception on the duties of the South African Police Service, a questionnaire was conducted. The results reflected not only that private security companies are more effective and proactive in the prevention of crime, but also that they have a faster reaction time to emergency calls than the South African Police Service. This can lead one to argue that it has become a necessity to incur private security costs in South Africa. It also discusses current South African tax legislation in comparison with international trends. The study concludes whether the deduction of private security costs for the individual against taxable income is allowed in South Africa.

Keywords:

*Private security costs*

*South African tax legislation*

*Crime*

*South Africa*

*South African Police Service*

*Private Security Companies*

## ABSTRAK

# **‘N ONDERSOEK RAKENDE PRIVAAT SEKURITEITSONKOSTE AS ‘N BELASTINGAFTREKKING VIR INDIVIDUE IN SUID AFRIKA**

deur

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Die hoë vlakke van misdaad in Suid-Afrika is ‘n gewilde onderwerp van bespreking onder Suid-Afrikaners. As gevolg van die hoë vlakke van misdaad in Suid-Afrika stel baie Suid-Afrikaners privaat sekuriteitsmaatskappye aan om hulself en hul eiendom te beskerm. Menige Suid-Afrikaners is van mening dat hierdie privaat sekuriteitsuitgawes as ‘n aftrekking teen hul belasbare inkomste toegelaat moet word. Die studie ondersoek sekere faktore wat misdaad kan beïnvloed, die privaat sekuriteitsmaatskappy industrie en hierdie maatskappye se opinie van die Suid-Afrikaanse Polisie se verantwoordelikhede. ‘n Vraelys is gebruik om privaat sekuriteitsmaatskappye se opinie rakende die verantwoordelikhede van die Suid-Afrikaanse Polisie te bepaal. Die resultate dui daarop dat privaat sekuriteitsmaatskappye nie net meer effektief en proaktief is in die voorkoming van misdaad as die Suid-Afrikaanse Polisie nie, maar ook dat hulle ‘n vinniger reaksietyd het na ‘n noodoproep ontvang is. Dit kan tot aannames lei dat dit ‘n noodsaaklikheid geword het om privaat sekuriteitssonkoste in Suid-Afrika aan te gaan. Die studie stel ook ondersoek in na huidige Suid-Afrikaanse belastingwetgewing in vergelyking

met die internasionale werkswyse en sluit af met die antwoord op die vraag of privaat sekuriteitsuitgawes belastingaftrekbaar is vir Suid-Afrikaanse individue.

Sleutelwoorde:

*Privaat sekuriteitsonkoste*

*Suid-Afrikaanse inkomstebelastingwetgewing*

*Misdaad*

*Suid-Afrika*

*Suid-Afrikaanse Polisie*

*Privaat sekuriteitsmaatskappye*

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## CHAPTER ONE

### 1 INTRODUCTION

#### 1.1 BACKGROUND

Crime might be one of the most talked about topics of discussion amongst individuals (Durington, 2009: 73), albeit in the National Budget Speech, at work, in grocery shops or at a purely South African 'braai'.

Fifty percent of South Africans believe that the high corruption rate amongst government officials and abuse of funds made available to government, provincial and local departments is one of the causes of the high crime rate in South Africa (Anonymous, 2009: 1). Nepotism in Government state departments and a lack of accountability by these government officials is one of the main areas where public funds are abused and not properly used (Madonsela, 2010: 18). Madonsela (2010: 17-18) states further that politicians should have the will to root out corruption in all levels of government and should lead by example.

The impact of corruption is that public funds are not being used for the purposes for which they were intended (Madonsela, 2010: 17). This resulted in no job creation by Government and no effective service delivery by municipalities or the State. Madonsela (2010: 19) is of the view that the public funds that are being misappropriated are being used to fund the corrupt politicians' luxury vehicles and houses.

The abovementioned results in more crime being committed by individuals who are desperate to make a living to provide for their families. Individuals have three basic needs that were identified namely: food, water and shelter. When an individual is not able to provide in any of these basic needs, that individual will most likely resort to crime. (Breetzke 2010: 2).

Therefore, one may argue that because public funds are not used for their intended purpose, the poor do not get the help they need from government in order to survive and thus resort to crime.

As a result of more crime being committed, more individuals feel the need to protect themselves and their families against crime by spending thousands of Rands on alarm systems, security companies, tracking devices for their vehicles and structural changes to their properties, such as palisade and electrical fencing.

The abovementioned costs are incurred after a big portion of the individual's salary has gone to the South African Revenue Service (SARS). South Africa has a 40% maximum marginal tax rate for individuals. It is perceived by a certain group of individuals that taxpaying individuals do not get back the infrastructure that they are paying for with their taxes. South African roads are in dire need of attention, there are no proper medical care facilities for the poor and elderly, as well as no reliable public transport system, just to mention a few (Madonsela, 2010: 19). Some police officials supplement their small salaries with bribe money or get involved in crime syndicates in order to make a decent living and to provide for their families (Anonymous, 2009: 1).

The presence of illegal immigrants in South Africa is another problem that is not being addressed efficiently by government (Everatt, 2011). It was also found that illegal immigrants are involved in crime in South Africa (Breetzke, 2010: 2). Furthermore, the unemployed citizen believes that illegal immigrants take away their opportunity to find work, because the illegal immigrant is prepared to work for a lower wage than the legal citizen (Everatt, 2011).

The perception of crime and that which creates that perception, will be considered in this study. It can be argued that a perception of crime can create a fear of crime and thus motivate individuals experiencing this fear of crime to incur private security expenses.

South Africa's private security industry is one of the fastest growing in the world (Marks, Shearing & Wood, 2009: 146), with South Africans spending more on private security as a

percentage of GDP than any other nation (Kokt, 2009: 789). The SAPS struggles to keep up with criminals that are gaining in knowledge and experience in respect of criminal techniques. This is where private security companies come in. They have the manpower and funds to keep up with inventive criminals. In 2008 private security costs almost matched the police budget in South Africa. (Ramen, 2009: 3).

In Brazil it was found that a link exists between crime and an increase in private security companies' revenues (Reichenheim, De Souza, Moraes, De Mello Jorge, Da Silva & De Souza Minayo, 2011).

Therefore, it is in this context that the proposal to introduce a private security cost deduction for the South African individual against taxable income should be considered.

## **1.2 PROBLEM STATEMENT**

Although section 23(b) of the Income Tax Act No 58 of 1962 denies any private and domestic deductions for individuals, it may be beneficial to the general public as well as government if the possibility for a security cost deduction could be considered.

The issue of taxes and specifically tax deductions, can 'attract and alter votes', especially from those voters that are still uncertain for whom to vote (Profeta & Scabrosetti, 2010: 1). Should government consider the possibility of a security cost deduction, that part of the public that view government negatively might come to the conclusion that their safety is a concern for government and view them in a more positive light - especially in light of the forthcoming National Elections in 2014 (Marks *et al*, 2009: 149).

## **1.3 RESEARCH QUESTION**

The core research question in this study is whether there is a possibility of a private security cost deduction for South African individuals against their taxable income. By

means of a questionnaire to private security companies, it will be attempted to determine whether the incurring of private security costs are a necessity in South Africa.

#### **1.4 RESEARCH OBJECTIVES**

The study will be guided by the following objectives:

- To investigate whether Australia, New Zealand and the United States of America (USA) have considered a private security cost deduction for their individual taxpayers.
- To review existing literature on factors that can influence crime and the private security industry, locally and internationally.
- To review current South African taxation legislation in respect of private security costs.
- To investigate the necessity of private security costs in South Africa by means of a questionnaire to private security companies.
- To determine whether a tax deduction for private security costs for individuals in South Africa is a possibility.

#### **1.5 IMPORTANCE AND BENEFITS OF THE STUDY**

From a theoretical perspective, the findings of the study could contribute to the existing theoretical body of knowledge by providing more debates surrounding this topic on a public platform. It can form a basis for future studies into the connection between high crime levels and private security costs as a tax deduction in South Africa as a developing country. As far as can be determined, this is the second study in South Africa to investigate the possibility of a tax deduction of private security costs for the individual against taxable income. The previous study was done in 2008/2009 and its results will be discussed in more detail in this study.

From a practical perspective, the findings will benefit taxpaying individuals who incur private security costs directly. It also has the possibility of creating more employment

opportunities in the private security industry. If individuals can obtain a deduction for security costs, they will be more willing to incur these expenses, especially individuals in the lower to medium income bracket. The state purse can benefit in so far as that with more individuals employing private security companies, these companies' taxable income will increase and they will probably employ more individuals, who will also form part of the tax base. This might lead to an increase in the employment rate in South Africa.

## **1.6 DELIMITATIONS AND ASSUMPTIONS**

The following delimitations and assumptions are inherent to the study.

### **1.6.1 DELIMITATIONS**

This study will focus on the possibility of a private security cost deduction for individuals against their taxable income. Little research has been done in this regard in South Africa and it will limit the available literature on this topic.

This study will attempt to establish whether a link exists between the abuse of public funds by government officials and the high crime rate in South Africa. This link might prove to be crucial in justifying that a security cost deduction is necessary for those individuals that incur security expenditure to safeguard themselves and their families. The researcher acknowledges that this link might be very difficult to prove.

One of the aspects to acknowledge when considering a tax deduction for private security costs for individuals is the cost to the fiscus. This falls outside the scope of the study, since it is very difficult to calculate what such a tax deduction would cost the fiscus to implement in South Africa.

### **1.6.2 ASSUMPTIONS**

In the previous study, Ramen (2009) reviewed the connections between taxation and security costs, locally and internationally, in a public and private perspective (Ramen,

2009: 9). In Ramen's study, he conducted a survey amongst a diverse group of individuals. This survey is discussed in more detail in Chapter 3. This survey was done recently (2008 and 2009) and it is assumed that a similar survey would deliver similar results.

A questionnaire will be administered to 4 private security companies. The study will assume that most South African private security companies' responses will be the same as the target population.

## 1.7 DEFINITION OF KEY TERMS

This study contains a number of abbreviations and definitions. The definitions are listed below and the abbreviations are included in Table 1.

**Corruption:** '... the abuse of power for private gain. Actual acts range from a simple act of bribing someone to skip a queue or bribing a traffic officer to avoid a speed fine to serious conduct as the irregular award of tenders or even buying political patronage.' (Madonsela, 2010).

**Conceptual analysis:** 'the analysis of the meaning of words or concepts through clarification and elaboration of the different dimensions of meaning' (Mouton, 2001: 175).

**Tax expenditures:** 'provisions of tax law, regulation or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax' (Anderson in OECD, 2010: 12).

**Tax expenditures:** 'a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by a direct expenditure' (Kraan in OECD, 2010: 14).

**Benchmark tax** (in Canada): ‘the benchmark for the personal and corporate income tax systems includes the existing tax rates and brackets, the unit of taxation, the time frame of taxation, the treatment of inflation in calculating income, and those measures designed to reduce or eliminate double taxation [of corporate profits]’ (Seguin and Gurr in OECD, 2010: 16).

**Perception** can be defined as a combination of how one’s senses respond to external factors and purposeful activity where certain events specifically stand out while others recede into the background (Civitarese, 1999).

Sadi, Asl, Rostami, Gholipour and Gholipour (2010) defined perception as the process where one organizes and explains one’s surroundings in order to obtain meaningful knowledge and understanding about one’s surroundings.

Hagan (2011) states that perception is reality. She found that it is not what one does, but how one is perceived by the people one is surrounded by that can shape one’s reputation.

An individual’s personal perception is formed by the individual experience in the context of a particular culture. In other words, a person’s values and beliefs that are formed by that person’s culture in conjunction with how that person’s senses respond to external factors, creates perception. (An, 2011).

The study is of the opinion that a person’s perception is shaped by how a person experiences his or her surroundings and circumstances.

**Violent crime:** Violent crime is defined by Grogger and Weatherford (in Ramen, 2009: 5) as murder, rape, robbery and assault.

**Property crime:** Property crime is defined as burglary, larceny and auto theft (Grogger and Weatherford in Ramen, 2009: 5).



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

<b>Abbreviation</b>	<b>Meaning</b>
ANC	African National Congress
GDP	Gross Domestic Product
Nacissa	National Civilian Safety and Security Action
OECD	Organisation for Economic Co-operation and Development
SAPS	South African Police Service
SARS	South African Revenue Service
STC	Secondary Tax on Companies
UK	United Kingdom
USA	United States of America
VAT	Value Added Tax

## **1.8 SUMMARY OF CHAPTERS**

Chapter 2 discusses several factors that influence crime, from poverty to corruption in government, and the effects of it on South African citizens.

Chapter 3 investigates the private security industry locally and internationally, the relationship between tax and security costs locally and internationally as well as South African tax legislation in respect of private security costs. Fiscal policy is discussed briefly.

Chapter 4 briefly discusses the research methodology of this study.

Chapter 5 analyses the data collected by means of a questionnaire to private security companies. This questionnaire will attempt to determine whether the incurring of private security costs is a necessity in South Africa.

Finally, chapter 6 brings to a close the researcher's conclusion and recommendations for future studies.

## **CHAPTER 2**

### **2 FACTORS INFLUENCING CRIME**

#### **2.1 INTRODUCTION**

This chapter discusses certain factors that can have an influence on crime in South Africa. Entrepreneurship and some of the difficulties entrepreneurs encounter in South Africa are discussed briefly as well as the effect crime has on entrepreneurship. Corruption in government and the cost thereof to taxpayers are also discussed in some detail.

Furthermore, illegal immigrants and the effect of their presence in South Africa as well as poverty and its effect on crime are discussed.

The chapter concludes with a discussion on perception in general and the perception certain citizens have on crime in South Africa.

#### **2.2 ENTREPRENEURSHIP THREATENED BY CRIME IN SOUTH AFRICA**

Entrepreneurship is important for economic growth in South Africa. Without people that take the risk of starting their own business, no new or extra jobs can be created. With an unemployment rate of 24.5% of the economically active population, it is critical that jobs are created for the unemployed in order to fight off poverty. This might result in reduced levels of crime because less people will feel the need to resort to crime in order for them to survive and provide for their most basic needs, which are food and shelter. (Fatoki, 2010: 90).

This is where young graduates play a big role, since they struggle to find employment after they have completed their studies successfully. Young graduates are thus more likely to want to start their own business. However, they face more difficulties with the process involved to start their own business, because most of them cannot provide the security

required to obtain the start-up capital that they need for their new business. (Fatoki, 2010: 90).

Another obstacle identified for young graduates to start their own business is the crime situation in South Africa. Since young graduates struggle to obtain finance for their entrepreneurial plans, they also struggle to cope with the additional security expenditure that crime necessitates. (Fatoki, 2010: 90).

### **2.3 IS CORRUPTION IN GOVERNMENT COSTING SOUTH AFRICA?**

The Public Protector of the Republic of South Africa, advocate Thuli N. Madonsela (2010) defines corruption as ‘... the abuse of power for private gain.’ According to Madonsela (2010) corruption can be as simple as bribing a traffic officer to avoid a speed fine or as serious as buying political favours.

Madonsela (2010) states that ‘political will’ is a very important part of the fight against corruption and that government should be ‘... leading by example and taking prompt and firm action where corruption is detected and supporting law enforcement agencies when they do their work in this regard’. She believes that anti-corruption agencies should be independent from government at all costs in order for them to stay objective and therefore effective in their attempts to root out corruption.

Madonsela (2010: 17-18) investigated an allegation that public funds were being abused by the Gauteng Department of Housing. The Gauteng Department of Housing placed an advertisement in a newspaper to bring tribute to a deceased member of the Executive Council. It was alleged that this was done to benefit the ruling party. The Public Protector found that the cost of placing the advertisement was not authorised and that it was ‘... fruitless and wasteful, and did not comply with the requirements of the Public Finance Management Act, as the advertisement **did not directly or indirectly relate to the purpose for which public money was allocated to the department.**’ (own emphasis).

Another allegation that was investigated by Madonsela (2010: 17-18) was into irregular appointments at the Premier's office in Limpopo. Eleven posts were advertised by the Premier's office for different levels of managers. An allegation was made that certain individuals were already allocated for these posts and that it was only advertised to comply with internal policy. Madonsela (2010: 17-18) found that the Premier's office did not appoint individuals into the eleven posts that complied with the requirements as were set out in the advertisements. This resulted in certain individuals being treated unfairly, since they either complied with the advertised requirements or did not know that they could have complied if the alternative requirements were also advertised. Madonsela (2010: 17-18) further found that this created the impression of nepotism in the Premier's office and that public funds were wasted when posts were advertised that were already allocated to certain individuals.

Madonsela (2010) argues further that corruption is causing underdevelopment in South Africa and that it is the citizens of South Africa, namely, the poor that suffer the most under the effects of corruption: 'The big cars and houses that corrupt people own are financed from funds that should go to the building of schools, health care, maintenance of roads, provisioning of houses and other public projects.'

Vice president Kgalema Motlanthe admitted that corruption at all levels of government is 'far worse than anyone imagines.' The Public Service Commission reported that government employees embezzled R22 million from government in the period 2007-2008. (Anonymous, 2009: 1).

The National Auditor General found that public tenders to the value of R540 million were awarded to more than 2 000 public officials and their families by companies with which they were associated during the period 2005 to 2007 (Anonymous, 2009: 1).

Four hundred thousand civil servants were identified that received welfare payments that they were not supposed to receive and 6 000 senior government officials did not declare their business interests, according to Willie Hofmeyr, who is the head of the Special Investigating Unit in South Africa (Anonymous, 2010a: 52).

Corruption at all levels of government is costing South Africa an estimated R25 billion a year, according to finance minister, Pravin Gordhan (Anonymous, 2010b: 1).

Although more and more officials are charged with corruption, it is not likely that top-level officials will ever be convicted. This is illustrated by the disbandment of the Scorpions as well as a decision that was made by the Hawks (who replaced the Scorpions) to stop a high profile investigation into a suspicious arms deal in the 1990's. Certain ANC leaders, including national president, Jacob Zuma, could have been implicated as a result of this investigation. (Anonymous, 2010b: 1).

Madonsela (2010) believes that the fight against corruption starts with every individual. One cannot frown upon corruption that involves millions of Rands, but then not think twice before trying to bribe a traffic officer to 'avoid a speeding ticket.'

## **2.4 ILLEGAL IMMIGRANTS AND THE EFFECT OF THEIR PRESENCE IN SOUTH AFRICA**

The ongoing influx of illegal immigrants from South Africa's neighbouring countries is a continued problem that is not efficiently being addressed by government. Government is not strict and efficient enough to keep illegal immigrants out of South Africa (Everatt, 2011).

The United Association of South Africa found that '... one illegal immigrant enters South Africa every 10 minutes...' and that an estimated 10 million illegal immigrants are residing in South Africa currently (Breetzke, 2010: 2). The former minister of defence, Mr. Mosiuoa Lekota, noted that illegal immigrants were involved in crime in South Africa, especially cash-in-transit heists and drug trafficking. Foreigners also contribute to bribery of government officials. (Breetzke, 2010: 2).

Unemployed South Africans believe that government does not care for them, but rather for the illegal immigrants that flood South Africa from neighbouring countries (Everatt, 2011).

This resulted in the 2008 xenophobic attacks that occurred throughout the country. As a result 62 illegal immigrants died, about 700 were injured and thousands lost their homes and possessions. Since government was hesitating to take action, non-government organisations had to raise funds to provide these homeless illegal immigrants with food, clothes and shelter. (Everatt, 2011).

Unemployed citizens feel they need to compete for jobs with the illegal immigrants, but because illegal immigrants are satisfied with a lower wage, they often get the job instead of the unemployed citizen. The unemployed citizens also feel they have to struggle to feed themselves and their families while government uses the taxpayers' money to provide free food to the illegal immigrants. (Everatt, 2011).

Everatt (2011) conducted a couple of focus groups during April to July 2008. After the xenophobic attacks, citizens that were part of these focus groups believed that the only option for government was to send the illegal immigrants back to their home countries.

Sixty nine percent of respondents from these focus groups agreed or strongly agreed with the statement, 'Foreigners are taking benefits meant for South Africans' (Everatt, 2011: 10). Everatt (2011: 10), found that South Africans, black or white, and no matter the class divide of these South Africans, did not like the presence of illegal immigrants in South Africa.

According to these citizens, illegal immigrants walk around freely and they steal jobs from legal citizens. This enabled illegal immigrants to buy houses and food, whereas legal citizens cannot even afford basic goods and services. One person in a particular focus group added that '... every foreigner that is employed has robbed a South African of that job and every foreigner who does not work commits crime.' (Everatt, 2011: 6-7).

Unemployed citizens are also of the opinion that South Africa's constitution provides for too many human rights to people who are not legal citizens of South Africa and that government is too accommodating towards illegal immigrants (Everatt, 2011: 16).

Why should a criminal be awarded human rights when his criminal activities took away his victim's human rights? Should the protection of the victim's human rights not take preference over the criminal's human rights?

## **2.5 POVERTY AND CRIME**

Crime may be a symptom of poverty. When people struggle to provide in their own and their families' basic needs because of unemployment, they might see only one other alternative to resolve that: crime.

However, this is not the only reason why some poor people might resort to crime. An individual can have a job and so provide in his own and his family's basic needs. However, that individual might compare his circumstances to others that have achieved more in their lives than that individual. This can result in this individual becoming frustrated and stealing from those that he perceived to be wealthier than him.

These two different types of poverty can be distinguished as relative and absolute deprivation (Breetzke, 2010: 2).

Relative deprivation is a result of individuals comparing their own lifestyles and possessions with others that they perceive to have more than them. This can cause these individuals to feel powerless and as a result resort to crime based on their perception that they have fewer possessions than those that are wealthier. (Breetzke, 2010: 2).

Absolute deprivation happens when individuals are not able to provide in their three basic needs: food, water and shelter. These individuals resort to crime in order to survive. (Breetzke, 2010: 2).

## 2.6 CRIME AND SOUTH AFRICA

Hirshberg, who works for Daimler Benz in Dubai cites crime as one of the main reasons why South Africans have left the country (Anonymous, 2008: 1). Hirschberg is of the opinion that people are emigrating because they are afraid and do not have any respect for the government which does nothing to protect them (Anonymous, 2008: 1-2). Melvin is of the same opinion as Hirschberg, stating that he believes that many South Africans that emigrated would come back to South Africa if certain factors changed, especially violent crime (Anonymous, 2008: 1-2).

The United States of America (USA)'s population is six and a half times greater than that of South Africa. However, South Africa's murder rate is 25% more than that of the USA (Durlington, 2009: 76-77).

Previous researchers found it difficult to distinguish between 'the actuality of crime' and the 'fear of crime' and which was the greater problem. Some researchers found crime statistics to be unreliable. (Durlington, 2009: 76).

Leggett (in Durlington, 2009: 77) states that the South African Police Service (SAPS) and the national government have been inconsistent with the times and information released in the crime statistics. He argues this point further by using the moratorium that government placed on the release of crime statistics in 2000 as case in point.

Durlington (2009: 77) is of the opinion that the inconsistent release of crime statistics by government results in South Africans not trusting or having no confidence in the SAPS. He argues further that the SAPS are not achieving the desired results in their poor efforts in preventing crime and that they are reactive more than they are proactive.

Therefore, more and more citizens invest their hard-earned, after tax income in private security expenditure (Durlington, 2009: 77).



## **2.7 PERCEPTION AND TAX**

Jordan and Treisch (2010) studied how the perception of tax concessions influenced investors' decision to contribute to a retirement savings plan. They found that only one investor and one investment consultant looked at tax savings as a criterion in choosing a retirement savings plan.

Chang (in Paulson, 2009) found two motivations for evading tax payments. Several of the subjects in their study perceived tax payments as income they must still receive. However, the other subjects perceived tax payments as loss of income they already received.

One of the aspects of tax morale that was investigated by Molero and Pujol (2011), called the 'fairness' argument, involves the perception of certain taxpayers, namely, that of the taxpayer who is opposed to the manner in which government uses tax money as well as too high tax rates. This type of taxpayer attitude can contribute to tax evasion (Molero & Pujol, 2011). This taxpayer perception was confirmed by Putnins and Sauka (2011).

Putnins and Sauka (2011) found that the taxpayer's perception regarding the tax burden and the administration of the tax system were one of the factors to consider in tax evasion. They further observed the following in their study: the more satisfied a taxpayer is with government and the tax system, the less likely that taxpayer will evade tax payments. The less satisfied a taxpayer is with government and the tax system the more likely it is for that taxpayer to evade taxes.

## **2.8 CONCLUSION**

Young entrepreneurs struggle to obtain the necessary start up capital they need in order to commence their new businesses. In addition, crime levels necessitate the employment of a private security company, which is an extra cost that these entrepreneurs struggle to cope with. The South African economy needs to grow in order to relieve the high unemployment rate, but since young entrepreneurs struggle to start new businesses, new jobs are not being created.

Corruption in government was found to cost South African taxpayers an estimated R25 billion a year (Anonymous, 2010b: 1). This is causing underdevelopment in South Africa and it is the poor that suffer the most under the effects of corruption. The presence of illegal immigrants is not helping the unemployment rate either or the high levels of crime in South Africa to decrease. Thus poverty is not reduced and the poor keep on resorting to crime as a means of providing in their basic needs.

This review of available literature on crime in South Africa reveals only a small portion of the reality most South Africans have to face daily. It also hints at a link between abuse of public funds and the crime levels in South Africa. What differences can R25 billion a year make in government departments such as Education and Policing, to mention but a few?

The next chapter focuses on the private security industry, locally and internationally, and the current South African tax legislation in respect of private security costs.

## CHAPTER THREE

### 3 PRIVATE SECURITY COSTS

#### 3.1 INTRODUCTION

This chapter investigates the private security industry, locally and internationally as well as the relationship between taxation and private security costs, also locally and internationally.

The chapter further investigates current South African tax legislation in respect of the tax deductibility of private security costs for South African individuals.

Fiscal policy and the budget process are also discussed briefly in order to consider some of the factors that can influence a tax deduction.

#### 3.2 PRIVATE SECURITY INDUSTRY

##### 3.2.1 A South African perspective

The private security industry in South Africa generates around R48 billion per year with 3 529 registered security companies in South Africa. South Africans spend more on private security as a percentage of GDP than any other nation. (Kokt, 2009: 789). South Africa has one of the fastest growing private security industries in the world (Marks *et al*, 2009: 146). The private security industry grew in value from R1.2 billion in 1990 to R30 billion in 2007 (Ramen, 2009: 23). This was found to be mainly due to the increase of serious crime as well as the public not having any confidence in the SAPS (Kokt, 2009: 789).

The demand by individuals for a more competent security force exceeds the ability of government to provide it (Marks *et al*, 2009: 146). Due to the SAPS not being able to keep

up with ever-inventive criminals and their ever-changing criminal techniques, private security companies have become accustomed to fulfil this role in the industry (Kokt, 2009: 789). Private security companies also have 300 000 guards available, in order for them to satisfy their clients' security needs (Marks *et al*, 2009: 147).

South Africa is in serious need for a police force that can find, bring to court and imprison criminals as well as have little patience with those people that break the law (Marks *et al*, 2009: 150).

Countries in transitional democracies, such as South Africa, often experience high rates of violent and property crime. Since the first democratic election in 1994, South Africa is also experiencing increased levels of crime. (Ramen, 2009: 22).

Shearing and Kempa (in Ramen, 2009: 22) argued that one of the problems with private security costs is that the wealthy citizens, who already pay for private security, are unwilling to pay for public security through 'state taxes'. Their argument went further to state that this problem might result in government not having enough public funds to provide its poorer citizens with public security, since South Africa has a progressive tax system where the wealthy contribute more to public funds than the poorer citizens. This argument, however, does not have any merit since South African taxpayers do not have a direct say in how government uses its tax contributions.

Unfortunately, there is no regulatory body that oversees the private security industry in South Africa. This seems necessary, since the private security industry is larger than the public police force. A regulatory body could answer on the accountability of private security companies as well as insure that 'fly-by-night' companies do not enter the industry without the necessary skills and know-how. (Ramen, 2009: 23).

To implement a regulatory body for the private security industry, government should consider the following (Ramen, 2009: 22-23):

- Which aspects of private security can be used to the benefit of the public in general?

- Are there other ways in which government can help its citizens to be safe from crime?

Shearing and Kempa (in Ramen, 2009: 23) suggested that 'participating communities [have] more power over policing' and have a 'direct say' in how tax contributions are utilised 'in respect of community safety'.

### **3.2.2 An international perspective**

Reichenheim *et al.* (2011) found in Brazil, for the period 1997 to 2007, that the increase in homicides led to increases in the economy and income generated by private security companies. The demand for electric fences and alarm systems increased. Unfortunately this also led to an increase in the demand for weapons. An increase of 73.9% in the number of private security companies were observed in the period 1997 to 2007, as a result of the increase in homicides.

Beck (in Krahmman, 2011) believes that it is a cultural perception that defines and represents risk. The media and their reports on crime can be advantageous to the private security industry, for 'bad news is good news' applies to both industries alike. The more the media reports on crime, the more a perception of crime escalating is generated and may result in an increase in the demand for private security. (Krahmann, 2011).

Therefore, the media can contribute to a person's perception of crime and thus fear of crime. A study in Finland to this effect found that indirect exposure to crime news contributed to citizens' growing fear of violence and crime (Krahmann, 2011).

This perception of crime ensures that the private security industry keeps on growing. Krahmman (2011) explains it best: '... private security companies have ... contributed to the rise of a culture of fear in which the demand for security can never be satisfied and guarantees continuous profits.'

In the USA the public do not trust the public policing system anymore and are increasingly paying for private security services. This is one of the reasons why the private security industry is the second fastest growing industry in the USA. (Ramen, 2009: 18).

Another reason why the private security industry is the second fastest growing industry in the USA, is because public authorities are outsourcing security services to the private security industry, including providing security guards for public buildings and facilities (Ramen, 2009: 18).

Another example of outsourcing of the private security industry as used by Benson (in Ramen, 2009: 18), is 'in Switzerland, where **one security firm** provides policing services for approximately 30 towns and villages.' (Emphasis added).

Crime prevention equipment is becoming increasingly popular amongst individuals in order for them to defend themselves as well as to combat crime (Ramen, 2009: 19). Such equipment includes tazers, paintball guns with pepper balls, pepper spray in various shapes and sizes and panic buttons that are connected to armed response companies.

Even the corporate sector indicated that they were more satisfied with the service they received from the private security companies than that of the public policing system (Ramen, 2009: 20).

However, the USA specifically stated in their IRS publication 529 that individuals cannot deduct private security costs from their taxable income unless it was in the production of income (IRS publication 529, 2010: 15).

Furthermore, the Australian Tax Office issued an Interpretative Decision that also states that individuals cannot deduct private security costs from their taxable income (Du Plessis, 2009: 9).

### 3.3 THE RELATIONSHIP BETWEEN TAXATION AND SECURITY EXPENDITURE

#### 3.3.1 The South African experience

A survey was conducted by Ramen (2009: 50-65) in the period 2008 to 2009, regarding different individuals' views on crime in South Africa, the percentage of their after-tax income that is spent on private security, their opinion of the possibility of a private security cost deduction for private security expenses and what political, economic and practical implications can be identified by participants.

Ramen's survey (2009: 50-65) revealed the following information:

- 35% of participants spent less than 5% of their after-tax income on private security and 65% spent between 5% and 10% of their after-tax income on private security.
- Over 60% of participants indicated that there was a significant increase in the percentage of their after-tax income that is spent on private security.
- 44% of participants have been victims of property crime and 16% have been victims of violent crime. 7% of participants have been victims of both violent and property crime.
- 66% of participants were not satisfied with their existing security measures as opposed to 31% who were satisfied. Only 3% of participants were extremely satisfied with their existing security measures.
- 72% of participants were not satisfied with the manner in which government was using their tax contributions to address crime. A further 20% were extremely dissatisfied. Therefore, **92%** of participants were dissatisfied with the manner in which government was using tax contributions to address crime.
- 69% of participants agreed with the proposal for a security cost deduction and 31% strongly agreed, in total **100%** of participants agreeing with the proposal.
- Motivations for the deductibility of private security expenses for individuals included the following:
  - reduction in crime levels;
  - creation of job opportunities in the private security industry;

- reduction in the cost of private security that will make it accessible to more individuals;
  - increase in after-tax income in order to pay for private security; and
  - government is responsible for protecting its citizens; therefore government should assist them via the proposed tax deduction.
- 82% of participants agreed that a security cost deduction would motivate them to invest in additional private security.
  - Political, economic and practical implications identified by participants included the following:
    - Political: government admitting that they are not successful in combating crime. Also increased support for government since it would prove to its citizens that government cares about its citizens' safety.
    - Economic: the overall economy would be stimulated, since taxpayers would have more after-tax income to spend on other industries. Also a decrease in tax revenues from individuals, but an increase in corporate tax revenues would be experienced as a result of increased profitability in the private security industry.
    - Practical: Could lead to poor quality security service delivery as more private security companies enter the market. Fewer people would consider emigrating.

A security cost deduction was supported by 100% of participants to the survey. Such a deduction would have the likely effect that the overall economy would benefit by it, but also that government would have to incur a fiscal deficit to fund such a deduction (Ramen, 2009: 50-65).

### **3.3.2 An international perspective**

In Ramen's (2009: 10) review of related literature, it came to light that only the USA, Canada and the United Kingdom (UK) have done research on the connection between



taxation and private security costs. The study will review the USA related research in more detail.

According to Grogger and Weatherford (in Ramen, 2009: 11) residents of Los Angeles in the USA were willing to pay a 'special property tax' to combat violent crime instead of combating property crime in their neighbourhoods.

Unfortunately, Grogger and Weatherford (in Ramen, 2009: 12) failed to consider the political implications of implementing a special property tax. Ramen (2009: 12) considered the following political implications:

- Why should individuals contribute towards an additional tax if their existing tax payments should suffice in addressing the issue of crime?
- Would the additional special property tax proposed indicate an admission of failure on the part of government in addressing the issue of neighbourhood crime?
- Would the additional special property tax proposed indicate mismanagement of existing tax funds by government?

Ramen (2009: 12) also pointed out that the possibility of a private security cost tax deduction would have been a more reasonable option for the citizens in Los Angeles than the special property tax that was proposed.

If the private security industry is highly effective and the cost of private security is kept low, it would result in a stronger economy, reduced crime rates and higher long term productivity (Ramen, 2009: 13).

In a developed country context it can be said that the poorer citizens of such a developed country would not be able to consider private security services. Therefore it is only available to the wealthier citizens of that developed country. (Ramen, 2009: 13).

However, Ramen (2009: 13) indicated that the above argument would not necessarily apply in the South African context. Ramen illustrated this point by stating that many 'less-privileged households' make use of more affordable options, such as neighbourhood watches and community service patrols.

### **3.3.3 A general perspective**

Lloyd-Ellis and Marceau (in Ramen, 2009: 14) believe that reduced crime rates are dependent on both public policing and private security programmes. To the contrary Cressman (in Ramen, 2009: 15) believes that it is the actions of individuals that make a big difference in the prevention of crime and the capturing of criminals.

Unfortunately, Cressman (in Ramen, 2009: 15) considered a lump sum tax to fund public police activity instead of considering the possibility of a security tax deduction.

Should government consider a private security cost tax deduction, they would probably finance it by decreasing funds for public policing. This will most likely have the effect that crime rates will remain unchanged. Government would also most likely argue that more citizens are able to afford private security and thus would not require government to be as involved with public policing as in the past (Ramen, 2009: 15). However, Ramen (2009: 15) pointed out that '[i]t is extremely difficult to determine whether government would respond in such a manner.'

Loader (in Ramen, 2009: 16) argued that the criminal justice system should be privatised with only limited government administration. Loader (in Ramen, 2009: 16) strengthens his argument further by pointing out several limitations that prohibit government in administering the criminal justice system effectively.

These limitations are the following:

- Firstly, that government officials are not motivated 'to be efficient and keep costs down'.

- Secondly, government tends to look after its own interests instead of the general public's interests.
- Thirdly, inequality in service delivery exists, with the wealthy being able to afford 'preferential policing services'.
- Finally, individuals cannot opt out of bad public service delivery as they would be able to do with private organisations. (Loader in Ramen, 2009: 16).

To summarise Loader's (in Ramen, 2009: 16) argument, if public security was privatised it would result in better management of funds and better quality service delivery. However, the opposite would also apply. Poor performance would result in revenue losses for the private organisation.

Although there is merit in Loader's (in Ramen, 2009: 16) argument for privatising public security, Benson (in Ramen, 2009: 19) pointed out that private organisations have one main goal: to make profit. This could result in private organisations cutting costs that would lead to inferior private security service delivery (Ramen, 2009: 19).

Another disadvantage of privatising public security is that only the wealthy would most likely be able to afford private security. This leaves the poor to become the more likely victims of crime. (Ramen, 2009: 20).

Further disadvantages pointed out by Benson (in Ramen, 2009: 21) of privatising public security are the following:

- 'Privatisation would result in taxpayers potentially losing out on a tax deduction for any expenditure incurred on private security.'
- The taxpayer would not be able to choose the service provider of his choice, since government would decide 'which private security provider would provide the security services to be outsourced.'
- Once government decides on the private security providers that will be used, it could result in these providers delivering sub-standard and inferior services.

The regulation of the private security industry would most likely solve the abovementioned disadvantages of privatising public security as well as 'ensure higher tax revenue for government from an increasingly growing industry sector.' (Ramen, 2009: 17).

### 3.4 LEGISLATION AND PRIVATE SECURITY COSTS

#### 3.4.1 Income Tax Act No 58 of 1962

Section 11(a), read with section 23(g) of the Income Tax Act No 58 of 1962 states the deductions that persons can and cannot deduct from their taxable income. Section 11(a) requires that a person must **carry on a trade** and **generate income from that trade** in order to deduct certain amounts from their taxable income.

Section 11(a) states, in layman's terms, that a person can deduct from their taxable income:

- costs or losses
- that were actually incurred
- during the year of assessment
- in the production of income
- that are not of a capital nature.

Section 23(g) prohibits the deduction of:

- Expenses that were claimed as a deduction from taxable income
- in so far as it was not incurred for trading purposes.

Therefore, in order for an individual to deduct a private security cost from taxable income, that individual must 1) carry on a trade, 2) the private security cost must have been incurred in the production of income and 3) the private security cost must not be of a capital nature.

As a result of the above review of current South African tax legislation it is clear that private and domestic expenditure, such as private security costs, cannot be deducted from an individual's taxable income. However, paragraph 20(g) of the Eighth Schedule to the Income Tax Act No 58 of 1962 makes provision that security devices that become part of a house or building's structure may be added to that property's base cost when it is sold. It is important to note that the security devices must still be part of the property's structure when it is sold, for the cost to be included in the property's base cost.

Although some security costs may form part of an immovable property's base cost as mentioned above, it is unfortunate that security costs relating to movable assets (e.g. firearms and private vehicle tracking systems) do not qualify as a deduction anywhere in the Income Tax Act No 58 of 1962 (Du Plessis, 2009: 9).

Du Plessis (2009: 9) compares security costs incurred by individuals to medical aid costs incurred by individuals. She argues that individuals incur these costs (both security and medical costs) in order to avoid weighing down government resources relating to policing and government health facilities.

#### **3.4.2 SARS Interpretation Note: No. 45**

On 30 June 2008, SARS issued Interpretation Note 45 after the National Civilian Safety and Security Action (Nacissa) group stated in a newspaper article that 'government neglects its duty to combat crime. This compels South African taxpayers to incur expenses to make up for this neglect.' Nacissa also encouraged individual taxpayers to claim their security costs on their tax returns under the "other deductions" section. (Du Plessis, 2009: 9).

Interpretation Note 45 deals with the deduction of security expenditure and various sections of the Income Tax Act No 58 of 1962. Interpretation Note 45 states that the purpose of the Note is to guide taxpayers in respect of the deductibility of private security costs from their taxable income.

Interpretation Note 45 goes further to explain that in terms of section 23(b) that prohibits the deduction of private and domestic expenditure by individuals from their taxable income, 'the cost of securing an individual's private residence does not qualify as a deduction.'

However, Interpretation Note 45 pointed out that donations made to qualifying public benefit organisations that combat crime, may be deducted under the normal rules of section 18A of the Income Tax Act No. 58 of 1962. Section 18A provides for the deduction of donations made by individuals to qualifying public benefit organisations from their taxable income.

Thus, an individual that works from home or whose income consists mainly (more than 50%) of commission income, may deduct the business portion of private security costs from his taxable income.

However, an individual who mainly works at his employer's premises or who receives commission income of less than 50% of his total income may not deduct any private security costs from his taxable income.

Interpretation Note 45 concludes by stating that each individual taxpayer's circumstances should be taken into account before deciding whether private security costs are tax deductible or not.

### **3.4.3 TAX AND FISCAL POLICY**

In order to determine what the cost to the fiscus would be if a security cost deduction was granted to individual taxpayers, one must consider how a country's tax system works.

#### **3.4.3.1 *An overview of tax expenditure***

In South Africa and all of the member countries of the Organisation for Economic Co-operation and Development (OECD), governments collect money from their citizens by imposing different types of taxes (e.g. income tax, Value Added Tax (VAT), dividends tax and property rates & taxes). Then government redistributes this money to the various government departments and provincial and local municipalities to enable them to perform their respective public duties (OECD, 2010: 3).

Most countries' tax systems provide for 'tax expenditures', which permit certain taxpayers to pay less tax (OECD, 2010: 3). Tax expenditures are defined as 'provisions of tax law, regulation or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax' (OECD, 2010: 12). Tax expenditures can also be defined as 'a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by a direct expenditure' (OECD, 2010: 14).

Different types of tax expenditures include allowances (e.g. deduction for machinery used in a process of manufacture), exemptions (e.g. South African local dividends are exempt from tax), tax rate relief (e.g. Turnover tax, Small business tax), tax deferral (e.g. section 24C) and credits (e.g. primary and secondary rebates) (OECD, 2010: 12).

Tax expenditures are measured by using the 'revenue forgone method which calculates the tax that would have been payable if the tax concession was removed, and economic behaviour remained unchanged' (OECD, 2010: 13). Anderson (in OECD, 2010: 13-14) established three ways to measure tax expenditures:

- 'Initial revenue loss (gain): the amount by which tax revenue is reduced (increased) as a consequence of the introduction (abolition) of a tax expenditure based upon the assumption of unchanged behaviour and unchanged revenues from other taxes.
- Final revenue loss (gain): the amount by which tax revenue is reduced (increased) as a consequence of the introduction (abolition) of a tax expenditure, taking into account the change in behaviour and the effects on revenues from other taxes as a consequence of the introduction (abolition).

- Outlay equivalence: the direct expenditure that would be required in pre-tax terms to achieve the same after-tax effect on taxpayers' incomes as the tax expenditure if the direct expenditure is accorded the tax treatment appropriate to that type of subsidy or transfer in the hands of the recipient'.

Tax expenditures are adopted by governments for the following reasons (OECD, 2010: 24-25):

- Tax expenditure can, under certain conditions, be a very successful policy tool for governments to reach their goals.
- Since certain government spending programmes put a large administrative burden on the government officials that must manage these programmes, tax expenditures relieve this administrative burden.
- By using information provided by taxpayers on their income tax returns or information provided by an employer regarding benefits paid to an employee, abuse of public funds or fraud within government departments are limited.

Arguments against the use of tax expenditures include the following (OECD, 2010: 26-31):

- Fairness: It is alleged that tax expenditures benefit the taxpayers in the highest tax brackets the most. Therefore, the citizens who do not qualify to pay tax as a result of low or no income do not benefit from the tax expenditures, as they would have from a government spending programme.
- Efficiency and effectiveness: Usually tax expenditures are written into law (e.g. Income Tax Act No 58 of 1962), but government spending programmes must be authorised every couple of years. Tax expenditures only benefit taxpaying citizens, whereas government grants and spending programmes can benefit those citizens who really need it (e.g. to afford medical aid, whereas taxpayers get the benefit of the capped amount and other relief provided for in the Income Tax Act No 58 of 1962).
- Complexity: Tax expenditures can become so complex that only experts can guide their way through the tax system. This results in the normal person in the street to not know about the benefits that they might be able to claim as opposed to the wealthier person that can afford an expert to advise him on the benefits that he may claim.



Therefore 'the lack of transparency of tax expenditures can have a real cost in the effectiveness of government' (OECD, 2010: 29).

- Revenue sufficiency: 'The revenue cost of tax expenditures can be more difficult to estimate than the cost of government spending programmes.' (OECD, 2010: 30). The implementation of tax expenditures always accompanies a reduction in revenue. Therefore, if revenue costs are not estimated correctly it can lead to fiscal deficits that were not expected.

#### **3.4.3.2 Tax expenditures and the budget process**

In order to ensure that the budget process includes all relevant data, one can consider a couple of basic reporting standards.

The first standard that can be considered is that tax expenditure data must be included in the budget. The tax expenditure data must have the same quality as data regarding government spending (OECD, 2010: 45).

The second standard that can be considered is that tax expenditure data must be reported in the same section of the budget as the outlay of government spending programmes. This will enable comparisons of tax expenditure programmes with government spending programmes (OECD, 2010: 45).

These comparisons might bring duplication of objectives to light as well as determine the effectiveness of certain tax expenditure or government spending programmes (OECD, 2010: 45-46).

In order to accomplish a more efficient allocation of public funds, tax expenditure programmes must also be evaluated regularly. The objective of evaluating tax expenditure programmes is to determine their 'efficiency and effectiveness against alternative spending programmes or ... general tax-rate reduction' (OECD, 2010: 47).

However, the elected government might not want to upset its supporters or potential supporters by identifying problems with certain tax expenditures. Furthermore, government analysts would not want to upset their 'political superiors' by evaluating tax expenditures which they might see as being impractical or a waste of time. (OECD, 2010: 47).

One of the roles of tax expenditures is to assist the budget process in curbing fiscal deficits. Since the recession in 2008, many countries have large and growing deficits. The restraint of tax expenditures, as a tool in the budget process, might help to reduce these large deficits (OECD, 2010: 60).

To restrain tax expenditures can be a difficult task, since there is a big difference between the measurement (calculation) of tax expenditures and the outcome of the budget process.

Although many countries use the 'revenue forgone' method (also called the 'initial revenue loss' method) to calculate tax expenditures, it does not take taxpayer behaviour into account. Therefore 'amounts of tax expenditures ... do not equal the revenues that would be gained by terminating them' (OECD, 2010: 60).

If a tax expenditure was terminated to aid the budget process in reducing the fiscal deficit; taxpayers would most likely try to reduce the resultant increase in their taxable income.

Therefore, the increase in revenue as a result of the terminated tax expenditure would be insignificant (OECD, 2010: 60).

One argument holds that the use of tax expenditures as a budget tool is not acceptable to reduce the fiscal deficit under any circumstances. For example, good economic times could motivate taxpayers to push for the implementation of new tax expenditures as a result of higher government revenue. However, when economic times experience a downturn and government revenues suffer as a result, it will be nearly impossible to terminate the tax expenditures that were implemented during the good economic times. (OECD, 2010: 61).

Further to the above argument is that the enactment of new tax expenditures or the expansion of existing tax expenditures does not guarantee that these tax expenditures will be reviewed regularly and properly. This could result in making 'subsequent budget control much harder'. (OECD, 2010: 61). This argument therefore holds that 'measured tax expenditures are an imperfect target ... for a budget control strategy' (OECD, 2010: 61).

An opposing argument holds that tax expenditure programmes should be as effective in reducing a fiscal deficit as government spending programmes (OECD, 2010: 61).

'[P]ublic spending can be wise or foolish, appropriate or inappropriate, effective or ineffective but ... it cannot be more costly to the economy as a whole than doing nothing.' (Nell in Papadimitriou, 2006: 1).

### **3.5 CONCLUSION**

A review of existing literature found that South Africa has one of the fastest growing private security industries in the world. The main reason for this was found to be an increase of serious crime and the public not having any confidence in the SAPS' abilities.

In the literature review it was noted that a regulatory body should be implemented to oversee the private security industry since it is larger than the public police force.

Research conducted in Brazil in the period 1997 to 2007 found a link between an increase in homicides, an increase in the economy and an increase in income generated by private security companies. One can therefore argue that, without crime, private security companies become redundant.

The research found that a person's perception and thus fear of crime, can lead to an increase in the demand for private security. It was also found in further research in Finland that the media can contribute to a person's perception and fear of crime.

A South African survey conducted in 2008 found that 100% of participants agreed with the proposal of introducing a tax deduction for private security costs as well as that 92% of participants were dissatisfied with the manner in which government was using tax contributions to address crime. Also, 82% of participants agreed that a security cost deduction would motivate them to invest in additional private security.

A review of related current South African tax legislation found that in most cases an individual will not be able to deduct private security costs from their taxable income. However it should be noted that the facts and circumstances of each case must be taken into account before deciding whether the private security costs qualify as a tax deduction.

The next chapter discusses the research methodology used in this study and the motivation thereof.

## CHAPTER FOUR

### 4 RESEARCH METHODOLOGY

#### 4.1 DESCRIPTION OF OVERALL RESEARCH DESIGN

The study used qualitative research with an accompanying questionnaire in order to achieve the research objectives.

Phenomenological study was chosen by the researcher because it attempts to understand people's perceptions of a particular situation (Leedy & Ormrod, 2005: 139).

The focus of this study was on private security companies' perception on private security issues. The researcher conducted telephonic interviews with the chosen private security companies. The interviews were assisted by a structured questionnaire in order to collect the required data. The questionnaire consisted of 7 questions.

In a phenomenological study, the researcher carefully selects a sample of participants who have had direct experience with the topic being studied (Leedy & Ormrod, 2005: 139). Therefore, the sample sizes in a phenomenological study are small. There are well over 3 000 private security companies in South Africa (Kokt, 2009: 789). The researcher decided on a sample size of 4 private security companies. These 4 private security companies were chosen because they are well known to the researcher because of their general visibility. This sampling process is called a combination of convenience and purposive sampling.

These are defined as follows:

- Convenience sampling

A specific sample from a population is not identified, but people or other units that are readily available are used (Leedy & Ormrod, 2005: 206).

- Purposive sampling

According to Leedy & Ormrod (2005: 206) purposive sampling means that people or other units are chosen for a specific purpose. It is left to the researcher's judgement to select the sample.

The researcher administered the interviews telephonically. The advantage of this was that the researcher could clarify answers (Leedy & Ormrod, 2005: 185). Other advantages of telephone interviews are that they are less time-consuming and less expensive.

Disadvantages of telephone interviews are as follows:

- The researcher may find it difficult to establish good rapport with participants.
- Some participants may be busy and thus annoyed at being bothered. They may not want to participate in the interview. (Leedy & Ormrod, 2005: 185).

The participants' responses were recorded verbatim. This means that the researcher wrote down everything a participant said.

While conducting the interviews, the researcher kept her reactions to participants' responses neutral. The researcher further attempted to suspend any personal feelings and beliefs regarding the study while conducting the interviews. (Leedy & Ormrod, 2005: 139-146).

## **4.2 RESEARCH ETHICS**

The following ethical concerns have been identified for this study:

- Participants must be informed about the nature of the study and be given the choice to either participate or not. Participants must also be told that they have the right to withdraw from the study at any time without any consequences. Furthermore, no financial or other incentives will be offered to participants to ensure their participation to the study.

- All participants' rights to privacy should be respected. The researcher must inform participants that they and their responses will remain anonymous and confidential.
- The data should be stored and archived in such a manner that protects the integrity of the data as well as the confidentiality of the participants. Participants' details and views should not be made available to any other person or organisation. If further studies require the data, then the participants' consent should be re-obtained.

### **4.3 ANALYSING THE DATA**

The data collected through the questionnaire was transferred and recorded electronically. Some of the data was reflected as percentages. However, since the main part of the questionnaire consisted of open ended questions, the rest of the data was reflected as a list of the participants' responses.

Chapter 5 analyses the data collected from the interviews.

## CHAPTER FIVE

### 5 ANALYSIS OF SURVEY DATA

#### 5.1 INTRODUCTION

This chapter analyses the data that has been collected by means of the questionnaire. These were administered through structured telephonic interviews with participants. The purpose of the questionnaire is to determine the necessity of private security costs in South Africa. The results of the questionnaire are discussed in the section that follows.

#### 5.2 QUESTIONNAIRE

Each of the questions from the questionnaire and the participants' answers thereto are discussed below.

#### **QUESTION 1a: IN YOUR EXPERIENCE, WHAT IS THE AVERAGE SAPS' REACTION TIME TO AN EMERGENCY CALL?**

Participants listed the following:

- 50% of participants experienced a 3 hour and longer waiting period for the SAPS to respond to an emergency call.
- 25% of participants experienced a 5 – 10 minutes waiting period for the SAPS to respond to an emergency call.
- 25% of participants did not know.



**QUESTION 1b: IN YOUR EXPERIENCE, WHAT IS YOUR COMPANY'S AVERAGE REACTION TIME TO AN EMERGENCY CALL?**

All participants experienced less than 10 minutes reaction time to an emergency call. In addition half of the participants noted that their private security company allowed a maximum of 5 minutes to respond to an emergency call.

**QUESTION 2a: IN YOUR OPINION, WHAT WILL INFLUENCE THE SAPS' REACTION TIME?**

Participants listed the following:

- 75% of participants are of the opinion that the following can influence the SAPS' reaction time:
  - SAPS officials are not properly trained or experienced enough;
  - Availability of police vehicles; and
  - Manpower.
- 25% of participants are of the opinion that the following can influence the SAPS' reaction time:
  - SAPS officials' workload and motivation and
  - Problems with communication channels within the SAPS.

**QUESTION 2b: IN YOUR OPINION, WHAT WILL INFLUENCE YOUR COMPANY'S REACTION TIME?**

The following were listed by participants:

- false alarms;
- weather conditions (rain);
- traffic congestion; and
- traffic laws (e.g. may not skip a red traffic light).

**QUESTION 3a: IN YOUR OPINION, WHAT IS THE PURPOSE OF THE SAPS WHEN RECEIVING AN EMERGENCY CALL?**

The following were listed by participants:

- the SAPS should respond, help and save the person/s being threatened;
- the SAPS should uphold the law and arrest the criminal/s as well as protect the person/s' property; and
- the SAPS should also secure the crime scene and collect evidence.

**QUESTION 3b: WHAT IS THE PURPOSE OF YOUR SECURITY COMPANY WHEN RECEIVING AN EMERGENCY CALL?**

The following were listed by participants:

- they should respond armed, help and save their client;
- they should also protect their client's property as well as catch the criminal/s; and
- a fast reaction time is believed to discourage criminals to break into one of their client's homes.

**QUESTION 4: IN YOUR PERCEPTION, WHAT DOES THE SAPS DO TO PREVENT CRIME?**

Participants listed the following:

- 25% of participants believed that the SAPS does nothing to prevent crime.
- 25% of participants had no comment.
- 50% of participants perceived the SAPS to involve the community by means of joined operations with Community Patrol organisations as well as with security companies.

### **QUESTION 5: WHAT DOES YOUR COMPANY DO TO PREVENT CRIME?**

The following were listed by participants:

- They arrest the suspect and wait for the SAPS to arrive and take custody of the suspect.
- They monitor and patrol areas with high incidents of crime.
- They increase their visibility in order to discourage criminals.
- They confront suspect vehicles and persons.
- They respond to requests from clients who have noted suspect persons or vehicles.
- They liaise with the community and the SAPS.

### **QUESTION 6: WHAT IS YOUR PERCEPTION OF THE INFLUENCE OF COMMUNITY ENGAGEMENT IN THE PREVENTION OF CRIME IN AN AREA?**

All participants agreed that the following makes a massive difference in the prevention of and decreasing levels of crime in an area:

- Community Patrol organisations, and
- Communication between the community and the SAPS and private security companies in respect of suspect persons or activities in their area.

### **QUESTION 7: WHAT IS THE AVERAGE INITIAL COST TO HAVE AN ALARM SYSTEM INSTALLED?**

Participants listed the following:

- Minimum cost ranges between R2 000 and R4 500.
- Maximum cost ranges between R18 500 and R200 000.
- Contribution with reaction units ranges between R285 and R374 per month (not including the annual license fee).

### 5.3 CONCLUSION

Private security companies are of the opinion that they not only have a faster reaction time to emergency calls than the SAPS, but are also more proactive than the SAPS to prevent crime.

Furthermore private security companies are of the opinion that levels of crime decreased in areas where the community was involved in anti-crime initiatives.

In the opinion of the participants it would seem that the SAPS has more factors influencing their reaction time to emergency calls negatively than private security companies do. These factors can be overcome though. According to the participants a few possibilities are paying SAPS officials better salaries or incentive bonuses in order to motivate them as well as the hiring of new and training more SAPS officials on a higher level.

The next chapter will focus on a conclusion in respect of the findings of the research data, whether a deduction for private security costs would be allowed for individuals in South Africa as well as recommendations for future studies related to the issue of the tax deductibility of private security costs for the individual against taxable income.

## CHAPTER SIX

### 6 CONCLUSION AND RECOMMENDATIONS OF THE STUDY

#### 6.1 INTRODUCTION

This final chapter concludes with the findings of the research data. The researcher has also attempted to draw a conclusion on whether a tax deduction for private security costs would be allowed for individuals in South Africa against their taxable income. Finally, the researcher has made recommendations for future studies.

#### 6.2 CONCLUSIONS OF THE STUDY

The study was guided by certain research objectives in order to answer the core research question: Is there a possibility that a tax deduction for private security costs for individuals against taxable income would be allowed?

The first objective was to determine whether the USA, New Zealand and Australia considered private security costs as a tax deduction for individuals against taxable income. Research reflected no information for New Zealand. The USA and Australia specifically stated that such a tax deduction was not allowed unless it was incurred in the production of income.

The second objective comprised of two parts:

- a) A review of existing literature in respect of certain factors influencing crime, revealed a South African government that neglects its duty towards its citizens. This can be illustrated by the following:
  - Poverty. South Africa has an unemployment rate of 24.5%. Poverty has also been listed as one of the reasons why certain individuals resort to crime (refer Chapter 2, paragraphs 2.1 and 2.4).

- Illegal immigrants. Government is not addressing the ongoing influx of illegal immigrants into South Africa efficiently enough. This results in several problems, amongst which, illegal immigrants being involved in crime in South Africa (refer to Chapter 2, paragraph 2.3).
  - Corruption in government. The funds that are allocated annually to government departments are not being used for their intended purpose (refer Chapter 2, paragraph 2.2). Even the Minister of Finance, Pravin Gordhan, issued a warning to government that taxpayers are becoming increasingly impatient about the manner in which government spends public funds (De Waal, 2012). The Auditor General announced in 2011 that, for the 2010/2011 book year, government departments and parliament spent almost R27 milliard irregularly or unauthorised (De Waal, 2012).
- b) A review of existing literature in respect of the private security industry revealed an industry that is the fastest growing in South Africa. Furthermore, it was determined that an increase in people's fear of crime leads to an increase in the demand for private security companies.

The third objective was to review current South African tax legislation in respect of the tax deduction of private security costs for the individual against taxable income. This legislation can be summarised as follows:

- In terms of section 11(a) of the Income Tax Act No 58 of 1962 an individual must carry on a trade and derive income from that trade in order to deduct an amount from taxable income, provided that that amount was actually incurred in the production of income during the relevant year of assessment and is not of a capital nature.
- Section 23(g) of the Income Tax Act No 58 of 1962 prohibits the deduction of expenses that were claimed as a deduction from taxable income to the extent that it was not incurred for trading purposes.
- Paragraph 20(g) of the Eighth Schedule to the Income Tax Act No 58 of 1962 allows an individual to add the cost of security devices to that property's base cost when that property is sold.

Therefore, if an individual works from home or receives mainly (more than 50% of total income) commission income, that individual may deduct the business portion of the private security cost from taxable income. In all other cases the tax deduction of private security costs is not yet deductible from an individual's taxable income under current South African tax legislation.

The fourth objective was to investigate the necessity of private security costs in South Africa. The research was done by means of administering a questionnaire to private security companies. The research data revealed that private security companies are of the opinion that they are more effective and proactive in the prevention of crime than the SAPS as well as that they have a faster reaction time to emergencies than the SAPS. Given these findings and the high crime levels in South Africa together with the alleged ineffectiveness of the SAPS, it has become a necessity for individuals to employ private security companies in South Africa.

The final objective was to determine whether a tax deduction for private security costs for individuals in South Africa is a possibility. Currently a tax deduction for private security costs for individuals is only a possibility for those individuals who work from home or receives mainly commission income, as discussed above. Therefore, this objective can only be achieved if South African tax legislation is amended to specifically allow such a deduction for all South African individuals.

The conclusion of this study is therefore that however big the part is that every individual plays in preventing and fighting crime in South Africa, the duty of government to protect its citizens cannot be ignored. Government needs to show some incentive to those taxpaying individuals who do try to prevent and fight crime by employing private security companies. A tax deduction for private security costs for individuals may be an effective incentive and a good place to start for government.

### **6.3 RECOMMENDATIONS FOR FUTURE STUDIES**

The researcher is of the opinion that this study can be used as a basis in future research into possible connections between private security costs, the tax deductibility thereof for South African individuals and the levels of crime in South Africa.

Future research can focus on the following:

- Investigate the cost to the government to implement such a deduction.
- Investigate how SARS will implement and monitor such a deduction.
- Investigate different forms that the deduction can take, for example, should an allowance for private security costs be made and can the capital costs be depreciated?



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