

# **A CASE STUDY OF THE EXPECTATION GAP BETWEEN TAXPAYERS AND TAX PRACTITIONERS IN RURAL SOUTH AFRICA**

by

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## ABSTRACT

# A CASE STUDY OF THE EXPECTATION GAP BETWEEN TAXPAYERS AND TAX PRACTITIONERS IN RURAL SOUTH AFRICA

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Taxpayers worldwide make use of tax practitioners to handle their tax matters for them. In South Africa, taxpayers also use tax practitioners to handle their tax matters. The use of tax practitioners and their services in South Africa is on the rise due to various factors. The resulting relationship between taxpayers and tax practitioners was the subject of this study.

The taxpayer has certain expectations when using the services of a tax practitioner. These expectations can be linked to various factors identified in numerous studies of taxpayer-tax practitioner relations. The factors identified in this study were client motivation, client advocacy, tax minimisation as well as changes in legislation. Taxpayer expectations regarding these factors were examined. The perceptions of tax practitioners about these taxpayer expectations were also examined. The possibility of a gap between the expectations of the taxpayer and the perceptions of the tax practitioner of these expectations has been identified in other studies around the world. The possibility of such a gap exists in a South African context.

This study aimed to determine whether there was an expectation gap between taxpayers and tax practitioners in rural South Africa. A questionnaire with pre-set questions was used and combined with semi-structured interviews to gather qualitative data to analyse the expectations and perceptions of both parties. The responses from the parties were

analysed and compared to determine whether there was an expectation gap in rural South Africa.

The study concluded that there was indeed an expectation gap between taxpayers and tax practitioners. The relationships for rural South Africa were analysed and it was evident that similar studies conducted with the same objectives in other parts of the world had the same results. There was indeed a gap between taxpayer expectations and tax practitioner perceptions of these expectations.

## **OPSOMMING**

# **'n GEVALLESTUDIE VAN DIE VERWAGTINGSGAPING TUSSEN BELASTINGBETALERS EN BELASTINGPRAKTISYNS IN LANDELIKE DELE VAN SUID-AFRIKA**

deur

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Belastingbetalers wêreldwyd maak gebruik van belastingpraktisyns om hul belastingsake te hanteer. In Suid-Afrika maak belastingbetalers ook gebruik van belastingpraktisyns om hul belastingsake te hanteer. Die gebruik van belastingpraktisyns en hul dienste in Suid-Afrika is aan die toeneem weens van verskeie faktore. Die gevolglike verhouding tussen belastingbetalers en belastingpraktisyns was die onderwerp van hierdie studie.

Die belastingbetaler het sekere verwagtings wanneer hulle die dienste van 'n belastingpraktisyn gebruik. Hierdie verwagtings kan gekoppel word aan verskeie faktore wat geïdentifiseer is in talle studies van die verhouding tussen belastingbetalers en belastingpraktisyns. Die faktore wat geïdentifiseer is vir hierdie studie is kliëntmotivering, kliëntvoorspraak, belastingminimalisering sowel as veranderinge in wetgewing. Die belastingbetaler se verwagtings rakende hierdie faktore is ondersoek. Die persepsie van die belastingpraktisyn van hierdie belastingbetaler se verwagtings is ook ondersoek. Die moontlikheid van 'n gaping tussen die verwagtings van die belastingbetaler en die persepsie van die belastingpraktisyn van hierdie verwagtings is geïdentifiseer in ander

studies regoor die wêreld. Die moontlikheid van so 'n gaping in 'n Suid-Afrikaanse konteks is in hierdie studie ondersoek.

Die doel van die studie was om te bepaal of daar 'n verwagtingsgaping tussen belastingbetalers en belastingpraktisyns in landelike Suid-Afrika is. 'n Vraelys is gebruik en gekombineer met semi-gestruktureerde onderhoude om kwalitatiewe data in te samel om die verwagting en persepsies van albei partye te ontleed. Die antwoorde van die partye is ontleed en vergelyk om te bepaal of daar 'n verwagtingsgaping in landelike Suid Afrika is.

Die studie het bevind dat daar wel 'n verwagtingsgaping tussen belastingbetalers en belastingpraktisyns is. Die verhoudings vir landelike Suid-Afrika is ontleed en dit is duidelik dat soortgelyke studies met dieselfde doel in ander dele van die wêreld dieselfde resultate verkry. Daar is inderdaad 'n gaping tussen die belastingbetaler se verwagtings en die belastingpraktisyn se persepsie van hierdie verwagtings in landelike Suid-Afrika.

# CHAPTER 1

## INTRODUCTION

### 1.1 BACKGROUND

“The art of taxation consists of plucking the goose so as to obtain the most feathers with the least hissing.” These words were spoken by Jean-Baptiste Colbert, the French Minister of finance from 1665 to 1683 under the rule of King Louis XIV (Goodreads, not dated). In the modern-day tax arena where taxes are much more complicated than in the 1600s, tax practitioners play a vital role in the plucking of the proverbial goose and the amount of hissing the goose (the taxpayers) makes. The relationship between taxpayers and tax practitioners and their expectations have been the subject of various prior studies (Lubbe and Nienaber, 2012; Stephenson, 2006; Tan, 1999). This study aims to examine this relationship in a South African context.

The key elements of this study are taxpayers and their expectations, tax practitioners and their perceptions of taxpayers’ expectations, taxation and tax legislation. These elements will be discussed to determine whether there is a gap in the perceptions of tax practitioners about taxpayers’ expectations. The relationship and relating expectations or perceptions in rural towns in South Africa will be examined. The regulation of tax practitioners through the Tax Administration Act (28/2011) highlights the importance of this study relating to the relationship between the taxpayer and tax practitioner.

Prior empirical research on this subject by various researchers (Collins, Milliron & Toy, 1990; Guyton, O’Hare, Stavrianos & Toder, 2003; Long and Caudill, 1987; Slemrod & Sorum, 1984) was all based on the relationship between taxpayers and tax practitioners. These studies found that almost 50% of taxpayers have their tax returns professionally prepared by tax practitioners and such. According to Lubbe (2009:2), the use of tax practitioner services is on the rise worldwide and also in South Africa.

These studies concluded that accuracy and compliance are two of the primary reasons why taxpayers make use of tax practitioners. Additional requirements by taxpayers would be to have certain taxes explained, to pay the least tax possible and to save the taxpayer time (Stephenson, 2006:4). The requirements listed above can be seen as taxpayer expectations.

The significant role that tax practitioners play in the tax system was highlighted in a 2008 report by the Organisation for Economic Co-operation and Development (OECD). The importance of tax practitioners lies in the understanding of taxes, the tax system and risk aversion for the taxpayer (Organisation for Economic Co-operation and Development, 2008:14). The role of tax practitioners is to give advice to taxpayers. According to Sakurai and Braithwaite (2001:20) and Lubbe (2009:19) tax practitioners play a definite role in setting standards and identifying risks for taxpayers. The type of advice given by tax practitioners can range from aggressive exploiting advice to a conservative and low-risk approach. The type of advice offered can influence taxpayer behaviour and decision-making abilities (Lubbe, 2009:19). The interpretation (perception) of taxpayer requirements by tax practitioners is of utmost importance.

According to Stephenson (2006:1), the relationship between tax practitioners and taxpayers can lead to certain expectations and limitations for both parties and this study aims to examine the expectations and perceptions of taxpayers and tax practitioners in this professional relationship. Attention will be given to taxpayers' expectations regarding the service they receive from their tax practitioners. From the side of the practitioners, the perceptions of taxpayer expectations will be examined. The study will be conducted in rural South Africa.

Taking the above into consideration, there is a possible gap between the expectations of the taxpayers and the perceptions the tax practitioners may have of these expectations. Seeing that limited material is available in the South African context, this study aims to expand the field and understanding of these taxpayer expectations and tax practitioner perceptions.

The problem and purpose statements as well as the research objectives formulated for the study are presented below. Following these are the importance and benefits of the study as well as the limitations and assumptions made. This chapter concludes with the definition of key terms used in the study.

## **1.2 PROBLEM STATEMENT**

Stephenson (2006) states that a possible gap exists in taxpayer expectations and tax practitioner perceptions of these expectations. The possibility of a similar gap in rural South Africa will be examined in this study.

The most important expectation of taxpayers, when using the services of tax practitioners to handle tax matters, is accuracy. Additional considerations are minimisation of tax risk and legal prosecution, compilation of records and completion of tax returns (Stephenson, 2006:1). Time saving and tax minimisation are also focus points in Stephenson's study.

For tax practitioners, compliance is the main objective as well as the offering of specialised tax advice. The type of advice given by tax practitioners may influence taxpayer behaviour (Lubbe, 2009), whether it is aggressive or conservative. The tax practitioner's perception may be that aggressive or conservative advice offered is what the taxpayer expects. Changes in legislative requirements are one of the main concerns for tax practitioners.

Even though there is limited research on this subject in South Africa, a possible expectation gap lies in the mismatch of taxpayer expectations and tax practitioner perceptions of these expectations. Taxpayers expect accuracy and compliance whereas tax practitioners' objectives lean more towards the type of advice given and the interpretation of ambiguous tax legislation (Lubbe, 2009:20).

## **1.3 PURPOSE STATEMENT**

The main purpose of this study is to explore the possible gap between the expectations of taxpayers and the perceived expectations of tax practitioners about taxpayers' expectations regarding taxation services in rural towns in South Africa.

## 1.4 RESEARCH OBJECTIVES

To determine whether there is a gap between taxpayer expectations and tax practitioner perceptions of these expectations in rural towns in South Africa in terms of:

- what the taxpayer expects from the tax practitioner in terms of client advocacy and client motivation;
- what the tax practitioner thinks the taxpayer's expectations are in terms of type of advice, compliance and accuracy;
- additional insights regarding taxpayer expectations and tax practitioner perceptions of these expectations.

## 1.5 IMPORTANCE AND BENEFITS OF THE STUDY

This study aims to enlarge the academic field on the subject, while keeping the practical importance and benefits for the tax practitioner in mind.

There is a very limited amount of research about this specific topic in South Africa. The perception of taxpayers linked to compliance as well as the type of advice taxpayers expect from their practitioners was studied by Lubbe (2009). The expectations of taxpayers and the understanding of these expectations by tax practitioners have not been covered in detail in South Africa. Therefore, the study will make a valuable contribution in understanding taxpayer needs and what tax practitioners think the taxpayer need. It will also shed light on tax practitioners' approach in handling taxpayer matters and queries. The study intends to gain knowledge of a possible expectation gap between taxpayer and tax practitioner in rural towns in South Africa. The knowledge that such a gap does exist, will help tax practitioners to better understand the needs of the taxpayer and will enable the practitioner to render a better service. The taxpayers can be assured that their practitioner understands their needs and their expectations about the type of advice they would like to receive.

Another consideration that contributes to the importance of this study is the Tax Administration Act (28/2011). The tax practitioner profession is now being regulated in

South Africa in terms of the Tax Administration Act (28/2011). The details and implications of this act are still unfamiliar territory, but will surely have an impact on the relationship between the taxpayer and tax practitioner.

## **1.6 DELIMITATIONS AND ASSUMPTIONS**

### **1.6.1 Delimitations**

The study consists of an exploratory study in the form of a case study and semi-structured interviews, combined with a literature review on similar studies.

The following delimitations apply to this exploratory study:

- The target population is the taxpayers in their capacity as individual income taxpayer, making use of the services of a tax practitioner. Both parties will be given a set of questions based on the expectations of the taxpayers. Different results may be obtained using another target group.
- The study is conducted in rural towns in South Africa. The names of the towns cannot be disclosed due to ethical reasons. Different results may be obtained using another demographical area.
- The questionnaire was kept straightforward with the intention to grasp the expectations of the taxpayer regarding services rendered by the tax practitioner.
- Survey-based research has the limitation that the participants may be biased. The method of case study and semi-structured interviews that was used will also reflect the view of the participants at that point in time.
- The results of this study may not be generalised to other tax professions such as lawyers. A different code of conduct may apply.
- The study intends to test the specific expectations of taxpayers identified by similar studies. Even though other expectations from taxpayers may be pointed out by this study, only those highlighted by this study will be examined.

- Even though the Tax Administration Act (28/2011) was enacted by the time this study was completed, limited information regarding this Act's effect on taxpayer and tax practitioner relationships was available.
- Various definitions for rural exists. The definition used for this study may be limited, but is applicable to the study.

### 1.6.2 Assumptions

The following assumptions can be made in the study:

- that the participants are honest in answering the questions in the questionnaire;
- that the questionnaire is understandable and easy to interpret by the participants;
- that the participating tax practitioners are current and up to date with all changes in legislation;
- that taxpayers making use of tax practitioner services are generally in the higher-income tax brackets;
- that tax practitioners' advice to taxpayers is within the boundaries set by tax legislation in South Africa.

### 1.7 DEFINITION OF KEY TERMS

The definition of key terms used in this study is very important. When a definition is stated in the text, the reader must know exactly what it means in the context of the study. The key terms used are as follows:

**Accuracy:** The desire to have one's taxes prepared in compliance with the rules and regulations of the legislation in such a way to avoid coming under scrutiny from revenue authorities (Stephenson, 2006).

**Client advocacy:** Taking professional care of the client's best interests and the client wanting tax minimisation as main objective. This is a very limited definition of advocacy,

and it assumes that taxpayers all want to have tax minimisation regardless of the risks involved (Stephenson, 2006).

**Expectation gap:** “A discrepancy between what the client (taxpayer) expects and what the preparer (tax practitioner) thinks the client expects” (Christensen, 1992).

**Person:** A natural person including an insolvent estate, the estate of a deceased person and any trust (Section 1 of the Income Tax Act (58/1962)).

**Perception:** “The process by which people sense, select and interpret stimuli” (Lumsden & Lumsden, 2000:382) is the definition of *perception* that will be used in this study.

**Rural:** Regions with lower population density and larger amounts of undeveloped land than urban areas. (National Geographic Education).

**Tax minimisation:** “Efforts made to reduce the overall tax liability of the taxpayer through legal and authorised means” (Stephenson, 2006:5)

**Taxpayer compliance:** For the purposes of this study, the term means the complete, accurate and timely filing of required tax returns, the accurate calculation and reflection of amounts used in determining taxation liability while complying with the relevant Act at the time of filing the return. (Devos, 2008:3).

**Taxpayer:** For the purposes of this study, the definition of *taxpayer* in Section 1 of the Income Tax Act (58/1962) will be used, namely any person chargeable with any tax leviable under this Act and includes every person required by this Act to furnish any return (Section 1 of the Income Tax Act (58/1962)).

**Tax practitioner:** In the South African context, any natural person who provides taxation advice or who completes or assists any person with the finalisation of any document which must be submitted to the South African revenue services, must register as a tax practitioner with SARS. This requirement is in terms of Section 67(A) of the Income Tax

Act (58/1962), but there are also certain exclusions from the requirement to register as found in the same section of the Act.

**Time saving:** “Time savings occur when the taxpayer spends less time on all compliance-related matters by using a tax preparer than with self-preparation” (Stephenson, 2006:5).

The abbreviations used in the study are listed below.

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

<b>Abbreviation</b>	<b>Meaning</b>
SAICA	South African Institute of Chartered Accountants
SAIPA	South African Institute of Professional Accountants
SAIT	South African Institute of Tax Professionals
SARS	South African Revenue Service

## **1.8 OUTLINE OF THE STUDY**

The outline of the study is as follows:

- Chapter 2 contains a review of available literature regarding taxpayer expectations and tax practitioner perceptions of these expectations with an overview of the demographical area in question.
- Chapter 3 deals with the research design and methods used to sample, collect and analyse the data received from the proposed questionnaire and semi-structured interviews.
- The results from the above mentioned procedures are listed and analysed in chapter 4.
- Chapter 5 concludes the mini-dissertation with a summary of the findings.
- A full list of references used in the study as well as the appendices containing the questionnaires used to gather data closes off the study.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 INTRODUCTION

In identifying the problem statement of the study, it became apparent that there might be an expectation gap between what taxpayers expect from their tax practitioners and what the tax practitioners think the taxpayers expect. In this chapter, the expectation gap with reference to taxpayer expectations is examined. Taxpayer expectations have been measured and determined in other studies in other parts of the world (Stephenson, 2006). These studies will be reviewed to get a better idea of client expectations. Tax practitioner perceptions were also evaluated in the abovementioned studies and these will also be explored and evaluated in a South African context.

Taxpayers and their expectations and tax practitioners and their perceived expectations of taxpayer needs are covered in the rest of Chapter 2.

#### 2.2 TAXPAYER EXPECTATIONS

##### 2.2.1 Taxpayer – wide definition

The definition for *taxpayer* used in this study comes from Section 1 of the Income Tax Act (58/1962) and reads as follows: “any person chargeable with any tax leviable under this Act and includes every person required by this Act to furnish any return”. The definition was purposefully written in a wide and encapsulating manner by the legislator by using the wording “any person” and “any tax”. By widening the definition of the taxpayer, the legislator intends to include as many taxpayers as possible thus enlarging the tax base. The broad definition of taxpayer in the Income Tax Act (58/1962) holds a possible risk for the taxpayer. The danger for the uninformed taxpayer lies therein that they could be caught off-guard by this very wide definition, because “any tax” might mean that “any

income” can be taxed. The Income Tax Act (58/1962) goes on and specifies what should be taxed and included in income, but in terms of the definition there might be an unknown factor resulting in possible risk for the taxpayer.

Section 5 of the Income Tax Act (58/1962), provides that income tax must be paid annually in respect of the taxable income received or accrued to the natural person. This implies that a person needs to earn income before a taxpayer can come into existence. The person liable to pay the income tax mentioned in Section 5 must be registered as a taxpayer with SARS. Section 67 (1) of the Income Tax Act (58/1962) provides that any person that becomes liable to pay income tax or submit a return to SARS must register for income tax. The registration process is outlined in Chapter 3 of the Tax Administration Act (28/2011). Section 24 of the Tax Administration Act (28/2011) states that an income tax reference number will be issued once the person is registered. When a natural person residing in South Africa earns more than the tax threshold for that year through their worldwide income, then the person has to register as an income taxpayer.

For the purposes of the study, the focus will be on the individual taxpayer/normal person as the definition of taxpayer in the income Tax Act (58/1962) implicates. There is, however, more than one tax a natural person can be registered for or be liable to pay. This makes the tax spectrum very wide because an individual can be an income taxpayer, a registered Value Added Tax (VAT) vendor or liable to pay transfer duty. This study limits the scope of taxes to personal income tax.

### **2.2.2 Various tax bases leading to different types of taxpayers**

The tax bases and resulting taxpayers listed above are but three. There are 26 tax types under the administration of the South African Revenue Service. Each tax type is governed by a separate Act or Acts, which results in different taxpayers with a different set of rules, deductions and inclusions for each tax type. As stated above, the focus of this study is income tax for the personal income taxpayer, but this section indicated that there are various tax bases, which may confuse the uninformed taxpayer.

Section 5 of the Income Tax Act (58/1962) provides that an income tax is levied on the taxable income after the allowable provisions or deductions (subject to the 4th schedule of the Income Tax Act) have been taken into account. This section creates the tax base and resulting taxpayers for income tax in South Africa. The taxes levied must be paid over for the benefit of the National Revenue Fund, or the government, in other words.

Section 1 of the Value Added Tax Act (89 of 1991) also has a definition for Tax. The definition for Tax for the purposes of the Value Added Tax Act (89/1991) states the tax chargeable in terms of this Act. Because a tax is payable, the uninformed person might refer to the person liable as a taxpayer. The VAT Act (89/1991) further defines the resulting taxpayer as a VAT vendor. As with the Income Tax Act (58/1962) there is a registration process for vendors to be registered and a VAT registration number will be issued by SARS. Section 7 of the VAT Act (89/1991) is known as the charging section and also states that a tax should be levied and paid for the benefit of the National Revenue Fund.

The definitions in the Income Tax Act (58/1962) and the VAT Act (89/1991) carry some similarities. The wording of a leviable tax, the payment of the tax to the National Revenue Fund and registration processes is much the same. The charging sections of both Acts result in a taxpayer being registered. The use of the word *taxpayer* may result in a misperception because it can be linked to various tax types.

The effect this has on the natural person as a taxpayer can be immense. The understanding and possible tax burden hidden in any of the 26 taxes should be a big concern for any uninformed taxpayer. The understanding of a single tax is difficult, so much more the understanding of 26 taxes. Stephenson (2006:44) found that one of the reasons why taxpayers make use of tax practitioner services is lack of knowledge. The 26 taxes administered by SARS, each with its own Act and rules, can contribute to the lack of taxpayer knowledge.

### 2.2.3 The importance of the taxpayer in the community

As mentioned above, there are various taxes and tax bases in South Africa. In his Budget speech for 2012, Minister Pravin Gordhan promised growth of the country's economy, new infrastructure, security for its residents as well as the newly proposed national health insurance, (Department of Treasury, 2012). The annual Budget aims to balance government income for the coming year with the expenses that need to be paid to run the country. The income comes in the form of revenue from taxes levied on the residents of South Africa. Therefore, the taxpayer is of critical importance for a country like South Africa. The following taxpayers and tax bases are critically important for the wellbeing of South Africa: the personal income taxpayer, the company taxpayer and the VAT vendor, who all contribute 80.6% of the total tax revenue collected by SARS (South African Revenue Service, 2011).

Personal income tax is the Government's largest source of revenue. The personal income taxpayer contributes 33.7% of the total tax revenue collected by the Government (South African Revenue Service, 2011). According to the SARS (2011), the personal income taxpayer was responsible for the following contributions for the 2009 tax year:

- 4 223 017 personal income taxpayers were assessed, which is 93.4% of the tax base of income taxpayers;
- the tax liability that arose from this tax base, namely personal income tax, amounted to R168.1 billion in the 2009 tax year. This means that R168.1 billion was generated by taxing only one specific kind of taxpayer.

There were 466 050 registered and submitting VAT vendors in the 2010/2011 tax year. The income generated by the Government using the VAT tax base amounted to close to R200 million (South African Revenue Service, 2011).

Taking the above into consideration, the taxpayer in any form has a significant role to play in the community as well as the country. The taxpayer is largely responsible for payment of taxes needed to run the business of the country or province or local municipality as seen from a 2011 report by SARS. The country is made up of nine provinces. The taxpayers in

all nine provinces of the country contribute to the overall tax income the Government receives. This total income is then redistributed back to specific demographical areas in the form of expenditure as dictated by the Budget of the government of South Africa.

#### **2.2.4 Taxpayer needs**

Lack of knowledge, as mentioned above, is one of the reasons why taxpayers make use of tax practitioner services. The following list of factors, which are not exhaustive but applicable to this study, were found by Stephenson (2006:6) to be the driving force for taxpayers to enlist the services of tax practitioners:

- Increase in income: the higher the income for taxpayers, the higher the likelihood of using of tax practitioner services.
- Increase in age: the older the taxpayer, the more likely they will use a tax practitioner.
- Self-employment: if taxpayers are self-employed, the use of tax practitioners increases.
- Lack of tax knowledge: taxpayers do not know how to do their taxes.
- Complexity of tax returns: the more complex a tax calculation, the more probable it is that taxpayers will use practitioners.
- Lack of time to prepare tax returns: the taxpayer does not have the time to prepare their returns.
- Limiting risk of a revenue authority audit: the practitioners help and direct the taxpayers away from possible tax pitfalls.

This list is by no means exhausted, but other studies in this field showed similar expectations regarding taxpayers' use of tax practitioner services. Sakurai and Braithwaite (2001:2) found that taxpayers tend to take a back seat in the preparation and filing of the tax return when the return is prepared by a tax practitioner. Of the participants in their survey, 7% did not know whether the deductions claimed on their tax returns were legitimate. The participants in their study all used the services of tax practitioners. The assumption from Sakurai and Braithwaite's study is that taxpayers trust their tax practitioners to work accurately and honestly when completing and compiling their tax returns. Inaccuracy on behalf of the tax practitioner could lead to an audit and possible

penalties will result in failure on the part of the tax practitioner (Stephenson, 2006:1). According to Tan (1999:15), age, lack of knowledge and tax law complexity was positively associated with tax practitioner usage. The principal requirement for taxpayers when using tax practitioners is accuracy of information submitted to the revenue authorities (Collins, Milliron & Toy, 1990; Yankelovich & White, 1984).

Taxpayers need their tax practitioners to have a low-risk and no fuss accurate approach combined with honesty. Accuracy and honesty are attributes that are valued by taxpayers (Sakurai & Braithwaite, 2001:12). Accuracy seems to be the common factor identified in the above-mentioned studies, but is not the only reason why taxpayers use tax practitioners. These motivating factors seem to be loose ends that do not have any connection. Stephenson (2006) groups taxpayer requirements into three major divisions each with subdivisions relevant to the major requirements. The major requirements listed by Stephenson (2006) are:

- client motivation;
- client advocacy;
- tax minimisation.

Stephenson (2006) breaks client motivation into the following:

- accuracy;
- money saving;
- protection from revenue authorities;
- time savings.

Client advocacy and tax minimisation are discussed separately for the purpose of this study.

Each of these motivating factors is discussed briefly to give insight into why these factors are seen as motivation for taxpayers to use tax practitioners.

### **2.2.4.1 Client motivation**

#### **Accuracy**

The definition section of this study dealt with each of the motivating factors by defining each factor separately. The definition used for *accuracy* for the purposes of this study is the desire to have one's taxes prepared in compliance with the rules and regulations of the legislation in such a way to avoid coming under scrutiny from revenue authorities (Stephenson, 2006:4). Taxpayers make use of tax practitioner services to file accurate returns. According to Stephenson (2006:1), this is one of the main driving factors why taxpayers use tax practitioners.

#### **Money saving**

Money saving comes in the form of *tax saving* which is defined as efforts made to reduce the overall tax liability of the taxpayer through legal and authorised means (Stephenson, 2006:5). The taxpayer would like to pay the minimum amount of tax legally possible.

#### **Time saving**

*Time saving* occurs when the taxpayer spends less time on all compliance-related matters by using a tax preparer than with self-preparation (Stephenson, 2006:5). This definition for *time saving* is self-explanatory. It takes the taxpayer time to complete tax returns and attend to tax matters and time is a valuable commodity.

#### **Protection from revenue authorities**

Protection from authorities is not defined, because it can have a very broad meaning. Stephenson (2006) points out that taxpayers want protection from revenue authorities when they use tax practitioners. In the South African context, this is difficult to achieve because the Income Tax Act (58/1962) primarily holds the taxpayer responsible for all tax matters.

#### **2.2.4.2 Client advocacy**

*Client advocacy* is defined as taking professional care of one's client's best interests with tax minimisation for the client as main objective. This is a very limited definition of *advocacy*, and it assumes that taxpayers all like to have tax minimisation regardless of the risks involved (Stephenson, 2006:4). Taxpayers expect tax practitioners to make sure that their best interests are looked after and professional advice and care will be received for tax-related matters.

#### **2.2.4.3 Tax minimisation**

Tax minimisation should be as important for the tax practitioner as it is for the taxpayer, but should be within the boundaries of the Income Tax Act (58/1962). The definition for *tax minimisation* for this study is: "the efforts made to reduce the overall tax liability of the taxpayer through legal and authorised means" (Stephenson, 2006:5).

Additional requirements by taxpayers in terms of services rendered by the tax practitioner can be summed up as tax planning and advice, according to Stephenson (2006:5). The most important requirement is to avoid audit and poor communication with the revenue authorities.

The needs of the taxpayer as highlighted above can be summarised as accuracy of information filed, time and money saving, honesty in the preparation by the tax practitioner as well as looking after the best interests of the taxpayer. Tax minimisation is important to the taxpayer. Add to this the additional role of tax planning, advice or education and avoidance of costly audits with SARS.

### **2.3 TAX PRACTITIONER PERCEPTIONS**

#### **2.3.1 The demand for tax practitioner services**

Various studies have shown accuracy to be the main reason why taxpayers engage with tax practitioners. The avoidance of penalties and filing of accurate tax returns were

showed by Tan (1999:439) to be the reason for taxpayers using the services of tax practitioners. The lack of knowledge and competency by taxpayers contributes to the use of tax practitioners, according to Sakurai and Braithwaite (2001:11 - 12). According to Collins *et al.* (1990), the taxpayer wants accuracy and conservative tax advice. From these studies, it is apparent that accuracy is very important for the taxpayer and one of the main reasons why tax practitioners are used.

The taxpayer's lack of knowledge or competency regarding tax matters was identified by Sakurai and Braithwaite (2001:11 – 12) as a driving factor for the use of tax practitioners.

The South African population is not far behind the world trend in using tax practitioners to file their returns with SARS. According to a survey by SARS, not dated the registered tax practitioner list grew over the past three decades from 3% in the 1970s to 68% in the year 2000. With tax practitioners being regulated by legislation, this figure will surely increase.

The South African Revenue Service has made significant strides in collecting and improving the administration of taxes. The Tax Administration Act (28/2011) is a good example of this statement. The regulation of tax practitioners in South Africa aims to protect the taxpayer. The taxpayer now has peace of mind that a registered tax practitioner must have some form of tax education or experience. The Tax Administration Act (28/2011) states that a tax practitioner must belong to a governing body such as SAIPA, SAICA or SAIT, which in turn, has detailed requirements regarding tax education before becoming a member.

This is proof enough that the tax practitioner plays a vital role in the submission of taxpayer returns. Taxpayers rely heavily on tax practitioners to have peace of mind that their tax affairs are in order as well as done in terms of the law (Sakurai & Braithwaite, 2001:3).

Access to a sophisticated tax specialist is the answer for taxpayer needs regarding accuracy and peace of mind, according to Naidoo (2005:13).

### 2.3.2 The role and importance of the tax practitioner

In the previous sections, the taxpayers with their expectations were discussed. Because the study focuses on the relationship between the taxpayer and tax practitioner, the importance of the tax practitioner and their role in the relationship will be reviewed.

As indicated in the definition section, the Income Tax Act (58/1962) states in Section 67A that any natural person who completes and assists in the submission of documents and provides advice to any other person regarding any Act administered by the commissioner of SARS, must register as a tax practitioner. Tax practitioners play an important role in the tax system in South Africa.

According to Boccabella (1993:392), the role of the tax practitioner and the accountant was originally the same, but the role of the tax practitioners evolved. Boccabella (1993:392) is of the opinion that tax practitioners need to have specialised abilities with regard to the specialised service they render. The following should be added to the list of abilities a tax practitioner should have:

- providing tax opinions on structuring deals within companies, as well as opinions on taxation matters in financial statements;
- tax planning and insight into events that may lead to tax liabilities;
- Networking with other tax specialists to be informed of changes as well as interpretation of legislation and practical application of tax laws;
- representing and acting on behalf of the taxpayer with the regulating authorities.

These attributes combined with honesty of the tax practitioners are important to taxpayers.

Honesty and risk aversion are very important attributes for the taxpayer when selecting a tax practitioner. Sakurai and Braithwaite (2001:12) add that the ability to interpret tax legislation, skills in tax minimisation as well as early-warning systems for their clients as important attributes to have. They state that an aggressive or creative approach by the tax practitioner is the least popular attribute identified by taxpayers.

Honesty or integrity as identified by Sakurai and Braithwaite (2001:12) is not only an attribute the taxpayer looks for, but is now required by the Tax Administration Act (28/2011). Section 239 to Section 243 of the Tax Administration Act (28/2011) focus on the regulation of tax practitioners in South Africa. Section 240 deals with the registration process for tax advisors to become registered SARS tax practitioners. This section states that a tax practitioner must fall under the jurisdiction of a recognised controlling body. Various institutes applied for recognition as SARS practitioners and 10 of them were granted tax practitioner status. These recognised controlling bodies were identified in the Tax Administration Act (28/2011) and is listed as:

- a law society;
- Chartered Institute of Management Accountants (CIMA);
- Chartered Secretaries South Africa (CSSA);
- General Council of the Bar of South Africa;
- Independent Regulatory Board of Auditors (IRBA);
- Institute of Accounting and Commerce (IAC);
- South African Institute of Chartered Accountants (SAICA);
- South African Institute of Professional Accountants (SAIPA);
- SA Institute of Tax Practitioners (SAIT);
- the Association of Chartered Certified Accountants (ACCA).

Each of these controlling bodies has their own code of conduct or set of rules their members must abide to. The members need to be in good standing with their controlling body before they are allowed to register as a SARS tax practitioner. An explanation of the SAIPA code of conduct will be used to illustrate these rules. SAIPA has a code of conduct its members must abide to. The tax practitioner needs to be constantly aware of their actions to not overstep the ethical boundaries and code of conduct of their profession. The SAIPA handbook contains a code of conduct, which can be used as a guide for ethical rules (Venter, undated). Some of the ethical rules regarding tax practice listed in the code of conduct are:

- The aim of the Code of Conduct is to raise the level of professionalism and the quality of service rendered to the public, to enhance the credibility of the accountancy profession, and to increase the confidence of the public in the profession.

- A member rendering professional tax services is entitled to put forward the best position in favour of a client, provided the service is rendered with competence, does not in any way impair their integrity and objectivity, and is in their opinion consistent with current legislation.

Similar attributes for tax practitioners are stated in the code of conduct for SAICA and SAIT members. Integrity and honesty are very important attributes a tax practitioner must have. The taxpayer expects and the law requires that tax practitioners have these attributes. Tax practitioners need to be careful when giving advice to taxpayers because Section 241 of the Tax Administration Act (28/2011) paves the way for complaints against tax practitioners. The Tax Administration Act (28/2011) states that the controlling body must investigate the complaint against the tax practitioner and act according to the code of conduct of that controlling body. This could mean removal of the tax practitioner from the controlling body.

The main considerations for a tax practitioner when preparing a tax return on behalf of a taxpayer should be tax compliance. This entails ensuring the timeous filing of returns as well as correctness of information (Sakurai & Braithwaite, 2001:20). Additional services rendered by tax practitioners include the writing of tax and transactional opinions, tax planning and liaising with regulation authorities (Bocabella, 1993:392).

For the tax practitioner, the taxpayer is very important. It is in their best interests to identify the needs of the taxpayer and what the taxpayer expects in terms of advice and services. When these requirements from the taxpayer have been identified, the tax practitioner can render a higher standard, better quality service to the taxpayer. It is thus in both parties' interests that taxpayer needs are met.

### **2.3.3 Matching the needs of the taxpayer and tax practitioner**

Tax practitioners should be mindful of communicating accurate information to their clients, because accurate information could influence taxpayer behaviour (Schmidt, 2001:170). Good communication is the key to a successful relationship between the taxpayer and the tax practitioner. Poor communication can lead to misinterpretation of taxpayer needs and

ultimately result in failure to meet taxpayer expectations (Sakurai & Braithwaite, 2001:22). The expectations of accuracy and peace of mind of the taxpayer should be considered by the tax practitioner when giving tax advice.

The tax practitioner could relay a message of low risk regarding audit and penalty to the taxpayer, whereas in reality the risk is much higher than the tax practitioner suggested (Schmidt, 2001:170). These risks and type of advice could affect taxpayer behaviour and may result in a possible loss of the taxpayer as client (Hite & McGill, 1992:382). In giving near-truth advice, the tax practitioner could lose the client and risk suspension from their institution granting them tax practitioner rights if the code of conduct is breached.

The taxpayer needs to be assured that they have minimal risk combined with minimum tax payments as is legally permitted. The taxpayer is cautious if not afraid of the revenue authorities. According to Sakurai and Braithwaite (2001:18), the taxpayer will align themselves with the tax practitioner that has the same considerations in mind. An aggressive tax approach for the conservative taxpayer will not work. Christensen (1992:72) is of the opinion that the greatest mismatch between taxpayer and tax practitioner is that the tax practitioner underestimates the taxpayer's preference for conservative tax advice. The tax practitioner might want to be more aggressive in his approach advising taxpayers, whereas the taxpayer would like a more conservative approach.

The tax practitioner has an important role to play in the calculating, submission and professional advice given to taxpayers. It is important for the tax practitioner to know the needs of the taxpayer for them to render an effective service to the taxpayer.

## **2.4 DEMOGRAPHIC AREA**

The demographic area this study will focus on is rural South Africa. The formation of many of the towns considered in this study was due to the rich and fertile agricultural fields as well as the minerals found under the fertile soil that surround this area. A reliable water source was also needed for the early settlers to survive and therefore the settlements were located near major rivers in rural South Africa. The two main industries in this part of rural South Africa are mining and agriculture. The income earned by the taxpayer in these rural

areas mainly comes from the above-mentioned two industries and their supporting businesses. The assumption can be made that the management staff, the business owner and other higher-income earners are mainly responsible for the payment of taxes in these industries. The higher-income earner is also the person using the services of tax practitioners (Stephenson, 2006:4).

In other demographic areas, the taxpayer and their expectations may differ vastly due to different industries and circumstances.

## **2.5 SUMMARY**

In this chapter, the taxpayer and their needs were highlighted. The taxpayer existence and needs are important for the growth of South Africa and government expenditure. The taxpayer's biggest need was identified as accuracy of information submitted to revenue authorities. Another driving factor for taxpayers to make use of tax practitioners was risk aversion from possible legal battles with SARS and lack of knowledge of tax legislation.

The tax practitioner and their perceived expectations were also discussed in this section. The importance of using the services of a tax practitioner was discussed. The tax practitioner has an important role to play in the life of taxpayers in rendering a quality service. The tax practitioner is now regulated in South Africa and this requires tax practitioners to register as such with revenue authorities. Risk aversion is very important for the tax practitioner.

The demographic area where the taxpayer expectations and the tax practitioner services were rendered for the purpose of this study was discussed. Due to the nature of the study, not much more information can be given regarding the demographic area.

## CHAPTER 3

### RESEARCH METHODOLOGY AND DESIGN

#### 3.1 INTRODUCTION

The literature review of this study revealed a possible gap in the expectations of the taxpayer and the perceived expectations the tax practitioner has about these expectations. The aim of this study is to determine if similar findings, relating to the existence of such an expectation gap in a rural South Africa, can be achieved. The main research objective of this study is to determine whether there is an expectation gap between taxpayer expectations and tax practitioner perceptions of these expectations. The research will give an indication if such a gap exists in rural South Africa.

This chapter describes the overall research design and sampling methods to be used in this exploratory study. The techniques and methods used to analyse the data collected are described.

#### 3.2 DESCRIPTION OF OVERALL RESEARCH DESIGN

In the literature review phase, more knowledge was obtained on the problem statement, which is by definition an exploratory study (Saunders, Lewis & Thornhill, 2007:598). Babbie and Mouton (2001:75) state that new data collected in terms of a problem statement should be seen as an empirical study. This study was conducted with an empirical and exploratory nature. New data was collected to evaluate the problem statement contributing to the exploratory nature and existing data compiled in similar studies was reviewed to add to the empirical nature of the study.

The research is also seen as cross-sectional and done within a specified period. The taxpayer expectations and the tax practitioner perceptions of these expectations were evaluated at the specific time and not over an extended period of time (Saunders *et al.*, 2007:148).

Basic research is conducted to better understand the outcomes which are indicated in the research objectives (Saunders *et al.*, 2007:592). The basic research will give an indication if such a gap exists. Primary data will be collected by means of a semi-structured interview. Primary data collection focuses on data that is specifically collected for the specific study that will be conducted (Saunders *et al.*, 2007:607).

According to Robson (2002:178), a *case study* is defined as a strategy for doing research, which involves empirical investigation of a phenomenon in its real-life context using multiple sources of evidence. The case study as a form of research will give valuable data to answer the why, what and how of a study in exploratory research (Saunders *et al.*, 2007:139).

The use of a case study in the form of semi-structured interviews, alternatively named qualitative research interviews, will give access to qualitative data (Saunders *et al.*, 2007:319). The semi-structured interview gives the interviewer the opportunity to 'probe' for answers. This characteristic of semi-structured interviews gives the interviewer access to primary qualitative data (Saunders *et al.*, 2007:319).

A similar study was conducted by Stephenson (2006) in Kentucky in the United States of America. This study will not be an exact replication, but rather an extension of Stephenson's study. The study was conducted to expand the knowledge in the field of taxpayer and tax practitioner relations. The questionnaire compiled by Stephenson was adapted to the South African context and altered into a semi-structured interview questionnaire format to have access to qualitative data. By using semi structured interviews, the interviewer can guide the interviewee when a question or statement is unclear. The semi-structured interviews shed light on the needs of the taxpayer and the perception the tax practitioner has about the taxpayer needs.

### **3.3 SAMPLING**

The study focuses on the expectations of the taxpayers and the perceptions the tax practitioners have about these expectations. The sample size is small and the study was

only conducted in rural towns in South Africa and is therefore not representative of South Africa as a whole.

### **3.3.1 Target population and units of analysis**

The units of analysis are the beings that the researcher wants to draw conclusions on (Terre Blance & Durrheim, 2002:32). The units of analysis in this study are taxpayers that make use of tax practitioner services, as well as the tax practitioners rendering these services. The respondents that participated in the structured interviews came from two different rural towns in South Africa. The only limitation that was placed on the type of taxpayer was that all respondents had to answer with income tax principles in mind.

The structured interviews took place in the rural towns between 15 and 16 July 2013. These towns in rural South Africa were selected for convenience and cost as well as the diversity in income they offer. The prominent mining and agriculture industries in the rural parts of South Africa are the basis for various income streams. The diversity of income streams offered by the different industries gave more substance to the study.

### **3.3.2 Sampling method and sample size**

The sample size was affected by a number of circumstances, which included time and resource constraints, as well as the characteristics of collecting the qualitative data. Between three and five respondents per tax practitioner were selected for the semi-structured interviews. Four tax practitioners were used to create diversity of advice given. The sample size is relatively small and is not intended to be generalised for all taxpayers making use of tax practitioner services. Sampling by means of convenience and purposive sampling were used as methods to gather data for this exploratory study (Saunders *et al.*, 2009:234). Convenience sampling was used because of the ease of access to taxpayers and relating tax practitioners in the demographic area (Saunders *et al.*, 2009:589). Purposive sampling is used to choose participants in a way that will meet the research objectives (Saunders *et al.*, 2009:237). These methods were combined to gather primary data to reach the objectives of the study.

### 3.4 DATA COLLECTION

This section discusses at the method of data collection that was used. The design of the semi-structured interview and relating questionnaire will be discussed in detail and the pre-testing of this questionnaire will conclude the section.

#### 3.4.1 Method of data collection

To collect primary data for analysis of the expectation gap that could exist between taxpayer expectations and tax practitioner perceptions, the semi-structured interview method in the form of a questionnaire was used. This method was used mainly because of the following reasons:

- semi-structured interviews can be used to understand the relationships between variables (Saunders *et al.*, 2007:313);
- semi-structured interviews are seen as exploratory studies (Saunders *et al.*, 2007:313);
- questionnaires are a good method to collect primary data (Saunders *et al.*, 2007:354);
- questionnaires yield qualitative data (Leedy & Ormrod, 2005:179).

Examples of the questionnaires used in the collection of the primary data by means of a semi-structured interview can be found in Appendix B and C of this study.

In semi-structured interviews, the interviewer has a set of pre-determined questions and themes which are to be discussed with the interviewee. These types of interviews are primarily used to gather qualitative data to be analysed. The analysed data should then be used to answer the research objectives and dealing with the problem statement of the study. Semi-structured interviews are also used to determine why a certain field is studied and are therefore suitable for exploratory studies (Saunders, Lewis & Thornhill, 2009:314). In an interview or one-on-one scenario, the interviewer can probe the interviewee for answers. Probing for answers has the positive effect of better understanding the reason why a certain answer is given. The one-on-one scenario of a semi-structured interview can also add depth and significance to the data obtained from a respondent. The interviewee's

reactions and body language can lead to more probing from the interviewer (Saunders *et al.*, 2009:315). The participants in this study were given the right to decline an answer to questions. The interviewer should be able to form some indication as to why the respondent declined an answer, in order to answer the research objective.

Semi-structured interviews are widely used to understand the relationship between variables (Saunders *et al.*, 2009:313). The variables in this study are the taxpayer and what they expect from their tax practitioner. On the other hand there are the tax practitioner and their perceptions of what the taxpayer's expectations are. The questionnaire used by Stephenson was adjusted and applied not only to the South African context, but also to suit the needs of a semi-structured interview.

### **3.4.2 Measurement by means of a questionnaire**

The questionnaire and semi-structured interview were used as measuring instruments with the goal to reach the research objectives. The questionnaire was of reasonable length and would take approximately 15 minutes to complete. Stephenson developed a model to evaluate the expectation of the taxpayer and the same prototype was used in this study. No new model was developed.

The questionnaire was reviewed by the Faculty of Economic and Management Sciences at the University of Pretoria. It was found to be within the prescribed guidelines of the Department of Taxation of the faculty and the ethical guidelines of the department. Because taxation is a sensitive matter, special care was taken to ensure that the questions asked were generic and applicable to this study.

The questionnaire was based on the principle that the taxpayer and tax practitioner were given a set of questions. The taxpayers were asked questions to determine their expectations. The tax practitioners were asked questions to determine their perceptions about the taxpayer expectations. These questions were also inverted and addressed to the respondents. A comparison could then be drawn between the answers provided. This method will help to establish whether there is a gap between taxpayer expectations and tax practitioner perceptions of these expectations.

The next section deals with the questions asked, followed by an explanation of why these questions were asked and what the questions intended to achieve. The questionnaire that was used to determine taxpayer expectations is discussed first. Tax practitioner perceptions of these expectations and the questionnaire used to determine these perceptions are then discussed.

A full copy of the questionnaires used to gather the data with semi-structured interviews can be found in the appendix section of this study. The questions listed in Appendix B deal with the taxpayer and the measurement of their expectations. Appendix C deals with the tax practitioner and their perceptions regarding taxpayer behaviour and decisions. The following discussion will give insight into why the participants were asked certain questions.

### **3.4.3 Taxpayer questionnaire**

The taxpayer questionnaire was drawn up to determine taxpayer expectations regarding tax practitioner use. The questionnaire started off with the demographic details of the taxpayer followed by the factors of client advocacy and motivation.

#### ***3.4.3.1 Taxpayer demographics***

The participating taxpayers were asked a set of demographic questions to gather general taxpayer information. This section dealt with questions such as income source, knowledge of deductions claimed, taxation knowledge, education and income earned in rand value. These questions were asked to get a snapshot of the respondent's circumstances and level of knowledge on taxation. The demographic questions were used as a conversation starter with the taxpayer. The details obtained in this part of the questionnaire were also important in terms of the study. In Appendix B, the full set of questions is outlined.

### **3.4.3.2 Taxpayer - Client motivation**

Semi-structured interviews were used for the taxpayers and tax practitioners. The questionnaire started with client motivation and the taxpayers were asked why they made use of a tax practitioner to handle tax matters. The taxpayers were asked to give their opinions on these factors and the questions were used to confirm these opinions. In terms of the definition of *client motivation*, the taxpayer was asked if accuracy, time and money saving and protection from revenue authorities were the reason that they use tax practitioners. The questions relating to accuracy, time and money saving and protection from revenue authorities were asked to affirm their opinions gathered above. These questions are listed in the taxpayer questionnaire, which can be found in Appendix B of this study.

### **3.4.3.3 Taxpayer - Client advocacy**

As discussed in the literature review, client advocacy and tax minimisation are the main objectives of the tax practitioner. Even though Stephenson's (2006) opinion is that client advocacy leads to tax minimisation, this study made a distinction between client advocacy and tax minimisation. The reason for the distinction between these objectives is the study of Melissa Lubbe (2009). Her study points out that the type of advice offered by a tax practitioner was acceptable to the taxpayer regardless of whether the advice was aggressive or conservative. This study intends to further explore the effect client advocacy has on taxpayer expectations. Client advocacy is very important in the South African context, hence the distinction between client advocacy and tax minimisation. The questions focused on the above-mentioned objectives.

*Client advocacy* is defined as taking the best care of one's client's best interests as tax practitioner. The taxpayer's opinion of client advocacy was asked with the focus on tax planning and structuring of tax transactions. The taxpayer was asked whether they thought the tax practitioner acted in their best interest and interpreted unclear legislation to their advantage. The questions listed in Appendix B aimed to confirm the taxpayer's point of view regarding client advocacy.

#### **3.4.3.4 Taxpayer - Tax minimisation**

Tax minimisation was the last part of the taxpayer questionnaire. The saving of money in the form of tax minimisation was shown by other studies (Stephenson, 2006) as a main motivator for taxpayers to use tax practitioners. The respondents were asked whether they agreed that tax minimisation was a motivator for tax practitioner use. Their opinions were reinforced by the questions listed in Appendix B.

#### **3.4.3.5 Taxpayer - Changes in legislation**

The last question as provided in Appendix B was asked to establish whether the taxpayer were aware of the changes in legislation concerning tax practitioners and the regulation of the industry. The Tax Administration Act (28/2011) aims to protect the taxpayer and the question was asked to determine whether the taxpayer knew about this protection or the implication it might have on their relationship with their tax practitioner.

The questions put to the tax practitioners to determine their perceptions are discussed next.

### **3.4.4 Tax practitioner questionnaire**

#### **3.4.4.1 Tax practitioner - Demographics**

The demographic details of tax practitioners were used as a start to the discussion, but these details are also important for the purposes of the study. The demographic questions addressed to the tax practitioner were asked to determine whether the tax practitioner had an established client base and had experience in the field of taxation services. The study intended to interview four practitioners.

Tax practitioners were asked the questions listed in Appendix C to get more detail about the number of taxpayers that used of their services and to add substance to the study. The tax practitioners had to indicate their current qualification and profession as well as time-

related questions such as time spent on dealing with tax matters on behalf of clients. These questions were asked to determine whether the tax practitioner had a reasonable tax client base, to be representative of the chosen demographics.

#### **3.4.4.2 Tax practitioner - Client advocacy**

*Client advocacy* was defined in the definition section as taking professional care of the client's best interests with tax minimisation as main objective. According to Stephenson (2006:4), client advocacy was one of the main reasons for the existence of an expectation gap. The questionnaire intended to gain more information on the tax practitioner's point of view regarding client advocacy. The tax practitioner's opinion was asked about how they would interpret unclear tax legislation in terms of client advocacy. A set of questions were then asked to support their opinion. A choice of three answers was offered to the tax practitioner, namely "strongly agreed", "neutral" and "strongly disagree". The choice made by the tax practitioner would support their opinion. The questions asked to confirm the taxpayer's stance on client advocacy and ambiguous interpretation of legislation are listed in Appendix C of this study.

All of the building blocks of client advocacy for the purposes of this study were defined in the definition section. These factors were addressed in the questionnaire to the practitioners to determine what they perceive the taxpayer expects when using a practitioner. In the questionnaire the practitioners were asked to think as a taxpayer client when answering these questions.

#### **Accuracy**

*Accuracy* is defined as the desire to have one's taxes prepared in compliance with the rules and regulations of the legislation in such a way to avoid coming under scrutiny from revenue authorities (Stephenson, 2006:5). The tax practitioner was asked what they thought the motivation was for taxpayers to use tax practitioner services. The driving factors such as accuracy, protection from authorities and money and time saving were mentioned and the practitioner was asked whether he agreed that accuracy was the main reason why taxpayers made use of tax practitioner services.

The tax practitioner were asked certain questions to confirm their opinion of taxpayer expectation in terms of accuracy and these questions can be found in Appendix C of the study.

### **Money saving**

Money saving as motivation for taxpayers to use tax practitioners has been indicated in literature studies over the last 20 years. Tax minimisation is a form of money saving and therefore Stephenson (2006) grouped these two factors together. For the purposes of this study, money saving is dealt with separately due to various changes in the world economy. Money saving can be an important motivation for the taxpayer in a tight economic environment. Tax practitioners were asked if they agreed that taxpayers used their services for the purpose of money saving. These questions in Appendix C relating to money saving were asked to determine if the tax practitioner believed that money savings was a motivator for taxpayers to use tax practitioner services.

### **Protection from revenue authorities**

Protection from revenue authorities was assessed in the questions mentioned in Appendix C. The protection from revenue authorities was examined because taxpayers sought protection from SARS through their tax practitioners.

### **Time saving**

Time saving was added as a deciding factor when choosing a tax practitioner, because of the opportunity cost of time. According to Stephenson (2006), the higher the income, the higher the opportunity cost of time. The opportunity to use time for family and friends instead of preparing taxes is an example of the opportunity cost of time. It is thus important for taxpayers to save time on tax preparations. The questions relating to time saving are listed in Appendix C to this study.

#### **3.4.4.3 Tax practitioner - Tax minimisation**

Tax minimisation as main objective was mentioned in the definition of client advocacy. Stephenson (2006) states that client advocacy and tax minimisation go hand in hand. For the purposes of this study, tax minimisation was handled as a separate motivation for taxpayers to use the services of tax practitioners. The tax practitioner was asked to give their thoughts on tax and money saving as reasons why taxpayers made use of tax practitioner services. The opinion of the tax practitioner was reinforced by the questions as listed in Appendix C.

#### **3.4.4.4 Taxpayer - Client motivation**

In Stephenson's (2006) study, client motivation or the expectations of the taxpayer were listed as accuracy, time and money saving and protection from revenue authorities. Accuracy of information sent to the revenue authorities on behalf of the taxpayer was highlighted as the most important driver and client motivator to use a tax practitioner.

The questionnaire concluded with two questions not originally mentioned in the Stephenson study. Tax practitioners were asked the 23rd question to determine whether the lack of knowledge regarding tax matters on behalf of the taxpayers could be seen as a motivator to use tax practitioner services. This question may broaden the field of study for the taxpayer/tax practitioner relationship in future studies. If the answer to the question was positive, then future studies could examine the lack of taxpayer knowledge in more detail to establish if it could be seen as a key motivator for tax practitioner use.

#### **3.4.4.5 Tax practitioner – Changes in legislation**

The last question put to tax practitioners dealt with changes in legislation. The tax industry in South Africa is now regulated by The Tax Administration Act (28/2011) and it is imperative for tax practitioners to know the implications of this Act as it may affect the relationship with their taxpayer client.

The data obtained using the semi-structured interviews will be analysed using the methods discussed in the following section.

### 3.5 DATA ANALYSIS

The data was analysed using the deductive data analysis method. Relevant existing theory and literature create a framework for specific research questions and objectives. This framework is then tested with the co-operation of the respondents of another study (Saunders *et al.*, 2009:489). The Stephenson study (2006) developed a framework for questions to test the relationship between the taxpayer and tax practitioner. This framework was replicated and adjusted for the South African context. In Chapter 2, the factors of the framework were shown to be client advocacy, accuracy, time and money saving and protection from revenue authorities. Each of these factors was then formulated into specific interview questions. Stephenson developed a scale by using these factors and combining them into a formulated questionnaire. The same scale was used in this study to analyse the data obtained.

The method used to obtain the data was semi-structured interviews. The taxpayers and tax practitioners that participated were given an open-ended question relating to one of the identified factors. The respondent had to give their opinion of the matter through discussion and was then asked to confirm or deny his opinion by a fixed set of questions. The important part was to get the respondent's opinion of subject matter before they could be influenced by the set of fixed questions.

Analysis templates for each of the three factors listed were created by Stephenson (2006). These factors are client advocacy, tax minimisation and client motivation. The responses from the participants were then inserted into these templates to create an analysable data set on which semantic data analysis could be conducted (Saunders *et al.*, 2009:492).

The responses of all the participants were then analysed and compared to draw conclusions from the interviews and questionnaires.

### 3.6 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE RESEARCH DESIGN

Reliable conclusions from a data set can only be achieved if the data can be validated. The quality and rigour of the research design were ensured by employing various techniques to minimise respondent bias and to ensure the validity of the semi-structured interviews.

The validity of a study relates to the degree to which the data collection method accurately measures the intended attribute (Saunders *et al.*, 2009:603). If the questions used in the questionnaire in the semi-structured interview answered the research attributes, then the study had internal validity (Saunders *et al.*, 2009:373). The questionnaire was drawn up using a similar study done by Stephenson (2006). There was an existing model that was tested and ensured further validity. Other literature was also reviewed to confirm the validity of the questions used in the questionnaire.

Reliability is important when working with qualitative research. According to Saunders *et al.* (2009:328), *reliability* refers to other researchers obtaining the same results using the same questionnaire even if the respondents are biased. The same results will be difficult to obtain by another researcher, because the respondents voiced their opinion at a certain point of time and in a certain demographic area. Saunders *et al.* (2009:327) see this as a concern relating to reliability because the findings will be difficult to replicate by another researcher. This is an inherent limitation of the study as mentioned in the introduction.

The semi-structured interview method that was used to obtain the data has the benefit of the interviewer being present. This further assists in the validity of the method used, because the interviewer can explain and assist the interviewee when there is uncertainty regarding a specific question. This also helped participants to consistently interpret a question in the way the study intended the question to be interpreted. According to Saunders *et al.* (2007: 367), this improves reliability.

### 3.7 ETHICS

Because the study was done through the Faculty of Economic and Management Sciences at the University of Pretoria, ethical clearance from the faculty was compulsory. Additional ethics for this study included informed consent forms signed by participants, anonymity of participant identities as well as confidentiality of data collected. The participants completed the questionnaire on a voluntary basis and could stop participation at any moment (Saunders *et al.*, 2007:181).

## **CHAPTER 4**

### **RESULTS**

#### **4.1 INTRODUCTION**

The purpose of this chapter is to analyse the feedback received from the participants during the semi-structured interviews. The main objective of this study is to determine there is an expectation gap between the taxpayer and tax practitioner in the South African context. The objectives of client motivation and advocacy were probed through the questionnaire and semi-structured interviews. This chapter analyses the data obtained to determine whether there is an expectation gap in rural South Africa.

Two parties were involved in the answering of the questionnaire and semi-structured interviews namely, tax practitioners and taxpayers. In the semi-structured interviews, the taxpayers and tax practitioners were asked for an opinion regarding a certain objective and then they had to validate their opinion by answering the pre-set questions relating to the objective. The chapter is broken down into the format that was used in the questionnaire. The demographics of the taxpayers and tax practitioners are discussed followed by client advocacy and client motivation. Tax minimisation is discussed as a subsection of client advocacy. Client motivation is divided into four categories namely, of accuracy, time and money saving and protection from revenue authorities. The participants' opinions about a certain objective are discussed combined with the answers given in the questionnaire.

#### **4.2 CORRELATION BETWEEN TAXPAYER EXPECTATIONS AND TAX PRACTITIONER PERCEPTIONS OF THESE EXPECTATIONS**

The study is evaluated by comparing the answers given by both taxpayers and tax practitioners. The opinions of both parties were more important than the answers to the actual questions themselves for the purposes of this study. Even though it is difficult to compare one person's opinion with another person's, the answers to the questions will

assist in formulating their opinions. By analysing the factor-specific questions, a better and more understandable opinion can be formulated. The questions asked will be analysed first, followed by the formulation of the general opinions of the participants. The formulation of the opinions will also be used to summarise the opinions of the participants.

### **4.3 GENERAL FEEDBACK FROM QUESTIONNAIRE**

The questionnaire was accepted by the participants in a positive way, with a significant interest in the outcome of the results. Both tax practitioners and taxpayers were eager to participate in the study and gave full co-operation in the answering of the questionnaire.

The participants were initially cautious to participate in the questionnaire because the subject of taxation is a sensitive matter for most taxpayers. The tax practitioners were weary of the feedback the taxpayers might give about the type of service and advice they gave. Longstanding client relations and the risk of harm to these relationships came to the fore initially from both groups of participants. The risk for the participants lay in the anticipation that the questionnaire might identify flaws in their relationship and that the questionnaire might cause a breakdown of this relationship. The participants were ensured that the questionnaire would not in any way influence the relations between both parties. These fears were laid to rest by ensuring both parties that the questions asked were linked to previously identified factors. Only these factors would be dealt with by the questionnaire. Once these fears were put to rest, the participants eagerly participated and added some substance not revealed in the study done by Stephenson (2006).

The questionnaire was based on a similar study by Stephenson (2006) as mentioned previously. The questionnaire was adjusted to examine the expectation gap between the taxpayers and tax practitioners in the South African context. The questionnaire dealt with the same factors as those of the Stephenson study, namely demographics, client motivation and client advocacy. Other factors that might lead to taxpayers' use of tax practitioners could have been highlighted by this study. The participants emphasised the lack of taxpayer's knowledge as a big motivator for tax practitioner use. This is a possible field for further examination.

The specific feedback deals with the demographics of the study, details of accuracy, time and money saving and protection from revenue authorities.

## **4.4 SPECIFIC FEEDBACK FROM QUESTIONNAIRE**

### **4.4.1 Demographics**

In the demographic sections, the taxpayers and tax practitioners were asked to give details about themselves or their firms to determine how much these parties knew of each other. Details such as age, gender, income and education were dealt with in the taxpayer questionnaire where tax practitioners were asked about time spent on tax matters and qualifications. All of these factors may have an influence on the relationship between the parties.

#### ***4.4.1.1 Taxpayer's demographics***

The group of taxpayers consisted of 15 participants. The taxpayers were asked to indicate which income items they included in their tax returns for the previous year of assessment. There were various income streams to choose from and more than one source could be selected. A variety of income types were selected by the taxpayers and a summary of the findings is listed below:

- The four most prominent income sources that have been included in taxpayer returns in the past year were income from an own business, interest on bank accounts, investment income and employee salaries.
- Income from own business or partnerships topped the list with seven taxpayers indicating this as source of income.
- Six participants selected investment income, interest from bank accounts and employee salaries as sources of income on their returns.
- Five participants earned a bonus or commission from their employer.
- Three participants were farmers and included farming income on their tax returns as a source of income.
- Another three added dividends as a source of income.
- There were two people earning pension income.

- Another two participants earned income from a second salary.
- Income from the letting of real estate was included by two participants while the profit made on the selling of goods was also included by two participants.
- Of 15 participants, 11 included more than one source of income on their tax return.
- Only one participant indicated an income from a trust.
- Another participant included income from cash payments from side jobs.
- Even though some of the participants earned pension income, all of the participants were actively involved in contributing to the economy and tax base of South Africa.

In the study by Stephenson (2006:13) it was shown that taxpayers trusted their tax practitioners so much that they did not even know which deductions were claimed against their taxable income. The question relating to claimed deductions aimed to deal with this issue in the South African context. The four most common deductions claimed by taxpayers in South Africa were listed for the taxpayers to select. The resulting answers are as follows;

- Despite the fact that most of the participants were not entirely sure which deductions were claimed on their tax returns, 10 out of 15 taxpayers selected medical expenses as a claimed deduction.
- 7 and 4 participants provided for old age by contributing to retirement annuities and pension funds respectively. In South Africa these, contributions are allowed as tax deductions.
- Only 4 out of 15 participants received a travel allowance and kept a logbook of business kilometres for tax deduction purposes.

The taxpayers were asked to indicate their tax knowledge out of a possible five options ranging from expert to completely clueless and ignorant. Just more than half of the taxpayers classified themselves as having average tax knowledge. Nobody that participated regarded themselves as experts or more knowledgeable than most in tax matters. The answers to the questions relating to tax knowledge were as follows:

- Out of the group of participants, only eight indicated average tax knowledge.
- Four of the participants were relatively uninformed regarding their tax matters.
- The last three admitted that they were completely clueless about taxation or had no tax knowledge. This is also the reason for most of the taxpayers making use of tax

practitioners. Lack of knowledge was highlighted as one of the fields that can be added to the field of study because of the taxpayers' responses to this question.

Out of the 15 taxpayers, 10 were married while only one was married in community of property. This is an important question because people married in community of property will be taxed differently from those married out of community of property. Five participants were not married.

The 2012 tax table for income tax was used to determine the taxpayers' income for the year. With an increase in income, there is an increase in the use of tax practitioners (Stephenson, 2006:4):

- The participants indicated income in all of the brackets except in the lowest income bracket.
- 9 out of 15 participants indicated that their yearly income exceeded R220 000 per year.
- There were two participants who did not want to give information regarding the amount of income earned during the year.
- Four participants indicated an income in excess of R550 000 for the year.

The level of education in terms of further study was dealt in this study as follows:

- A single taxpayer indicated that a master's degree was obtained through further study.
- Three participants had a bachelor's degree as highest education.
- Out of 15 participants, five indicated a diploma as highest level of education.
- The highest qualification for most of the participants was matric.
- There were no doctorates and no participant that did not finish school.

The question asked to determine whether taxpayers had been audited by SARS were answered in the negative by 11 out of 15 participants. Only four taxpayers interviewed were audited by SARS, but their tax practitioners handled the SARS requests on their behalf.

Just more than 50% of the interviewees were male, while the females represented fewer than 50% of the population.

The age grouping of the participants were fairly well spread out through the identified range. The ranges were spaced evenly with a 10-year gap between groups. The age range started at 18 years because that is the when most people start working and earning a salary and therefor becomes a taxpayer. The breakdown of the selected age groupings was as follows:

- Only one participant indicated an age between 18 and 25.
- Up until age level 54, there were two participants in each age grouping.
- There were three taxpayers in the 25 to 35 groups.
- Of the 15 interviewed, seven participants were older than 55.
- Three fell into the group of older than 65. This is important because a secondary rebate on tax payable comes into play for the elderly in South Africa.

All of the taxpayer participants were connected to a specific tax practitioner. The tax practitioners knew all the demographic details of the taxpayers, because they handled their tax matters and submitted returns on their behalf. It is imperative for the tax practitioner to have access to this information from the taxpayer, otherwise accurate advice cannot be given. The focus on the tax practitioner demographics shifted to determine the amount of experience they had through years in business or tertiary qualifications also to determine to which governing body the tax practitioner belonged.

#### **4.4.1.2 Tax practitioner demographics**

Four tax practitioners participated in the interviews for this study. All four were accountants or auditors with accounting-type firms. Of the four participants, there were two chartered accountants CA(SA) and two professional accountants (SAIPA). Being registered members of these institutions, the participants all had an education of some sort in the field of taxation. The participants were asked to indicate what form of tax education they received and the responses were as follows:

- Only one of the tax practitioners had specialised tax education in the form of a master's degree in taxation.

- The other three relied on tax knowledge obtained through studies for their bachelor's degrees, courses done through their governing bodies or experience through years of handling tax matters.
- All four of the practitioners were already registered with SARS as tax practitioners.
- One of the tax practitioners was registered with the SA Institute of Tax Practitioners and another used the services of Tax Suite to assist in tax opinions for clients.

The tax practitioners that were affiliated with CA(SA) spent notably less time on tax matters than their equals registered with SAIPA as can be seen from the following answers provided:

- The professional accountants noted that between 61 and 80% of their time is spent on tax matters.
- The CAs spent 21 to 40% of their time on tax-related matters. This is due to the CAs spending their time on audits and preparation of financial statements for commercial clients rather than filing personal income tax returns.

Experience gained through time in dealing with tax matters was mentioned earlier. Two of the tax practitioners had been giving tax advice for more than 20 years. The other half of the tax practitioners had been giving advice for between one and 10 years.

Three quarters of the participants interviewed, signed off on more than 300 tax returns per year. The other practitioner only signed off on a hundred or so tax returns on behalf of clients. The reason for this was purely because of a smaller base of clients due to only recently opening an accounting firm. If there were more clients, then more returns would have been signed off and filed by the practitioner.

#### **4.4.2 Client motivation**

##### ***4.4.2.1 Objective – Client motivation***

Client motivation is seen as the reason why taxpayers make use of tax practitioner services. One of the specific objectives of this study is to determine whether there is an expectation gap in the field of client motivation. Stephenson's study broke down client

motivation into four categories, namely accuracy, money saving, protection from authorities and time saving. According to Stephenson's (2006:5) the taxpayer expects the above-mentioned factors from their practitioners and these can be seen as motivation for taxpayers to use tax practitioners to handle tax matters.

Client motivation cannot be limited to only four taxpayers' categories, but this study is based on the model of the Stephenson study. The taxpayers' opinions on why they used tax practitioners were probed and elaborated through the questions asked to them. The question posed to the tax practitioners was why they thought taxpayers made use of tax practitioners and their services. This was asked to determine the general opinion of the taxpayer with regard to client motivation. The opinions of both parties and a summary of the answers provided for the specific factors are listed below.

#### ***4.4.2.2 Questions and graphs to confirm opinions – client motivation***

Taxpayers and tax practitioners were asked the same questions to determine whether there was an expectation gap in their relationship. The tax practitioners were asked to answer the questions as they think the taxpayers would have answered. The resulting data was analysed and compared by using a bar graph as represented in figures 1 - 7 below. The four factors relating to client motivation are listed with the questions used to deal with these factors. A graph with the responses of the participants will accompany the questions with a summary of the findings relating to a specific question.

#### **Accuracy**

The following questions were asked to determine the taxpayers' expectations and the tax practitioners' perceived ideas regarding taxpayer expectations of accuracy:

1. The taxpayer would rather pay a little more in taxes and make sure he/she has not broken any law.
2. The taxpayer would rather be protected from paying penalties to SARS than save money on his/her taxes.
3. The taxpayer would rather be protected from penalties than save money on his/her tax preparation charges.

The graph displayed in figure 1 represents the analysed data obtained from the questionnaire. The taxpayers' and tax practitioners' answers were compared and displayed in the graph below. The interpretation of the results in the graph is explained below the graph.

**Figure 1: The relation between taxpayer expectations and tax practitioner perceptions of accuracy as motivator for practitioner use**

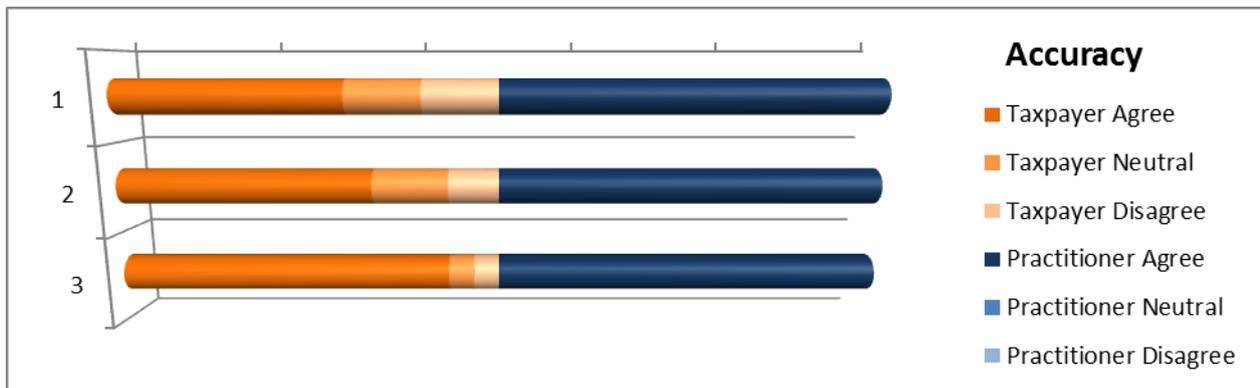


Figure 1 represents the taxpayers' answers in shades of orange. The tax practitioners' answers are represented by shades of blue. The participants had three options to choose from when they answered the questionnaire. These options were "Strongly Agree", "Neutral" and "Strongly Disagree". The taxpayers had different answers to the questions relating to accuracy and therefore different shades of orange are displayed in the graph. The tax practitioners all agreed with the questions asked and therefore there is only one shade of blue linked to "Strongly Agree". The analysed data and resulting graphs will establish if there is an expectation gap between the participants. It is clear from this graph that there is the possibility of an expectation gap regarding accuracy of information submitted to SARS. Not all the taxpayers agreed that accuracy was a motivator for tax practitioner use, whereas all the tax practitioners agreed that they thought accuracy was a big motivator for taxpayers when using practitioners.

The same method of using a graph to explain the analysing of the data that was used in figure 1 will be used to establish further expectation gaps in this study.

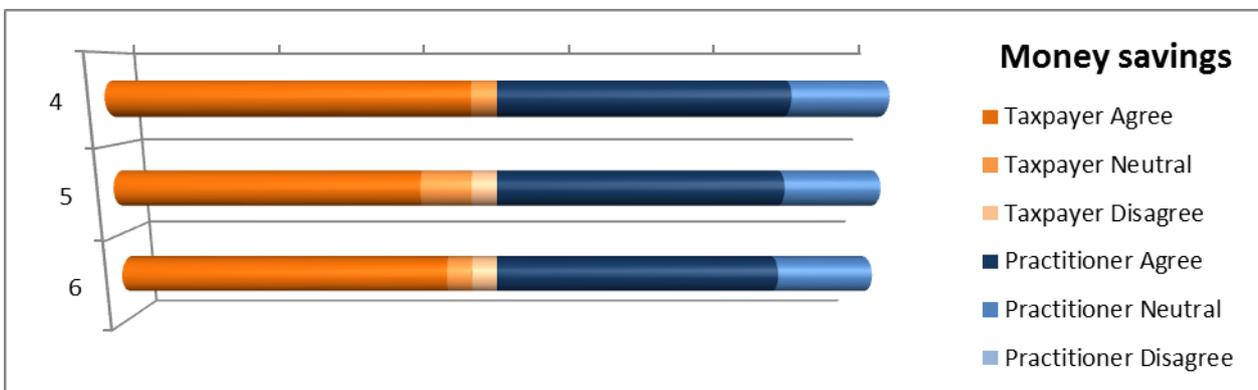
## Money Saving

Money saving is seen as a big motivator by Stephenson (2006:16). Questions were asked to determine if money saving was such a big motivator for the taxpayer in the South African context. The tax practitioners were asked the same question to determine if they thought money saving was a big enough reason for taxpayers to use practitioners to handle their tax matters. The questions dealing with money savings are as follows accompanied by the graph showing a possible gap in this expectation:

4. Even though the taxpayer pays a fee, he/she comes out ahead financially with a tax professional.
5. The taxpayer has his/her taxes professionally prepared because it saves him/her money overall.
6. The taxpayer's tax professional saves him/her money.

The analysed data relating to money saving is represented in the graph in figure 2. The graph shows the gap in the expectations of the taxpayers compared with the perceptions of the tax practitioners on money saving.

**Figure 2: Money saving as motivator for taxpayers to use tax practitioner services**



It is evident from the graph that money saving might cause an expectation gap between taxpayer and tax practitioner. The gap seems to be limited though, as all parties would like money saving as mutual benefit to this relationship. The big difference in the participants' opinions will be discussed further in the opinion on client motivation section.

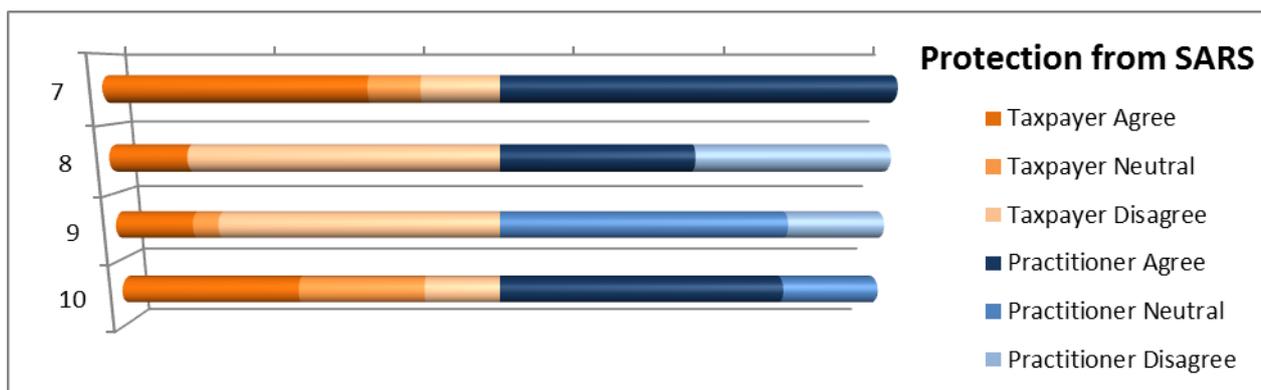
## Protection from revenue authorities

As mentioned in the literature review section, *protection from revenue authorities* could not be defined for this study. Defining *protection from revenue authorities* may severely limit the opinion of the taxpayers. Even without defining this motivating factor, both taxpayers and tax practitioners had to answer the questions relating to protection from revenue authorities. The questions aimed to establish if an expectation gap relating to protection from SARS does exist. The questions with an explanatory graph are as follows:

7. The taxpayer has his/her taxes professionally prepared so that if SARS questions it, he/she won't be the one who gets in trouble.
8. If the taxpayer paid enough to have his/her taxes prepared, he/she could end up without a tax liability.
9. SARS won't prosecute the taxpayer personally if his/her tax professional is wrong about something.
10. The taxpayer has his/her taxes professionally prepared so that he/she knows he/she never has to face SARS.

Figure 3 deals with the results relating to protection from SARS. The taxpayers and tax practitioners have very different opinions on protection from revenue authorities. A clear expectation gap is visible in this graph.

**Figure 3: Taxpayer expectation of protection from SARS by their practitioners**



In figure 3 the existence of an expectation gap is evident. There were very few participants who had the same opinions and these are shown in the different colours reflected in the graph. Some participants believed their practitioners should protect them at all costs, whereas the tax practitioners stood by the letter of the law by stating the taxpayer will be

the responsible person in the end. This subject will be discussed later in the opinion section.

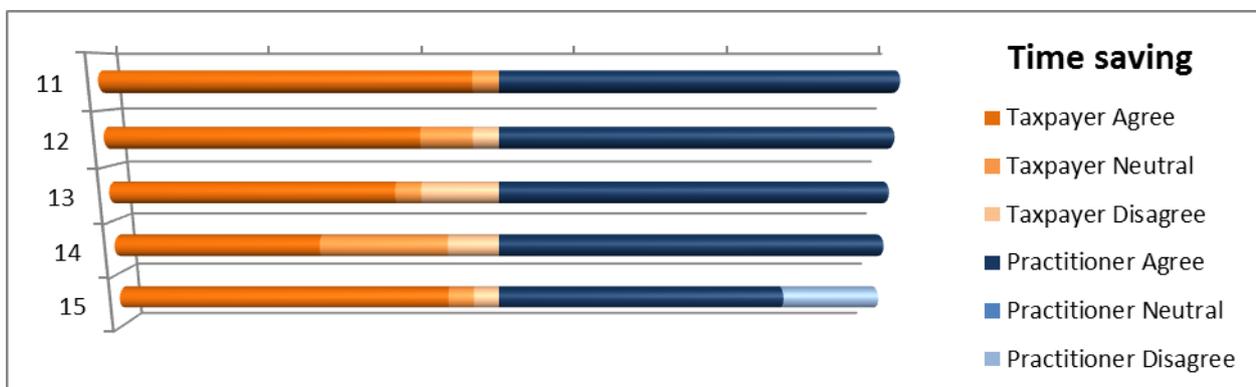
### Time saving

One of the objectives of the study is to determine what the taxpayer expects in terms of client advocacy. Time saving as factor is an important part of client advocacy. The taxpayer could use their valuable time to attend to other important facets of life such as family. This is one of the reasons listed by Stephenson (2006:16) why taxpayers use tax practitioners. The five questions relating to time saving are listed as follows:

11. The taxpayer has his/her taxes professionally prepared and although it costs him/her money, it saves him/her valuable time.
12. The taxpayer has his/her taxes professionally prepared because he/she doesn't have the time to do it him-/herself.
13. It takes too long to do tax returns. The taxpayer would rather let a professional handle it.
14. It is okay to pay a little more to have a professional prepare taxes as long as it doesn't take the taxpayer's time.
15. The taxpayer does not have the knowledge to complete and file his/her own tax return.

Figure 4 contains a graph with the results on the question about time saving. The taxpayer and tax practitioner responses on time saving were analysed and compared to determine if an expectation gap exists regarding the factor of time saving.

**Figure 4: Taxpayer expectations of time saving compared with tax practitioner perceptions of this subject**



Both parties agreed that time is a valuable commodity and therefore also agreed that time saving is an important factor. Both parties granted that mutual benefit came from time saving, but the topic is discussed further in the opinion section.

#### ***4.4.2.3 Opinion of parties on client motivation***

##### **Taxpayer opinion – client motivation**

The taxpayers that participated in the questionnaire were asked why they made use of tax practitioners. Even before being prompted in the direction of accuracy, time and money saving and protection from revenue authorities, they mentioned their motivation for tax practitioner use was along the same lines. The answers provided by the taxpayers relating to client motivation were as follows:

- The one factor that stood out above the four focus points was protection from revenue authorities. Most of the participants were actually fearful of SARS and possible legal prosecution if there were any problems with their tax matters.
- Money saving in the form of paying the least amount of tax possible was also a much discussed factor. The taxpayers felt that there was a heavy burden in the form of levies on fuel, etc. like and these levies needed to be paid with a net salary that had already been taxed. Therefore, they wanted to reduce their income tax bill to the minimum.
- Most of the participants agreed that they used practitioners for accuracy purposes. They believed that when using a practitioner, the information submitted to SARS would be accurate and it would reduce the risk for complications regarding their tax matters. Four of the participants felt that their practitioners were specialists in the field of taxation and that was why they used their practitioners. By the tax practitioners applying their specialised knowledge to the taxpayers' tax matters, the taxpayers believed that their returns would be accurate and would result in a clean slate at SARS.
- Time saving was not high on the motivation list for taxpayers regarding why they used tax practitioner services. About 50% agreed that the lack of time was a motivator, but not that big a reason for them using practitioners. The other half agreed that time was a valuable commodity, but they had enough time to prepare

and file the returns themselves. They mentioned that they would be able to make time to complete these returns, but do not have the knowledge to do the preparations and calculations to file their returns.

- One factor that arose from all the participant replies was lack of knowledge. Stephenson's (2006) study focused on accuracy, time and money saving and protection from revenue authorities and this study aims to duplicate Stephenson's study in the South African context. Even though this study focuses on the four factors mentioned above, it is not limited to these factors. Question 15 dealt with lack of knowledge specifically and most of the respondents replied in the positive. Although accuracy and protection were important motivators to the taxpayer, the most important motivator that was identified through this study was lack of tax knowledge. Lack of knowledge as reason why taxpayers used tax practitioners could be a subject for future exploration.
- Two of the participants mentioned that they used a specific tax practitioner due to historical reasons. The tax practitioner knew the family on a personal level and the practitioner handled the previous generation's tax matters, planning and structuring of transactions. Because this tax planning affected the children and their tax matters through inheritance, the taxpayer (second generation) stuck to the same tax practitioner. The continuity and fluency of staying with the same practitioner were convenient for the taxpayers.

To summarise, the taxpayers felt that the lack of tax knowledge was the main reason why they used practitioners to handle tax matters. The taxpayers agreed that client motivation in the form of accuracy, time and money saving and protection from revenue authorities were important factors to consider. The study did not deal with the factor of lack of knowledge directly, but along with protection from authorities these factors were the most important motivators for taxpayers to use practitioners. The perceptions of the tax practitioners will now be discussed.

### **Tax practitioner opinion – client motivation**

The four factors identified and linked to client motivation for this study were validated by the tax practitioners. They all agreed that accuracy, time and money saving and protection

from revenue authorities were some of the reasons why taxpayers used tax practitioners to handle their tax matters. The practitioners elaborated and highlighted protection as an important factor as follows:

- One of the tax practitioners voiced what most of the practitioners implied. Taxpayers seek peace of mind regarding their tax matters. They do not want tax surprises and therefore trust their practitioners with their tax matters. They fully trust the practitioner and that the advice given is within the boundaries of the law and in the best interests of the taxpayers.
- Another tax practitioner was of the opinion that taxpayers used practitioners due to the high tax burden in South Africa. As mentioned earlier, there are 26 different taxes administered by SARS alone. Taxes such as fuel levies and toll fees on the roads are not administered by SARS, but fit the definition of a tax. Personal income tax and the additional tax burden are carried by the taxpayer and therefore they use a professional to reduce their income tax by all means legally possible. Income tax is one of the taxes where there are possibilities to reduce the tax burden. The tax practitioners should therefore do all in their power to reduce the taxpayer's tax bill.
- The third tax practitioner was of the opinion that taxpayers used their services because the Tax Administration Act (28/2011), forced taxpayers to use registered tax practitioners to submit their returns. According to this practitioner, taxpayers already knew the content and implications of the new Tax Administration Act (28/2011) and therefore they used a tax practitioner to handle all tax-related matters.
- The administration burden on taxpayers rather than time or money saving was a big reason why taxpayers used practitioners, according to the same practitioner.
- The last practitioner had a strong opinion that his clients did not know how to do their own taxes and that this was the reason why they used him to do it.
- The practitioners thought that taxpayers were capable of handling their own tax matters, but not confident enough to do so. They were of the opinion that their clients had sound tax knowledge.

Various additional opinions were voiced by practitioners and these could lead to further study opportunities. The main reasons why taxpayers used practitioners, according to the

practitioners, were to have peace of mind regarding their tax matters; as well as lack of knowledge; also to pay the least amount of taxes possible.

#### **4.4.2.4 Conclusion – client motivation**

This section dealt with taxpayer motivation for tax practitioner use. The factors of accuracy, time and money saving and protection from SARS were discussed. The taxpayers and tax practitioners had different opinions regarding these motivation factors and it is evident that an expectation gap exists. The taxpayers mentioned lack of knowledge as their main consideration when using a tax practitioner while the practitioners believed the taxpayer sought peace of mind and trust. The extent of this gap is not quite clear and could be dealt with in further study, but the existence of an expectation gap is visible.

#### **4.4.3 Client advocacy**

##### **4.4.3.1 Objective – client advocacy**

One of the objectives of this study is to determine what the taxpayer expects in terms of advocacy and motivation. In the definition section *client advocacy* for tax practitioners was defined as having the best interests of one's client in mind when giving tax advice, including tax minimisation as objective. A specific section of the interview dealt with client advocacy for taxpayers and tax practitioners. The tax practitioners' opinion in terms of client advocacy was tested by asking how they would structure tax transactions and interpret unclear tax legislation, when dealing with taxpayers' tax matters. On the other hand, the taxpayers were asked how they would like their tax practitioner to interpret unclear tax legislation. Should the tax practitioner interpret the advice to the benefit of the taxpayer or should the advisor approach the matter with caution? The opinions were given and confirmed with a set of questions directed at both parties. A breakdown of the answers to the specific questions and a summary of the broad opinions obtained follows below.

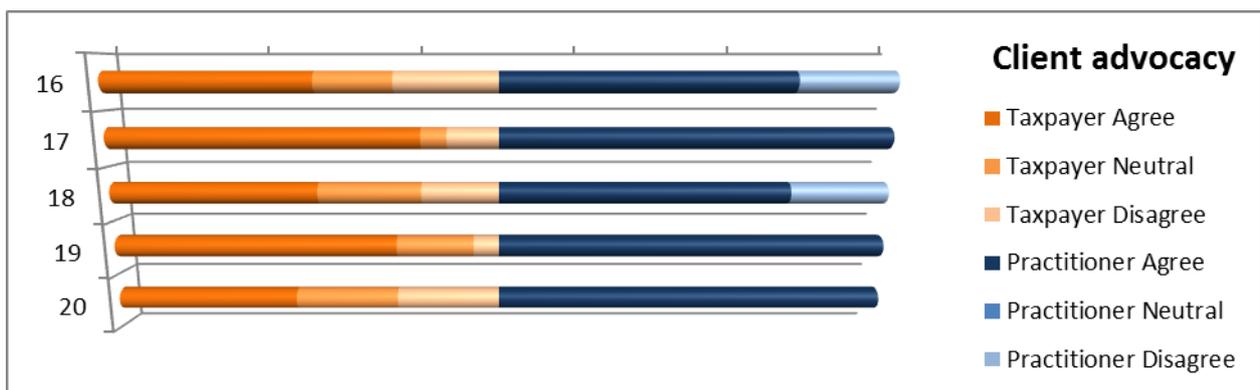
#### 4.4.2.2 Questions and graphs to confirm opinions – client advocacy

The limited definition of *client advocacy* for this study was kept in mind when drawing up the questions to deal with advocacy. The definition states that taking professional care of one’s clients’ best interests with tax minimisation is the main objective. The set of questions directed at the taxpayers and practitioners was aimed at establishing if an expectation gap exists in this field. The questions used to obtain the data on client advocacy and a graph detailing the answers and analysis of these answers follows below.

16. The taxpayer has the right to structure transactions in ways that yield the best tax result, even if the law is unclear in this regard.
17. It is important to use trends in the law by trying to establish a pattern of more favourable treatment for the taxpayer and then extending this pattern to the taxpayer’s position.
18. The tax practitioner always interprets unclear/ambiguous laws in favour of the taxpayer.
19. Where no judicial authority exists with respect to an issue, the taxpayer feels that he/she is entitled to take the most favourable treatment.
20. The tax practitioner feels he/she should apply ambiguous tax law to the taxpayer’s benefit.

Figure 5 deals with the subject of client advocacy. The responses of both parties were compared to establish if Stephenson’s results on client advocacy could be reached in the South African context.

**Figure 5: Taxpayer expectations and tax practitioner perceptions of client advocacy**



The same principles that were used to establish an expectation gap regarding client motivation will be used to determine if an expectation gap relating to client advocacy exists. The parties both answered a pre-set questionnaire with identified factors

concerning client advocacy. Their broad opinions were also asked in terms of what client advocacy meant to them. These broad opinions were supported by the factor-specific questions. The same method of analysis by using a graph with different colour codes for different responses and different parties will once again be used to establish if an expectation gap exists.

The graph in Figure 5 indicates that not all the taxpayers thought that they received the most favourable treatment in terms of client advocacy from their tax practitioners. Most of them wanted their practitioners to interpret unclear legislation to their benefit as long as the risk was quantifiable. The tax practitioners thought that client advocacy was very important for good relations with their taxpayer clients. They all thought that tax advice and decisions should be in favour of taxpayers as long as they were within the boundaries of the law. A full summary of the expectations and perceptions of both parties follows.

#### ***4.4.3.3 Opinion of parties on client advocacy***

##### **Taxpayer opinion – Client advocacy**

The taxpayers answered questions relating to client advocacy and their opinions of client advocacy are listed below. All of the participants agreed that they expected their tax practitioners to act in their best interests.

- The taxpayers wanted to pay the least amount of taxes possible as long as this was within the boundaries of current legislation. Their tax practitioner had to display client advocacy when handling their tax matters.
- Regarding unclear legislation, most of the participants would like to have the benefit of the unclear legislation being used to their advantage, as long as the risks involved could be quantified.
- They trusted the tax practitioner to give them accurate advice and to explain the risks involved when dealing with unclear legislation.
- Four of the taxpayers felt that irrespective of the unclear nature of the risk related to the benefit, they wanted their tax practitioners to interpret this situation to their advantage. This was confirmed when the taxpayers were asked if they would like

their practitioners to give them advice to pay the least amount of tax possible, despite the risks involved.

Taxpayers would like their tax practitioners to act in their best interests. With the exception of a few participants, all the taxpayers wanted the benefit of unclear legislation being used to their advantage. If the risks linked to unclear legislation could be quantifiable, then the benefit should befall the taxpayer.

### **Tax practitioner opinion – Client advocacy**

All the practitioners except one were cautious to give advice on unclear legislation. They preferred to get professional tax advice from external sources when dealing with unclear tax matters. Their responses were as follows:

- All four agreed that the best interests of the taxpayer should be the main priority when giving advice, but three opted to get specialised advice on unclear legislation to ensure that their client was looked after properly.
- The risks involved in the option chosen by the practitioner, after consulting with specialists in the tax field, should be communicated to the taxpayer when discussing the matter. Only with informed consent from the taxpayer, would the tax practitioner opt to take benefit from the unclear tax situation.
- A single practitioner was confident in his abilities in unclear circumstances and that the benefit should befall the taxpayer regardless of whether the legislation is unclear or not.

The tax practitioners agreed that client advocacy kept them in business. If they did not look after the best interests of their clients, they stood to lose the taxpayer as client. They were sceptical that advice on tax matters could not always be interpreted to the advantage of the taxpayer. Unless specialised opinions and knowledge had been obtained from external sources, they would refrain from advising clients to take the benefit of unclear legislation. Client advocacy is not necessarily tax minimisation in the eyes of the practitioner.

#### **4.4.3.4 Conclusion – client advocacy**

Client advocacy on behalf of the tax practitioner and the expectations of the taxpayers to have their best interests looked after go hand in hand. If the taxpayer expected that the tax practitioner would act in their best interests, then the tax practitioner should do so. The taxpayers' answers indicated diverse opinions. Some felt that ambiguous legislation should be interpreted to their benefit while others opted for a more cautious approach to advice. But they all agreed that they expected their practitioner to act to their benefit with limited risk involved. The tax practitioners mostly thought that benefit should be taken for the taxpayer, but limited themselves to risk by getting specialised feedback on unclear tax matters. The graph indicates that an expectation gap does exist, but the extent of the gap regarding client advocacy seems to be less visible than the gap regarding client motivation.

#### **4.4.4 Tax minimisation**

##### **4.4.4.1 Objective – tax minimisation**

As was mentioned earlier, tax minimisation and client advocacy were handled separately in this study. Tax minimisation is one of the major factors for taxpayers to consider when choosing a tax practitioner. Even though accuracy is the most important motivator, Lubbe (2009:15) is of the opinion that up to 25% of taxpayers choose tax practitioners to minimise their tax bill. The questions dealing with taxpayer expectations of tax minimisation follow accompanied by a graph with the analysis of the answers given by both parties.

##### **4.4.4.2 Questions and graph to confirm opinions – tax minimisation**

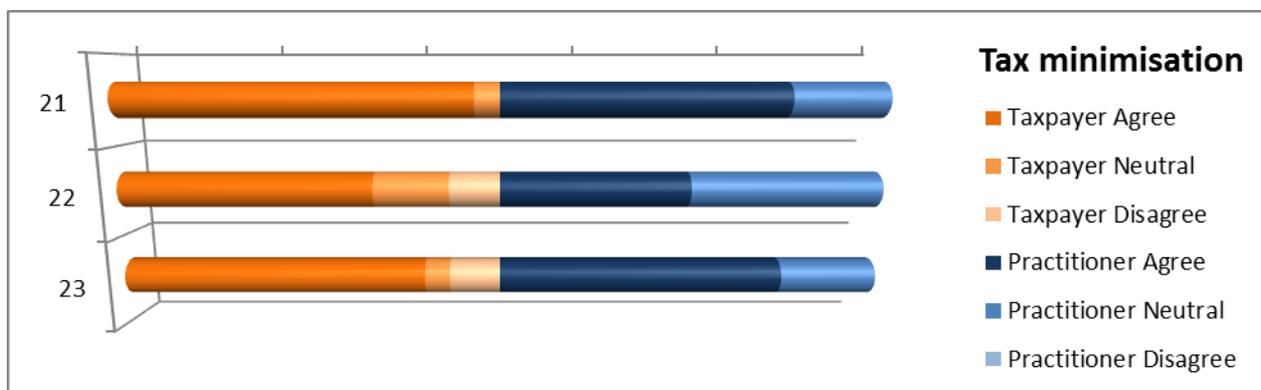
In the definition section, *tax minimisation* was defined as efforts to reduce the overall tax liability to the taxpayer through all legal and authorised methods. The following questions were asked to confirm that tax minimisation was an expectation from taxpayers who used tax practitioners to file their returns. The perceptions of the tax practitioners regarding tax

minimisation through all methods were also tested with the same questions. The responses are explained in figure 6. The questions used to gather the data are as follows:

21. When a tax practitioner examines a tax return, he/she tends to point out to taxpayers reasonable precautions they could have taken which would have contributed to minimising their tax liability.
22. Generally speaking, a tax practitioner's loyalties are first with the taxpayer and then with the tax system.
23. The tax practitioner believes it is important to encourage taxpayers to pay the least amount of taxes possible.

Tax minimisation and client advocacy were separated for the purposes of this study. Figure 5 shows that an expectation gap exists in terms of advocacy. Figure 6 shows that tax minimisation should indeed be a separate motivating factor for taxpayers. The graph clearly shows a gap in the expectations of the taxpayers compared with the tax practitioners' perceptions of tax minimisation. If all the participants answered in the same manner, then only two colours would have been displayed in the graph.

**Figure 6: The expectations and perceptions of taxpayers and practitioners of tax minimisation**



Again the method of different colours for different answers for both parties was used. The questions probed tax minimisation and tax practitioner loyalty to the tax system. It is apparent from the graph in figure 6 that there is an expectation gap when tax minimisation comes to mind. In this case, it was the tax practitioners who were not uniform in their opinions of tax minimisation. The taxpayers had differing opinions, but most agreed that tax minimisation was an objective their practitioners should have when handling their matters.

#### **4.4.4.3 Opinion of parties on tax minimisation**

##### **Taxpayer opinion – tax minimisation**

It is obvious that for the taxpayers, tax minimisation was an objective when choosing a tax practitioner. The question is to what lengths they will go to achieve tax minimisation. A summary of the responses follows below:

- All the taxpayers agreed that tax minimisation was one of the main reasons why they made use of tax practitioner services.
- Some of the taxpayers noted that their practitioners should do all in their power to reduce their tax bill regardless of the consequences. Ambiguous legislation should be interpreted to the benefit of the taxpayers, especially to reduce tax.
- Most of the taxpayers thought that their tax practitioner would point out where and how the taxpayer can pay the least amount of tax possible.
- The most taxpayers thought that their practitioners' loyalty lies with the client and not the tax system and therefore they would advise the taxpayers to pay the least amount possible.

##### **Tax practitioner opinion – tax minimisation**

The tax practitioners were of the opinion that tax minimisation had limitations. Although they agreed that taxpayers wanted to pay the least amount possible, the practitioners were not willing to do anything illegal or too risky on behalf of taxpayers. A summary of the responses were as follow:

- All of the tax practitioners agreed that they wanted the taxpayer to pay the least amount of tax possible within the boundaries of the law.
- They would also advise their taxpayers accordingly whether it be with the assistance of specialised advice or not.
- The practitioners were not willing to compromise on sound principles and the boundaries of the law in reducing a client's tax bill.

Tax practitioners agreed that tax minimisation was important and that the taxpayer carried a heavy tax burden. They were not willing to give tax advice to minimise taxpayer liability on the illegal or borderline ambiguous requests from taxpayers.

#### **4.4.4.4 Conclusion – tax minimisation**

In reviewing the graph used to examine the possible expectation gap regarding tax minimisation, it can be concluded that there is indeed a gap in the expectations of the parties. Both agreed that tax minimisation was important and that practitioners should strive to meet this anticipation of taxpayers. The extent of tax minimisation should be well within the boundaries of the current legislation. A few taxpayers wanted tax minimisation regardless of the tax practitioners' orientation.

#### **4.4.5 Changes in legislation**

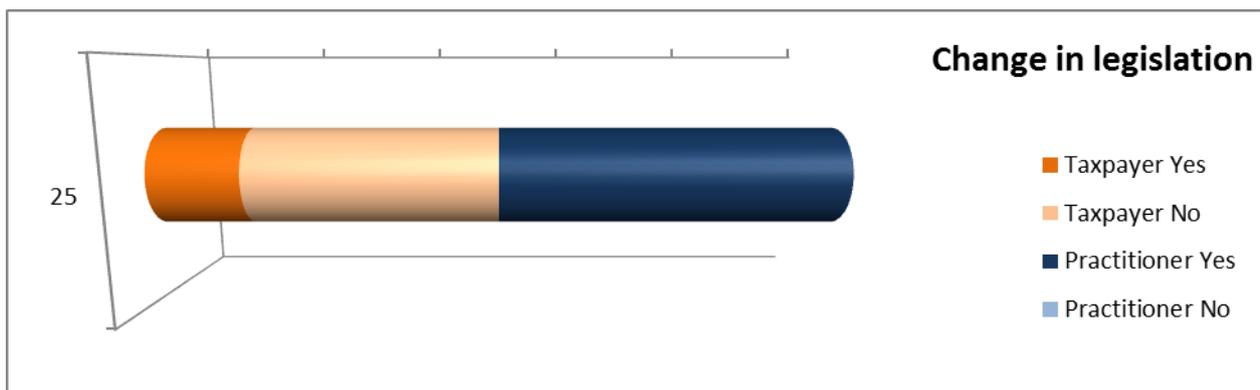
The Tax Administration Act (28/2011) has been governing the tax practitioner profession since 2012. The taxpayers and tax practitioners were asked if they were aware of the proposed changes in legislation relating to the regulation of the above-mentioned Act. This act may have far-reaching consequences for both practitioners and taxpayers using practitioners.

The practitioners and taxpayers were all concerned that the Tax Administration Act (28/2011) might have a negative impact on their relationship. There was no question asked to voice an opinion regarding the proposed changes because it was still very unfamiliar territory for all parties involved. The only question asked was whether the taxpayers and tax practitioners were aware of such legislation. The lack of knowledge regarding tax matters was again evident with taxpayers answering in the negative to the question. All of the practitioners were already registered as tax practitioners with SARS. They all belonged to at least one of the regulatory institutions prescribed by SARS. The question relating to the changes in legislation will follow with the answers given by the participants in the form of a graph. The question relating to knowledge on the Tax Administration Act (28/2011) is as follows:

24. Are you aware of the proposed legal changes relating to the regulation of tax practitioners in South Africa?

The last graph showed that the changes in current legislation were still unknown by most of the taxpayers. This graph is very important for tax practitioners. The tax practitioners may have an opportunity to educate taxpayers and therefore optimise the service they can render to taxpayers.

**Figure 7: Awareness of changes in legislation impacting the taxpayer and tax practitioner relationship**



The majority of taxpayers were not aware of any changes in legislation. They were informed by their practitioners that a new proxy should be signed by the taxpayer if the tax practitioner were to handle taxpayer matters. There was no indication or understanding by the taxpayer that this action was due to the changes brought by the Tax Administration Act (28/2011). All of the practitioners knew about the changes and were registered with SARS as tax practitioners. They were not that aware of the effect The Tax Administration Act (28/2011) would have on their relationship with their taxpayer clients.

#### 4.5 SUMMARY

In chapter 4, the data collected by means of semi-structured interviews and a questionnaire was analysed. The taxpayer and tax practitioner demographics were discussed. The major factors of client advocacy and client motivation were investigated and compared to determine if there was an expectation gap between the parties involved. The main objective of this study is to determine if such a gap exists and the possibility was discussed in this chapter. Chapter 4 indicated that expectation gaps regarding these factors do exist in rural South Africa. Changes in legislation were also dealt with in this

chapter. The impact of the Tax Administration Act (28/2011) was still unclear to both parties. Chapter 5 concludes the study with a summary of the findings analysed in chapter 4.

## CHAPTER 5

### CONCLUSION

#### 5.1 INTRODUCTION

The main focus of this study is to determine whether there is an expectation gap between the taxpayer and tax practitioner in rural South Africa. Various studies have pointed out that such a gap may exist in other parts of the world. Client advocacy and client motivation were identified by these studies as the major factors present in a taxpayer and tax practitioner relationship. These factors were discussed and analysed in the previous chapters, but will be summarised in this chapter by combining the literature review, data collection and analysis to come to a conclusion.

The objectives of this study can be listed as follows:

- to determine what the taxpayer expects from the tax practitioner in terms of client advocacy and client motivation;
- to determine what the tax practitioner thinks the taxpayer's expectations are in terms of type of advice, compliance and accuracy;
- to gain additional insights regarding taxpayer expectations and tax practitioner perceptions of these expectations.

The conclusion will look at all the relevant factors identified in this study as well as the methods used to analyse the expectations and perceptions relating to these factors. The results will determine whether the research objectives have been met and a summary of findings will conclude the study.

## 5.2 SUMMARY OF MAIN FINDINGS

### 5.2.1 Client motivation

Client motivation was discussed to determine why taxpayers make use of tax practitioner services. Previous studies indicated that taxpayers sought accuracy, time and money saving and protection from revenue authorities when using tax practitioner services. All of these factors were defined, discussed and found to be valid reasons why taxpayers made use of practitioner services. The following list describes the expectations and perceptions of both parties and provides insight into additional requirements as the results pointed out:

- The tax practitioners thought that the taxpayers wanted trust and peace of mind regarding their tax matters, trust in the abilities of the practitioners and the type of advice they renders, but more importantly, knowledge that their tax matters were up to date and correct.
- Accuracy and protection of authorities were listed by the practitioners as why they thought taxpayers used their services.
- The taxpayers agreed with the pre-set factors of accuracy, time and money saving in principle.
- The taxpayers listed a new factor altogether as their most important reason. The lack of knowledge of tax and tax-related matters and the fear of doing something wrong was their biggest motivator to use tax practitioners to handle their tax matters.
- The tax practitioners thought that their clients were informed regarding tax matters and denied that lack of knowledge was a driving factor for practitioner usage.

When analysing the data in Chapter 4, it is clear from the respective graphs that there is the possibility of an expectation gap between taxpayers and tax practitioners when examining accuracy, time and money saving and protection from SARS. The possible gap is evident in the fact that taxpayers mentioned lack of knowledge as their most important driver, whereas tax practitioners thought that the taxpayers were informed when dealing with tax matters. One of the objectives of the study was to determine if an expectation gap relating to client motivation does exist in rural South Africa. The objective was dealt with by

finding that there was a gap in the expectation of the taxpayers using tax practitioner services and the perceptions of these expectations by the tax practitioners.

### **5.2.2 Client advocacy**

Client advocacy was listed in the definition section and discussed in the literature review as taking the best interests of one's client into consideration when giving tax advice. With this in mind, tax minimisation should be a top priority for tax practitioners. Various studies conducted in different parts of the world indicated that taxpayers viewed client advocacy and tax minimisation as important factors when choosing a tax practitioner. These expectations were tested and analysed to assess the possibility of an expectation gap between taxpayer and tax practitioner in rural South Africa. These factors were separated for the purposes of this study. One of the listed objectives of this study was to determine whether there was a gap between taxpayer and tax practitioner when keeping client advocacy in mind.

The taxpayers and tax practitioners had different points of view regarding the interpretation of unclear legislation. Most of the taxpayers stated that tax minimisation related to risk or unclear legislation was acceptable as long as the risk could be quantified. The tax practitioners opted to be cautious when giving advice on ambiguous legislation. They would rather be more conservative in their advice when giving tax advice to clients. The graphs in Chapter 4 relating to client advocacy show a gap in the expectations of the taxpayer and their tax practitioner. The objective regarding client advocacy was met by showing a gap in the expectations of the parties regarding client advocacy.

### **5.2.3 Tax minimisation**

The taxpayers agreed that tax minimisation was important for them when using tax practitioner services. The tax practitioner should act and advise the taxpayer to pay the least amount of taxes possible. The tax practitioners felt that tax minimisation was a necessary part of their services, but it should be within the boundaries of the law.

Even though both parties seemed to agree that tax minimisation has an important factor in their relationship, the existence of an expectation gap was visible. This can be confirmed in the graphs used in Chapter 4. If the participants would agree on all aspects of tax minimisation, then only one graph with both bars at maximum would have been necessary to indicate their expectations. This was not the case as all the graphs relating to tax minimisation had different shapes.

#### **5.2.4 Changes in legislation**

The tax practitioners were all aware of the changes in legislation and were truly worried about the effect it might have on their firms. The taxpayers were not aware of any fundamental changes in terms of the regulation of tax practitioners in South Africa. Therefore the changes in legislation did not have an immediate effect on the relationship between the parties involved. Because this study was conducted as a case study, giving the opinion of the participants at a point in time, the effect of the new Tax Administration Act (28/2011) may change the perceptions and expectations of the parties in the future.

#### **5.2.5 Comparison with other studies**

As mentioned earlier, this study is not an exact replication of a similar study done by Stephenson in 2006. The study was adjusted to the South African context. Stephenson found in her study that there was an expectation gap between taxpayers and tax practitioners. The results of this study and what Stephenson found are compared as follows:

- Both studies found that there is an expectation gap between taxpayers and tax practitioners.
- The same factors of client motivation, client advocacy and tax minimisation were dealt with and both studies found gaps in the expectations of the taxpayers and perceptions of the tax practitioners.
- Both studies found that lack of tax knowledge was an important factor for taxpayers when using tax practitioner services. Both studies pointed out that this was an area for further consideration and possible future study.

The similarities pointed out above confirm that the taxpayer and tax practitioner relationship is subject to expectations and perceived expectations from both parties. Even though one study was done in the United States of America and the other in rural South Africa, there were expectation gaps in all the identified factors that were examined.

### **5.3 CONTRIBUTIONS MADE BY THE STUDY**

The findings of the study were built on the studies by Lubbe (2009) and Stephenson (2006). The research provided further insight into the relationship between taxpayer and tax practitioner in rural South Africa. Some of the motivating factors for taxpayers using practitioners in rural South Africa were identified. This information can be useful for tax practitioners who want to improve the quality of their service to their clients, the taxpayers. Opportunity for the tax practitioners lies in educating the taxpayers in terms of their own personal taxes.

### **5.4 SUGGESTIONS FOR FUTURE RESEARCH**

The study was conducted on a small number of participating taxpayers and tax practitioners. A larger group can be examined and analysed to determine if this conclusion is valid. The demographics of a less rural place in South Africa may also influence the results of this study. A city of metropolitan area may be examined to determine if such a gap does exist.

The lack of knowledge pointed out by the tax practitioners is a key factor to research in the future. This was identified as a big motivator for taxpayers to use practitioners, when the practitioners thought that the taxpayers were knowledgeable regarding taxes.

### **5.5 CONCLUSION**

By highlighting the factors of client advocacy and motivation, this research created a greater understanding of the relationship between taxpayers and tax practitioners. The factors identified are not exhaustive and by no means complete. The expectations of the taxpayers and perceptions of these expectations can be misunderstood and be harmful to

the relationship between taxpayers and tax practitioners. Both parties to this relationship should take note of changes in legislation that may influence the relationship.

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# **APPENDIX A**

**- Informed consent -**



## Informed consent for participation in an academic research study

### Dept. of Economic and Management Sciences

#### THE EXPECTATION GAP BETWEEN THE TAXPAYER AND THE TAX PRACTITIONER IN TWO TOWNS IN RURAL SOUTH AFRICA

Research conducted by:

Mr. J.H. Delpont (27469035)

Cell: 072 376 6636

Dear Respondent

You are invited to participate in an academic research study conducted by Jakobus Hermanus Delpont, a master's student from the Department Economic and Management Sciences at the University of Pretoria.

The purpose of the study is to determine if an expectation gap between the taxpayer and the tax practitioner exists in two rural towns in South Africa.

Please note the following:

- This study involves an anonymous survey. Your name will not appear on the questionnaire and the answers you give will be treated as strictly confidential. You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached questionnaire as completely and honestly as possible. This should not take more than 15 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor, Mr S.G. Nienaber, who can be contacted by e-mail: Gerhard.Nienaber@up.ac.za if you have any questions or comments regarding the study.

Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis.

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JH Delpont

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2013-05-06

## **APPENDIX B**

**- Taxpayer questionnaire -**

## TAXPAYER

### Introduction

The purpose of this questionnaire is to shed some light on the relationship between the taxpayer and his/her tax practitioner. Previous studies conducted in different parts of the world concluded that an expectation gap may exist in this intricate relationship. In terms of this study, an *expectation gap* can be defined as: “A discrepancy between what the client (taxpayer) expects and what the preparer (tax practitioner) thinks the client expects” (Christensen, 1992). The purpose of this study is to determine if such an expectation gap exists in the South African context. The expectations of the taxpayer will be matched up with what the tax practitioner thinks the taxpayer expects. The method used to evaluate the possibility of such an expectation is a structured interview.

A structured interview with both parties will be used to determine if such a gap exists. Both parties (taxpayer and tax practitioner) will be given the same set of questions regarding the professional relationship between them. The answers given by both parties will be compared to determine if an expectations gap exists.

## PART 1

### Taxpayer information

Please answer the following demographic questions about yourself. Remember, this is an anonymous survey and answers will only be used in combination with those of other participants.

Please select any of the following income items which you included on your tax return in the past two years:

	Salary as an employee from main job
	Salary as an employee from extra job
	Income from your own business or partnership
	Farming income
	Pension/Retirement income
	Dividends
	Interest on bank/savings accounts
	Cash payments for side jobs
	Profit from sale of goods or services
	Commission or bonus

	Rental or real estate income
	Gambling/Hobby/Prize income
	Investment income
	Other

Please choose the deductions claimed in the last two years from the following list of common deductions on tax returns:

	Medical expense
	Retirement annuity fund contribution
	Travel allowance and keeping a log
	Pension fund contribution deductions

I consider myself to be:

	An expert in tax matters
	More knowledgeable than most in tax matters
	Average in tax matters
	Relatively uninformed about tax matters
	Completely clueless about tax matters

What is your marriage status?

	Single
	Married in community of property
	Married out of community of property

What was your gross income during the last year?

	R Nil – R 140,000
	R 140,001 – R 221,000
	R 221,001 – R 305,000
	R 305,001 – R 431,000
	R 431,001 – R 552,000
	More than R 552,001
	Prefer not to answer

What is the highest education level you have attained?

	High school but not matric
	Matric
	Diploma
	Bachelor's degree
	Honours degree
	Master's degree
	Doctorate

Have you ever been audited by the South African Revenue Service?

	No
	Yes, SARS sent me a letter
	Yes, I had to visit a SARS office
	Yes, my tax practitioner solved the problem
	Prefer not to answer

What is your gender?

	Male
	Female
	Prefer not to answer

What is your age?

	Under 18
	18 – 24
	25 – 34
	35 – 44
	45 – 54
	55 – 64
	Older than 65

## PART 2

### Client Motivation

As mentioned in the introduction, similar studies on this subject were conducted in other parts of the world. These studies summarised the client's expectations when using a tax practitioner as accuracy, saving in time and money as well as protection from authorities (SARS).

What do you as the taxpayer expect when making use of the services rendered by a tax practitioner? Do you agree that accuracy, time and money savings and protection from revenue authorities are the main reasons why taxpayers make use of tax practitioners?

Please substantiate your opinion by answering the following questions in choosing one of the available options:

### Accuracy

1. The taxpayer would rather pay a little more in taxes and make sure he/she has not broken any law.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

2. The taxpayer would rather be protected from paying penalties to SARS than save money on his/her taxes.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

3. The taxpayer would rather be protected from penalties than save money on his/her tax preparation charges.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

### Money Savings

4. Even though the taxpayer pays a fee, he/she comes out ahead financially with a tax professional.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

5. The taxpayer has his/her taxes professionally prepared because it saves him/her money overall.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

6. The taxpayer's tax professional saves him/her money.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

## Protection from Revenue Authorities

7. The taxpayer has his/her taxes professionally prepared so that if SARS questions it, he/she won't be the one who gets in trouble.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

8. If the taxpayer paid enough to have his/her taxes prepared, he/she could end up without a tax liability.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

9. SARS won't prosecute the taxpayer personally if his/her tax professional is wrong about something.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

10. The taxpayer has his/her taxes professionally prepared so that he/she knows he/she never has to face SARS.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

## Time Saving

11. The taxpayer has his/her taxes professionally prepared and although it costs him/her money, it saves him/her valuable time.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

12. The taxpayer has his/her taxes professionally prepared because he/she doesn't have the time to do it him-/herself.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

13. It takes too long to do tax returns. The taxpayer would rather let a professional handle it.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

14. It is okay to pay a little more to have a professional prepare taxes as long as it doesn't take the taxpayer's time.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

15. The taxpayer does not have the knowledge to complete and file his/her own tax return.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

## PART 3

### Client Advocacy

For the purpose of this study, *client advocacy* is defined as taking professional care of your client's best interest with tax minimisation as main objective. The following questions relate to client advocacy and are asked to determine the tax practitioner's approach when handling taxpayer matters.

Do you expect your tax practitioner to interpret unclear tax legislation to your advantage? Do you think that your tax practitioner is taking your best interest into consideration when he/she does your tax planning and structuring of tax transactions?

The following questions serve to confirm your opinion above. Please indicate your answer by selecting one of the options:

16. The taxpayer has the right to structure transactions in ways that yield the best tax result, even if the law is unclear in this regard.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

17. It is important to use trends in the law by trying to establish a pattern of more favourable treatment for the taxpayer and then extending this pattern to the taxpayer's position.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

18. The tax practitioner always interprets unclear/ambiguous laws in favour of the taxpayer.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

19. Where no judicial authority exists with respect to an issue, the taxpayer feels that he/she is entitled to take the most favourable treatment.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

20. The tax practitioner feels he/she should apply ambiguous tax law to the taxpayer's benefit.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

### Tax Minimisation

Various similar studies have shown that tax minimisation and client advocacy go hand in hand. These studies have also shown that the expectation of the taxpayer is to pay less tax when a tax practitioner prepares the return. Saving money (tax minimisation) is one of the main reasons why taxpayers make use of tax practitioners.

Money saving in the form of tax savings is one of the main reasons why the taxpayer makes use of tax practitioner services. As a taxpayer, do you think that tax and money savings are the main reasons why taxpayers make use of the services of tax practitioners? Please answer the following questions by choosing one of the options available. These questions will confirm your opinion of the above statement.

21. When a tax practitioner examines a tax return, he/she tends to point out to taxpayers reasonable precautions they could have taken which would have contributed to minimising their tax liability.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

22. Generally speaking, a tax practitioner's loyalties are first with the taxpayer and then with the tax system.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

23. The tax practitioner believes it is important to encourage taxpayers to pay the least amount of taxes possible.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

**Other**

24. Are you aware of the proposed legal changes relating to the regulation of tax practitioners in South Africa?	
<b>Yes</b>	<b>No</b>

Thank you for taking the time to complete this questionnaire.

## **APPENDIX C**

**- Tax practitioner questionnaire -**

## TAX PRACTITIONER

### Introduction

The purpose of this questionnaire is to shed some light on the relationship between the taxpayer and his/her tax practitioner. Previous studies conducted in different parts of the world concluded that an expectation gap may exist in this intricate relationship. In terms of this study, an *expectation gap* can be defined as: “A discrepancy between what the client (taxpayer) expects and what the preparer (tax practitioner) thinks the client expects” (Christensen, 1992). The purpose of this study is to determine if such an expectation gap exists in the South African context. The expectations of the taxpayer will be matched up with what the tax practitioner thinks the taxpayer expects. The method used to evaluate the possibility of such an expectation is a structured interview.

A structured interview with both parties will be used to determine if such a gap exists. Both parties (taxpayer and tax practitioner) will be given the same set of questions regarding the professional relationship between them. The answers given by both parties will be compared to determine if an expectations gap exists.

## PART 1

### Demographics

Please answer the following demographic questions about yourself and your firm.

The following item best describes me (check all that apply):

<input type="checkbox"/>	Chartered accountant – CA(SA)
<input type="checkbox"/>	Professional accountant – SAIPA
<input type="checkbox"/>	Tax practitioner – SARS
<input type="checkbox"/>	Formal accounting training/tax school – no degree
<input type="checkbox"/>	Postgraduate accounting degree specialising in tax (honours or master’s degree)
<input type="checkbox"/>	Tax practitioner – Registered with the SA Institute of Tax Practitioners
<input type="checkbox"/>	Tax attorney
<input type="checkbox"/>	Other (Please list above)

My current firm is:

	A law practice
	An accounting firm
	Other (Please specify below)

The percentage of time spent on tax matters is:

	0 – 20%
	21 – 40%
	41 – 60%
	61 – 80%
	81 – 100%

I have been preparing taxes for:

	0 – 5 years
	6 – 10 years
	11 – 15 years
	16 – 20 years
	21+ years

I personally prepare and or sign:

	1 – 25 returns a year
	26 – 100 returns a year
	101 – 300 returns a year
	301+ returns a year

## PART 2

### Client Advocacy

For the purpose of this study, *client advocacy* is defined as taking professional care of your client's best interests with tax minimisation as main objective. The following questions relate to client advocacy and are asked to determine the tax practitioner's approach when handling taxpayer matters.

Taking the best interests of the taxpayer (your client) into consideration, how will you interpret unclear tax legislation and do structuring and planning of tax transactions?

The following questions serve to confirm your opinion above. Please indicate your answer by selecting one of the options.

1. The taxpayer has the right to structure transactions in ways that yield the best tax result, even if the law is unclear in this regard.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

2. It is important to use trends in the law by trying to establish a pattern of more favourable treatment for the taxpayer and then extending this pattern to the taxpayer's position.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

3. I always interpret unclear/ambiguous laws in favour of the taxpayer.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

4. Where no judicial authority exists with respect to an issue, I feel that the taxpayer is entitled to take the most favourable treatment.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

5. I feel I should apply ambiguous tax law to the taxpayer's benefit.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

### **Tax Minimisation**

Various similar studies have shown that tax minimisation and client advocacy go hand in hand. These studies have also shown that the expectation of the taxpayer is to pay less tax when a tax practitioner prepares the return. Saving money (tax minimisation) is one of the main reasons why taxpayers make use of tax practitioners.

Money saving in the form of tax saving is one of the main reasons why the taxpayer makes use of tax practitioner services. As a tax practitioner, do you think that tax and money saving are the main reasons why taxpayers make use of tax practitioner services?

Please answer the following questions by choosing one of the options available. These questions will confirm your opinion of the above statement.

6. When examining a tax return, I tend to point out to taxpayers reasonable precautions they could have taken which would have contributed to minimising their tax liability.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

7. Generally speaking, my loyalties are first with the taxpayer and then with the tax system.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

8. I believe it is important to encourage taxpayers to pay the least amount of taxes possible.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

### **PART 3**

#### **Client Motivation**

As mentioned in the introduction, similar studies on this subject were conducted in other parts of the world. These studies summarised the client's expectations when using a tax practitioner as accuracy, saving in time and money as well as protection from authorities (SARS).

In your opinion, what does the taxpayer expect when making use of the services rendered by you as the tax practitioner? Do you agree that accuracy, time and money savings and protection from revenue authorities are the main reasons why taxpayers make use of tax practitioners?

From the view of the taxpayer, please substantiate your opinion by answering the following questions by choosing one of the available options:

#### **Accuracy**

9. I would rather pay a little more in taxes and make sure I haven't broken any laws.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

10. I would rather be protected from paying penalties and interest to SARS than save money on my taxes.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

11. I would rather be protected from penalties and interest than save money on my tax preparation charges.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

#### **Money Saving**

12. Even though I pay a fee, I come out ahead financially with a tax professional.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

13. I have my taxes professionally prepared because it saves me money overall.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

14. My tax practitioner saves me money.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

### Protection from Revenue Authorities

15. I have my taxes professionally prepared so that if SARS questions it, I won't be the one who gets in trouble.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

16. If I paid enough to have my taxes prepared, I could end up without a tax liability.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

17. SARS won't prosecute me personally if my tax practitioner is wrong about something.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

18. I have my taxes professionally prepared so that I know I'll never have to face SARS.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

### Time Saving

19. I have my taxes professionally prepared and although it costs me money, it saves me valuable time.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

20. I have my taxes professionally prepared because I don't have the time to do it myself.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

21. It takes too long to do tax returns. I would rather let a professional handle it.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

22. It is okay to pay a little more to have a professional prepare my taxes as long as it doesn't take my time.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

23. The taxpayer does not have the knowledge to complete and file his/her own tax return.		
<b>Strongly Agree</b>	<b>Neutral</b>	<b>Strongly Disagree</b>

**Other**

24. Are you aware of the proposed changes relating to the regulation of tax practitioners in South Africa?	
<b>Yes</b>	<b>No</b>

Thank you for your time and assistance in completing this questionnaire.