

# THE TAX EDUCATION NEEDS OF SME BUSINESS OWNERS IN THE CONSTRUCTION INDUSTRY

By

Mrs S. Ramharak  
U15332820

Submitted in partial fulfilment of the requirements for the degree

MCom (Taxation)

In the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

At the

UNIVERSITY OF PRETORIA

Supervisor: Mrs T. van Oordt

Date of submission:  
**2016-11-30**

## FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

### Declaration Regarding Plagiarism

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

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

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

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

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

For the period that you are a student in the Faculty of Economic and Management Sciences, the following declaration must accompany all written work that is submitted for evaluation. No written work will be accepted unless the declaration has been completed and is included in the particular assignment.

I (full names & surname):	Sumantha Ramharak
Student number:	U15332820

#### Declare the following:

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

---

Signature

---

Date

## ACKNOWLEDGEMENTS

This dissertation would not have been possible without the assistance of the following key people.

1. Jesus Christ, my Father, who has brought me thus far in life. Above all, He has bestowed grace on me and has given me strength;
2. My loving, kind and encouraging husband, Lamech Moodley. Thank you for pushing me right up to the end and having faith in me. Thank you for the late-night snacks and giggles which kept me in good spirits;
3. My caring and generous parents, Sharoma Ramharak and Sival and Rajes Moodley – thank you for all your support and love;
4. The respondents who participated in the interviews and took the time to assist me – thank you;
5. To my supervisor, Theresa van Oordt – thank you for steering me in the right direction while I wrote my dissertation and for helping me achieve my goal. I cannot express how thankful I am for having been allocated such a strong and ambitious woman;

## ABSTRACT

# THE TAX EDUCATION NEEDS OF SME BUSINESS OWNERS IN THE CONSTRUCTION INDUSTRY

by

**Sumantha Ramharak**

**SUPERVISOR:** Theresa van Oordt

**DEPARTMENT:** Department of Taxation

**DEGREE:** MCom (Taxation)

Tax compliance has been brought into sharp focus by SARS and other tax authorities around the world. Non-compliance causes tax leakages and this situation is detrimental to an economy since it is deprived of resources necessary for growth and public infrastructure development.

Small- and medium-sized enterprises (SMEs) are recognised for the value they add to growing economies, stimulating economic growth and job creation. Similarly, the construction industry in South Africa and the world over is recognised for its contribution to public infrastructure development and economic growth. The majority of construction companies operating in South Africa are SMEs.

SARS is clamping down on SMEs and the construction industry as it has identified these two categories of taxpayers as high-risk groups in terms of tax non-compliance. The structural and operational nature of SMEs presents opportunities for the avoidance of paying tax. On the other hand, they experience complying with tax and other regulations as a heavy burden. SARS's focus on the construction industry is prompted by the fact that it receives state funding, and corruption in the industry has been found to be rife.

A substantial number of studies provide evidence that tax education improves compliance. Therefore, the current study investigates the level of tax knowledge and the possible lack of tax knowledge of SME owners in the construction industry in order to determine their tax education needs.

The study involved a qualitative analysis in the form of face-to-face, semi-structured interviews with 10 SME owners in the construction industry based in KwaZulu-Natal and Gauteng, South Africa. In the interviews, use was made of structured and open-ended questions.

The results confirmed that the owners of very small enterprises had the least amount of tax knowledge whereas the owners of medium-sized entities had the most tax knowledge. Further findings were that most of the entities relied on external tax advisors for tax advice, that the majority of the respondents did not understand the special tax incentives available to SMEs and companies operating in the construction industry and that almost 80% of the respondents believed SARS was not doing enough to educate them about the incentives available. The majority of the respondents felt that improving tax knowledge would improve tax compliance.

Keywords: Construction industry, tax compliance, tax education, SARS, SMEs

## TABLE OF CONTENTS

ACKNOWLEDGEMENTS .....	I
ABSTRACT .....	II
LIST OF FIGURES .....	VII
LIST OF TABLES .....	VII
DEFINITION OF KEY TERMS .....	VIII
LIST OF ABBREVIATIONS AND ACRONYMS .....	VIII
CHAPTER 1: INTRODUCTION .....	1
1.1 BACKGROUND .....	1
1.2 PROBLEM STATEMENT .....	3
1.3 PURPOSE STATEMENT .....	3
1.4 RESEARCH OBJECTIVES .....	3
1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY .....	4
1.6 DELIMITATIONS .....	5
1.7 CHAPTER OUTLINE .....	6
CHAPTER 2: LITERATURE REVIEW .....	8
2.1 INTRODUCTION .....	8
2.2 FOCUS OF SARS ON THE CONSTRUCTION INDUSTRY .....	8
2.3 FOCUS OF SARS ON SMALL- AND MEDIUM-SIZED BUSINESSES .....	12
2.4 CORRUPTION IN THE CONSTRUCTION INDUSTRY, TAX EVASION AND THEIR EFFECTS .....	15
2.5 TAX COMPLIANCE OF SMES .....	18
2.6 SPECIAL TAX CONSEQUENCES AND INCENTIVES FOR SMES IN THE CONSTRUCTION INDUSTRY .....	22
2.6.1 Income tax considerations .....	24

2.6.2	VAT considerations .....	27
2.6.3	Turnover tax .....	32
2.6.4	Employment tax incentives.....	32
2.6.5	Tax Administration Act considerations .....	33
2.7	EDUCATION OF A TAXPAYER AS A FACTOR THAT IMPROVES TAX COMPLIANCE.....	34
2.8	CONCLUSION.....	35
CHAPTER 3: RESEARCH DESIGN AND METHODS.....		37
3.1	INTRODUCTION .....	37
3.2	DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN.....	37
3.2.1	Strategy of inquiry .....	37
3.2.2	Classification of the overall research design .....	39
3.3	SAMPLING .....	40
3.3.1	Target population .....	40
3.3.2	Unit of analysis .....	40
3.3.3	Sampling method and sample size.....	41
3.4	DATA COLLECTION .....	42
3.4.1	Non-Standardised questionnaire and semi-structured interviews.....	42
3.4.2	Design of the questionnaire and interviews .....	43
3.5	DATA ANALYSIS .....	45
3.6	ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE RESEARCH DESIGN.....	46
3.6.1	Defining reliability, validity and bias.....	46
3.6.2	Overcoming data quality issues.....	47
3.7	RESEARCH ETHICS .....	48
3.8	CONCLUDING REMARKS.....	48
CHAPTER 4: ANALYSIS OF DATA.....		50
4.1	INTRODUCTION .....	50

4.2	ANALYSIS OF DATA .....	51
4.2.1	Demographic and basic information .....	51
4.2.2	Understanding the costs of compliance.....	54
4.2.3	Understanding tax incentives for small businesses .....	58
4.2.4	Understanding the Tax Administration Act .....	61
4.2.5	Respondents' recommendations for further education initiatives by SARS.....	63
4.3	CONCLUDING REMARKS.....	65
	CHAPTER 5: CONCLUSION.....	68
5.1	INTRODUCTION.....	68
5.2	SUMMARY OF FINDINGS ADDRESSING THE RESEARCH OBJECTIVES .....	69
5.3	IMPLICATIONS FOR FURTHER STUDIES .....	72
5.4	FUTURE RESEARCH.....	73
5.5	FINAL CONCLUSION .....	73
6.	LIST OF REFERENCES .....	75
	APPENDIX A INTERVIEW SCHEDULE FOR THE RESEARCH PROJECT.....	87
	APPENDIX B INFORMED CONSENT FORM .....	93



## LIST OF FIGURES

Figure 1: Landowner contracts to one main subcontractor .....	28
Figure 2: Landowner contracts directly with each contractor using a project manager ...	29
Figure 3: Business owners by SME category .....	53

## LIST OF TABLES

Table 1: Definition of key terms used in this document.....	viii
Table 2: Abbreviations and acronyms used in this document .....	viii
Table 3: Categories of SMEs in the construction industry.....	14
Table 4: Tax incentives specific to SMEs and companies operating in construction .....	23
Table 5: SBC rates, 2016/2017.....	24
Table 6: Applicable rates of allowances for buildings.....	26
Table 7: VAT implications for construction services at different project stages.....	30
Table 8: Micro-business turnover tax rates .....	32
Table 9: Categorisation of construction SMEs according to turnover.....	42
Table 10: Basic information about respondents (construction business owners).....	52
Table 11: Summary of responses relating to costs of compliance .....	55
Table 12: Percentage of knowledge about compliance matters.....	56
Table 13: Summary of responses regarding small business tax incentives .....	59
Table 14: Summary of respondents' knowledge about VAT, micro-business turnover tax and employment tax incentives .....	60
Table 15: Understanding dispute matters as set out in the Tax Administration Act .....	61

## DEFINITION OF KEY TERMS

**Table 1: Definition of key terms used in this document**

<b>Key term</b>	<b>Definition</b>
Taxable income	Refers to income which is attributable to income tax
Gross income	Refers to income such as sales and other receipts less exempt income such as local dividends
Year of assessment	Refers to a period of 12 months which is attributable to tax, e.g. 1 March to 28 February.
E-filing	Electronic filing systems for tax management and online submission of returns
Apartheid	A term in South African history that refers to a policy of race segregation
Affirmative action	A policy of favouring a disadvantaged group of people
Kickbacks	A percentage of income given to a person who made that income possible
Certificate of completion	A document in which an architect or engineer certifies that a certain construction project has been completed to a specified standard

## LIST OF ABBREVIATIONS AND ACRONYMS

**Table 2: Abbreviations and acronyms used in this document**

<b>Abbreviation</b>	<b>Meaning</b>
SME	Small business enterprise
SARS	South African Revenue Services
CIDB	Construction Industry Development Board
VAT	Value-added tax
PAYE	Pay-as-you-earn
KZN	KwaZulu-Natal
OECD	Organisation for Economic Co-operation and Development
DTC	Davis Tax Committee

## CHAPTER 1: INTRODUCTION

### 1.1 BACKGROUND

“Compliance refers to the degree to which taxpayers and traders, along with intermediaries like practitioners and clearing agents, meet their legal obligations” (SARS, 2012:6).

Stimulating a positive behaviour regarding tax compliance by educating taxpayers or by increasing their tax knowledge has proved to be effective (Eriksen & Fallan, 1996; Misra, 2004; Mukasa, 2011; Mukhlis, Utomo, Hadi & Soesetio, 2015; Olowookere & Fasina, 2013; Saad, 2013).

The South African Revenue Services (SARS) has placed great emphasis on tax compliance in recent years and has developed a compliance strategy to address the high levels of non-compliance in South Africa. As part of its strategy to increase compliance, SARS has listed the target industries that have shown a high degree of tax non-compliance. Specialised audits have been planned for these industries and have been initiated. One specific industry that has been identified by SARS as being non-compliant is the construction industry (SARS, 2012).

Non-compliance is rife within the construction industry due to the vast number of contractors and subcontractors and the allocation of government tenders involved. This is the reason SARS is focusing on this industry. As the construction industry receives public funding, more emphasis is placed on it to be transparent and tax compliant (SARS, 2012).

One year after the strategy had been released in 2013, SARS released a media note on the progress made on the tax audits of companies and individuals in the construction industry, revealing that this industry was the “least compliant industry in the formal economy” (SARS, 2013a:2). The briefing note indicates that tax audits are decided upon on the basis of companies and individuals receiving government tenders. Government tenders are funded by taxpayers’ money; therefore, much emphasis is placed on the construction industry being tax compliant.

Although the construction industry in South Africa contributes significantly to the economy, it has experienced a recession since the FIFA World Cup South Africa™ hosted in 2010. However, the South African government's planned capital expenditure on infrastructure is still positive. Government spending in this area increased by 13% in 2014, amounting to a total of R255 billion. The majority of the spending emanates from government entities, specifically Eskom, Transnet and the South African National Roads Agency (Sanral) (PWC, 2015).

There are a substantial amount of construction companies who fall within the category of a SME. Small- and medium-sized enterprises (SMEs) are defined by the Organization for Economic Co-operation and Development (OECD) as “non-subsiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. Small firms are generally those with fewer than 50 employees, while micro enterprises have at most 10, or in some cases 5, workers” (OECD, 2005).

SMEs are recognised globally for their positive impact on the economic health of a country. These businesses assist in creating jobs and in turn also alleviate poverty (Abrie & Doussy, 2006). They have also been identified as high-risk businesses in many countries due to their increasing numbers and the difficulty in being able to verify their income against reliable third-party data. Their income is also erratic and their lack of proper record-keeping adds to the risk of non-compliance (SARS, 2012).

SMEs are plagued by the burden of complying with regulations and taxes. The cost of compliance is high and this depletes resources which could otherwise have been devoted to business operations. The majority of SMEs feel that it is a heavy administrative burden for them to have to comply with all the various tax requirements. The complexity of the tax system and the necessity of having skilled staff to administer it add to the burden (Abrie & Doussy, 2006; McKerchar, 1995; Nkwe, 2012).

In most of the literature reviewed for this study, the factor that is highlighted as one which improves taxpayer compliance is taxpayer knowledge. It is believed that this knowledge

should be increased by educating and informing taxpayers (Abrie & Doussy, 2006; McKerchar, 1995; Nkwe, 2012).

## **1.2 PROBLEM STATEMENT**

As already indicated, the importance of taxpayer education to address non-compliance is noted in existing literature (Abrie & Doussy, 2006; Misra, 2004; Olowookere & Fasina, 2013). There is also evidence that SARS has clamped down on the construction industry, in particular small businesses, to deter tax non-compliance through planned and integrated audits on various tax types (SARS, 2012).

The current literature does not identify in detail what tax knowledge is known and what is lacking in relation to SMEs operating in the construction industry.

In order to assist these small businesses to become more compliant, their current level of tax knowledge should therefore be understood. It is therefore the aim of this study to investigate what is the current tax knowledge of the SME owners in the construction industry and at the same time this will explain their tax education needs.

Hence the research problem that this study aims to achieve is the identification of the tax education needs of SMEs in the construction industry.

## **1.3 PURPOSE STATEMENT**

The main purpose of this study is to identify the tax education needs of SMEs operating in the construction industry in South Africa.

## **1.4 RESEARCH OBJECTIVES**

The objectives of the study are as follows:

- To perform a literature review that:
  - explains the reasons why SARS and other tax authorities around the world consider the construction industry to be non-compliant;

- explains why SARS and other tax authorities around the world consider SMEs to be non-compliant;
  - provides detail on why corruption is rife in the construction industry and how this leads to tax evasion in South Africa and across the world;
  - lists the various compliance burdens experienced by SMEs in South Africa and around world;
  - explains the various tax consequences and incentives affecting SMEs and the construction industry; and
  - provides evidence of the reasons why tax education improves compliance.
- To administer a questionnaire to SME owners in the construction industry with a view to determining their tax education needs.

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

Identifying the tax needs of the SME owners in the construction industry will give SARS a better understanding of how to implement proper training and to inform these business owners about the specific types of education campaign to initiate.

If SME taxpayers in South Africa are educated they will have more peace of mind knowing that their businesses, which earn their revenues from taxpayer funding, are adequately acquainted with requirements so that they are able to easily comply with their tax obligations.

The research conducted could also identify the actual perceptions business owners have about paying taxes.

Furthermore, the findings of this study could assist government policy makers, small business focus groups and educational institutions to improve current education programmes within the construction industry taxpayer category.

## 1.6 DELIMITATIONS

The research paradigm chosen to obtain the data required to reach a conclusion in this study was a qualitative research method. The method selected was of an exploratory nature, and one-on-one, semi-structured interviews were conducted with SME owners in the construction industry. The primary data was collected from their responses.

The proposed study has several limitations which need to be acknowledged:

- Firstly, generalising the findings from this study across different industries or countries may not be plausible since the sample population was limited to SME owners in the area of Durban, South Africa. The sample was chosen based on convenience as the participants were easily accessible to the researcher.
- Secondly, the possibility existed that the responses of the interviewees were not honest. The research method was susceptible to bias but although it exposed the research to elements of subjectivity, it allowed for innovation and researcher-designed frameworks (Cresswell, 2003).
- Only a small number of respondents took part in the interviews. However, justification for having in-depth interviews with a few (fewer than 20) respondents is provided by Mira (2004) who suggests that more value can be added if a fruitful relationship is cultivated with a respondent, allowing for the problem to be addressed in more depth.

## 1.7 CHAPTER OUTLINE

The research study is structured in the following way:

### **Chapter 1: Introduction to the study**

Chapter 1 sets out the context of and the background to the study. The problem statement is expressed and the research objectives that will best address the problem statement are presented. The importance and benefits of the study are reflected upon and the delimitations and assumptions applicable to the study are noted briefly. The chapter concludes with a list of abbreviations used in this study.

### **Chapter 2: Literature review**

Chapter 2 explores the literature on how and why SARS and other tax authorities around the world have focused their attention on the construction industry and SMEs. An analysis of corruption in the construction industry in South Africa and around the world is then presented and how this impacts tax evasion. A review of tax compliance in general in relation to SMEs in South Africa and around the world is presented. The various factors hindering SME tax compliance as well as factors improving such compliance are investigated. Furthermore other compliance burdens experienced by SMEs are brought to light.

This chapter also presents the primary tax incentives and consequences available to SMEs and the special tax incentives available to the construction industry.

To conclude this chapter, previous research is drawn on to further confirm that tax education is a factor that improves tax compliance. This will set the background for the introduction of the research design and methods in Chapter 3.

### **Chapter 3: Research design and methods**

In Chapter 3 the research design and methodology applied are discussed, providing a rationale for the research process followed. The data analysis and collection processes are outlined and explained.



## **Chapter 4: Analysis of data**

In Chapter 4, the results of the research study are presented and discussed. Observations made and responses obtained during the structured interviews are analysed in detail. Taking the research objectives into account, these responses are tested.

## **Chapter 5: Conclusion**

Chapter 5 concludes the study by presenting a summary of the research. The implications of the findings of the research for SARS, other governmental agencies and education institutions are also discussed.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

The purpose of the literature review is to identify documented hindrances to tax compliance within SMEs globally and in South Africa and to evaluate prior research to support the notion that tax education increases tax compliance.

In this chapter, attention is drawn to SARS's focus on the construction industry. The primary reason for the focus on this industry is its receipt of government revenue in the form of tender income. SARS has identified SMEs in the construction industry as being the most non-compliant, hence these businesses are explored to establish the reasons for their non-compliance. The compounding effect of non-compliant SMEs within a non-compliant (construction) industry is cause for serious concern.

Therefore, in this study, the factors identified in the literature as hindering/improving the tax compliance of SMEs are isolated. The objective is also to establish whether tax education is a factor that improves compliance.

In addition, existing literature is drawn on to assist in designing the questionnaires that will be used in the one-on-one interviews with the participants in this study.

### **2.2 FOCUS OF SARS ON THE CONSTRUCTION INDUSTRY**

The construction industry in South Africa contributes to 5.1% of gross domestic product (GDP) and 30% to gross fixed capital formation (GFCF) (Bowen, Robert & Akintoye, 2007).

The SARS compliance programme was introduced by the Minister of Finance, Pravin Gordhan, on 1 April 2012 (SARS, 2012). In this programme, focus or high-risk areas are separated as areas in which SARS aims to track the behaviours of certain groups of taxpayers. Information providing evidence relating to non-compliant taxpayer behaviours is

mainly obtained through tax audits or risk assessments. The outcome of these audits, combined with information on industry-related revenues and risk factors, is used to explain the behaviour of a group of taxpayers.

In this document, SARS undertakes to make every effort to empower the targeted taxpayers by providing them with guidelines and interpretation notes as well as by initiating open dialogue interventions (SARS, 2012).

Mr Oupa Magashula, the SARS Commissioner at the time the compliance programme was launched, described the directives in this programme as “a bit like road signs which alert drivers to upcoming speed traps. In the same way that these have been shown to reduce speeding, international best practice has shown that by highlighting areas of high risk and non-compliance with tax and customs legislation, taxpayers and traders are encouraged to adjust their behaviour” (SARS, 2012:3).

The high-risk or focus areas are broadly categorised by SARS as follows:

1. Wealthy individuals and their trusts
2. Large corporations and transfer pricing
3. Construction industry
4. Illicit cigarettes
5. Undervaluation of imports in the clothing and textile industry
6. Tax practitioners and trade intermediaries
7. Small businesses

These seven priority areas will be clamped down on over a period of five years, starting in 2012, after which the areas will be redefined and the introduction of new focus areas may be considered for the 2017/2018 tax year.

In this document, the construction industry is specifically identified as a focus area due to the public funding it receives largely from the government and its exposure as the least compliant industry in the economy. SARS will focus not only on overall tax compliance but also on matters relating to all tax types, including corporate income tax (CIT), pay-as-you-earn (PAYE) tax and value-added tax (VAT) (SARS, 2012).

The global situation of tax leakages in the construction industry is also high in relation to South Africa. In a recent study conducted by Behling and Harvey (2015), it was found that high tax evasion levels are inherent in the construction industry in the United Kingdom (UK). The research shows that self-employment in the British construction industry is higher than in any other European country (e.g., Germany, Spain, France and other European Union countries) and it is stated that the current fiscal taxation and legal regime actually stimulate rather than curb false self-employment. Self-employment in this context is explained as a contract *for* service rather than a contract *of* service. The two types of self-employment that were the subject of this study were mainly professional and manual, the former being architects, surveyors and project managers and the latter comprising craft trades and unskilled workers. In the said study it is further noted that Her Majesty's Revenue and Customs department has engaged overseas employment firms to help tackle tax evasion and leakages since April 2014. Lost tax revenues in the form of national insurances, which are a consequence of false self-employment in the UK, account for £1.6 billion each year (Behling & Harvey, 2015).

In the UK the construction industry also engages in cash transactions. Cash transactions contain high risk of tax evasion. "The construction industry has also been identified as one of the industry's most prone to practices such as misclassifying workers as independent contractors and 'paying under the table' in cash to avoid taxes" (Curran & Donahue, 2013:9).

Worker misclassification is very common in the construction industry. Independent contractors, who are really employees, avoid paying employee and other state taxes and benefit from deductions that are only available to businesses. Another common scheme of evasion is the payment of cash, also commonly known as an "under-the-table payment", which by its very nature is never disclosed and no audit trail is evident (Curran & Donahue, 2013:6).

In 2013, research done in the United States confirmed that tax revenue would increase and the tax system would progress if the revenue authorities made it a requirement to have all businesses disclose every payment made for construction services to

incorporated and unincorporated companies. Canada implemented a system in 2001 whereby all contractors in the construction industry were obliged to disclose all subcontractor payments. In light of this requirement, the tax revenue increased by \$1.2 billion between 2001 and 2007 and the number of tax returns filed also increased substantially (Curran & Donahue, 2013:6).

Statistics of audits in the construction industry issued by SARS reveal that 70% of the audited companies under-declared VAT, and 50% and 61% respectively under-declared CIT and PAYE. Of the audited companies, 64% filed their CIT returns late and more than 50% also paid late (SARS, 2012).

SARS has developed the following active steps to address the identified non-compliant behaviour (SARS, 2012):

1. Conducting *integrated tax audits* whereby all tax types are audited at the same time over multiple tax periods
2. Imposing *penalties* for late filing and payment of these tax types
3. Introducing tax clearance certificates to be produced for *ongoing contracts* with government and not just on initial contract award
4. Contacting the companies and individuals being awarded large government tenders *early on in the contract* so as to prevent them from being non-compliant from the start
5. Using banks and other debtors (government) to *appoint as agents* to recover tax debts.

The above-mentioned report further makes mention of contractors and subcontractors being of specific concentration. “Our assessment suggests that the biggest risks lie in the small and medium business segments, and particularly in contractors and subcontractors involved in paving, painting, decorating, plumbing, wall and floor tiling, heating and ventilation, and ceilings and flooring. We are also seeing substantially higher rates of non-compliance amongst self-employed individuals” (SARS, 2012:14).

In Australia, the revenue authorities (Australian Taxation Office) developed a programme similar to that of SARS to ensure tax compliance. Their strategy is to encourage and assist taxpayers to comply, to detect and deter non-compliance and to regularly exchange information. They execute specific compliance activities which are centred on the areas they believe are high risk. They effectively have a separate compliance programme for each high-risk area, one of them being the payroll tax compliance programme. In a 2015/2016 case study of this programme it was found that a company who had enlisted contractors had not withheld and paid their payroll taxes as it had assumed that because they were sole proprietors they were not considered employees. In the case study it was found that many contractors were indeed considered employees and that the company employing these contractors were liable to pay payroll taxes for their services. Interestingly, it was noted that many of these contractors were sole proprietors and small businesses (NSW, 2015).

New Zealand's Inland Revenue Department has a similar programme in place in which the focus is on the construction industries under-reporting of income and operating outside the tax system (Inland Revenue Department (New Zealand), 2011).

### **2.3 FOCUS OF SARS ON SMALL- AND MEDIUM-SIZED BUSINESSES**

According to a report issued by the Construction Industry Development Board, "Subcontracting is very prevalent in the South African construction industry, with up to 70% of building and 30% of civil construction projects subcontracted out. The most prevalent types of subcontracting are labour-only, trade contracting in the building sector and specialist subcontracting in the building and civil sectors. The duration of typical subcontracts in the building industry is between three (3) and six months (6) months with the civil sector industry having longer duration subcontracts of about twelve (12) months on average" (CIDB, 2013:1).

Principally, all subcontracting companies fall into the category of an SME (SARS, 2012:14).

It is widely acknowledged that SMEs are crucial for the promotion of social and economic growth in South Africa. In the country's National Development Plan (NDP), SMEs are

recognised as crucial in promoting employment, especially in labour-intensive industries (Davis Tax Committee (DTC), 2014).

The Davis Tax Committee, in its advisory role to the Minister of Finance, prepared an interim report on tax considerations relating to SMEs (DTC, 2014). In an effort to define what an SME in South Africa is, the committee considered various definitions, such as those given in the NDP, the National Small Business Act (South Africa, 1996) and the Income Tax Act (South Africa, 1962) (hereafter referred to as the ITA) and found that there was no conclusive definition.

In summary, the NDP splits SMEs into three categories, namely, survivalist businesses, lifestyle businesses and entrepreneurial businesses:

- Survivalist businesses are defined as those that lack structure, are regarded as “street shops” that usually operate with cash. There is an absence of any capital assets and they do not maintain proper records. Of importance to the researcher is that the two categories of taxpayers who fit in with this definition are informal subcontractors and construction workers.
- Lifestyle businesses are defined as those that typically operate from home or from one office, such as doctors, plumbers and accountants.
- Entrepreneurial businesses are those that focus on brand and market expansion. Their drivers are new inventions, new products and new markets.

In the National Small Business Act of 1996, a business is determined as being small, very small or medium on the basis of its number of full-time employees, turnover and asset value. Turnover is found to be the most commonly used determinant locally. The Act defines medium-sized enterprises in the trade, wholesale, commercial and allied services as having a turnover from R5 million to R64 million. Small businesses earn between R3 million and R32 million, and very small businesses earn between R500 000 and R6 million, whereas micro businesses have turnovers of up to R200 000 (DTC, 2014). In Table 3, the categorisation of SMEs in construction between medium, small, very small and micro businesses is indicated (National Small Business Act, 1996).

**Table 3: Categories of SMEs in the construction industry**

Sector or sub-sector in accordance with the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Construction	Medium	200	R26 m	R5 m
	Small	50	R6 m	R1 m
	Very small	20	R3 m	R0.50 m
	Micro	5	R0.20 m	R0.10 m

*Source: South Africa, 1996*

The ITA contains definitions of each business category (small, medium, micro). Micro businesses are defined in the eight schedule of the ITA as being primarily (amongst various other requirements) one which yields a turnover of R1 million during a year of assessment. Another relevant definition in section 12E of the ITA is that of a small business corporation (SBC) in terms of which one of the requirements of an SBC is that its gross income should not exceed R20 million (DTC, 2014).

SARS has identified small businesses as creating a leakage in the tax system due to their lack of formal structure, the absence of proper record-keeping and the difficulty in verifying information with third-party databases (SARS, 2012).

Similar findings from South Africa are noted in the UK and in Australia regarding SMEs whereby they are prone to higher manipulation of the tax system in terms of literature which follows.

The British construction industry consists of about 160 000 companies of which most are SMEs. A typical aspect of this industry is that a high percentage of the industry operators are self-employed. Research conducted by Briscoe, Dainty and Millet (2000) indicates that self-employment has many tax advantages for both the employer and the employee and, as a result, tax authorities suffer large losses of revenue. One of the issues highlighted was fictitious self-employment. Effectively, a company employing someone who is self-employed (other than an employee) will save on employee taxes and gain the benefit of an income tax deduction. Furthermore, a subcontractor can claim against this income all trade expenses it has incurred (Briscoe *et al.*, 2000). In an Australian study conducted by Buchanan and Allan (2000), the growth in the construction labour market was tested against the impact on tax revenue. Owing to the large numbers of contractors and



subcontractors in the UK and Australia, the informal sectors in these countries are characterised by high tax non-compliance (Buchanan & Allan, 2000).

Based on what has been said about the situation in the UK and Australia, and the definitions in the ITA which point to the fact that a sub-contractor in South Africa is effectively the same as a self-employed person or company, it can be said that the situations in the UK, Australia and South Africa are quite similar.

Research indicates that SMEs in the construction industry have many opportunities for tax manipulation, and the conclusion is reached that it is due to the various tax leakages and revenue losses that can be ascribed to subcontractors or SMEs in the construction industry that this sector is targeted by tax authorities not only in South Africa but also in countries such as the UK, Australia and New Zealand (Briscoe *et al.*, 2000; Buchanan & Allan, 2000).

## **2.4 CORRUPTION IN THE CONSTRUCTION INDUSTRY, TAX EVASION AND THEIR EFFECTS**

Braşoveanu & Braşoveanu (2009:2) describe corruption as “the abuse of public office for private gain. Public office is abused for private gain when an official accepts, solicits, or exhorts a bribe. It is also abused when private agents actively offer bribes to circumvent public policies and processes for competitive advantage and profit. Public office can also be abused for personal benefit even if no bribery occurs, through patronage and nepotism, the theft of state assets, or the diversion of state revenues”.

Corruption has an adverse effect on the economy; it depletes funds for public spending, creates unfair competition and increases the undeclared economy, all of which cripple the revenue authorities’ ability to collect tax (Buchanan & Allan, 2000; Colin & Nadin, 2012; Curran & Donahue, 2013; Kyriacou, Muinelo-Gallo & Roca-Sagale, 2015).

The evidence depicted in the literature to follow confirms that the construction industry is one that creates many opportunities, in South Africa and across the world, for economic growth and job creation. However it also creates the opportunity for tax leakages due to its nature being; mainly SMEs, government work, corruption and various cash related

transactions. Governments all around the world, including South Africa, are aware of this and have tried to implement processes to circumvent such occurrences of corruption. For example, in South Africa government work is governed by the tender process where listed contractors are able to tender (eThekweni Municipality, Not dated).

In an effort to ensure that the tender processes are regularised, fair in all respects and not open to corruption, the South African government has implemented a procurement guideline. One of the aims of these guidelines is to promote small and medium businesses so as to ensure the social well-being of all South Africans (National Treasury, Not dated).

The Construction Industry Development Board Act (Act 38 of 2000) was promulgated by the Government of South Africa to reconstruct, grow, develop and transform the construction industry in line with the government's Growth, Employment and Redistribution (GEAR) strategy (eThekweni Municipality, not dated). This Act promotes affirmative action and equity by ensuring that previously disadvantaged groups are given opportunities they had not had during the time of apartheid. It also regulates the tender process in accordance with the Broad-Based Black Economic Empowerment Act (Act 53 of 2003) and the Preferential Procurement Policy Framework Act (Act 5 of 2000) (Bowen *et al.*, 2007). Despite the implementation of these pieces of legislation, the construction industry itself remains prone to corruption, for instance, tender processes are manipulated to benefit certain businesses more than others (Bowen, Edwards & Cattell, 2012).

According to Bowen *et al.*, (2012), the effects of corruption in the construction industry are substantial. Corruption occurs in the form of tender rigging via collusion, which include "fronting" and "kickbacks". The parties involved are government officials, contractors and subcontractors. Common forms of corruption are awarding contracts for political gain, nepotism, the presence of conflict of interest and interference in the tender process. The construction industry is cited as the most corrupt sector in the world (De Jong, Henry & Stansbury, 2009). Bowen *et al.* (2012), citing World Bank estimates, indicate that corruption represents 5% of the world's economy, amounting to US\$1.5 trillion per year. In a survey conducted among South African construction industry participants, these authors reveal that the tender bid and evaluation processes are the project phases most

susceptible to corruption. These findings indicate that corruption in South Africa's construction industry is no different to that in the rest of the world (Bowen *et al.*, 2012).

It is necessary to draw a comparison between corruption and tax evasion. Braşoveanu and Braşoveanu (2009) point out that it is likely that most forms of tax evasion are related to some form of corrupt activity and that there is probably a direct correlation between a heavy tax burden and corruption. Companies who are successful in illegal businesses and operate in the underground economy pay no taxes. In this way they have an unfair competitive advantage over firms who operate legally.

Aghion, Akcigit, Cagé and Kerr (2016) have developed an endogenous model for the testing of the relationships between taxation, corruption and economic growth. In accordance with this model, taxation feeds public infrastructure; therefore, if corruption deprives governments of the full effect of tax revenues, it will in turn have a negative impact on economic growth. Secondly, corruption leads to the misuse of the tax revenues that have been collected and hence also adversely affects public infrastructure and growth. Therefore, corruption impedes growth from a revenue collection perspective *and* from the perspective of government spending on municipal frameworks. Corruption has a negative impact not only on taxation but also on growth.

In a report by the Internal Revenue Services (IRS) of the United States of America (Curran & Donahue, 2013) it is estimated that the biggest cause of the tax gap is due to under-reporting of income. In the state of New York in the United States of America, the amount of under-reported income in 2009 was estimated at 13.3%, of which business income was found to be the most significant item of non-compliance. At federal and state levels, 57.1% of business income was not reported, amounting to \$36.4 billion in under-declared income and \$2 billion in undeclared taxes. Curran and Donahue (2013) confirm that, instead of increasing tax rates or amending the actual tax laws to improve taxpayer compliance, requiring taxpayers to disclose more information to the IRS will ensure voluntary compliance. The reason for this is that it is more difficult to be non-compliant if information has already been disclosed to the IRS (Curran & Donahue, 2013). "In the construction industry the current lack of effective enforcement disadvantages law-abiding contractors who accurately report their income and properly classify their workers by allowing

dishonest contractors who evade taxes to unfairly underbid their competitors” (Curran & Donahue, 2013:7).

In the UK the situation is that there is an undeclared economy within the construction industry – contractors do not declare to the authorities a significant amount of work completed. Research done on 27 European Union states has revealed that 16% of all undeclared jobs and 19% of all under-declared jobs were in the construction industry (Colin & Nadin, 2012).

An analysis of 53 Middle Eastern and African economies has revealed that corruption has a high adverse impact on the collection of tax revenues, particularly in the areas of social security, taxes on domestic goods and services that include international trade (Thornton, 2008). Evidence collected from a sample of 42 countries (including Germany, Iceland, Canada, India, Australia, the UK, the USA, Japan and Spain) over the period 2008 to 2011 has indicated that because government involvement in the construction industry is common, it has the potential for bribe payments and for misconduct being rife (Kyriacou *et al.*, 2015).

In this section, the researcher set the tone for why the construction industry offers great opportunity for growth but also for corruption. Reasons put forward were the industry’s high-value investments and the significant interaction with government. On the one hand this industry creates jobs for many and it is key to increasing both public and private infrastructure; however, on the other hand, it is seen as one of the industries in the world in which the most and biggest tax leakages occur (Kyriacou *et al.*, 2015).

## **2.5 TAX COMPLIANCE OF SMES**

The promotion of SMEs is integral to the growth of every economy. However, these small businesses have many stumbling blocks on their path to try to achieve success. Across the world, a high rate of these businesses cannot keep their doors open and end up failing due to various compliance and regulatory burdens (DTC, 2014; Mahlanza, 2011; Ndlovu, 2015; Sieberhagen, 2008; Stols, 2013).

It is difficult to assess exactly how much SMEs contribute to the overall GDP in South Africa due to their lack of formal structuring. However, it is estimated that a combined 12% to 14.5% of GDP is generated by the informal SME sector (Mahlanza, 2011:27).

Some of the regulatory burdens that SMEs in South Africa face are new business registration requirements (including tax registrations) and complying with labour regulations as contained in the Labour Relations Act (Act 66 of 1995), the Basic Conditions of Employment Act (Act 75 of 1997) and the Employment Equity Act (Act 55 of 1998) (Mahlanza, 2011). However a review of the literature indicates that the high cost of tax compliance is the biggest burden preventing them from becoming formalised in the country (Ndlovu, 2015).

Based on a review of the literature (Abrie & Doussy, 2006; DTC, 2014; Gupta & Sawyer, 2014; Hansford & Hasseldine, 2012; Lai & Arifin, 2011; Lignier, Evans & Tran-Nam, 2014; Mahlanza, 2011; Ndlovu, 2015; Pope & Abdul-Jabbar, 2008; Venter & De Clercq, 2007), tax compliance costs specific to SMEs can be summarised as follows:

- The costs incurred in the course of record-keeping – these include the costs associated with compiling and organising receipts and records
- The costs incurred in the preparation and submission of all relevant tax returns
- The value of the time utilised by the small business staff in ensuring proper compliance, including visits to tax offices
- The costs incurred in using the services of, for instance, tax practitioners and accountants
- The cost of having to appoint consultants to either ensure compliance and/or address disputes with revenue authorities
- All other costs incurred in the course of ensuring compliance, including incidental and travel costs

In 2008 the National Treasury and SARS outsourced the critical evaluation of tax compliance costs of SMMEs in South Africa to an external independent agency, namely the United States Agency for International Development (USAID). About 1 000 companies in the formal sector were surveyed and the extraction sample was based on annual

turnover and provincial location. In the study by USAID (USAID, 2008), the following key findings were revealed:

1. Respondents felt that registration for taxes and their compliance were advantageous for increasing their legal standing and promoted their business operations. The disadvantage of registration and compliance with taxes was shown to be the high cost of compliance which caused the financial health of businesses including their prospects for growth to deteriorate due to lack of re-investment.
2. A large proportion of companies noted that being registered for VAT was positive since it facilitated refunds which created positive cash flows. However, on the downside they also felt that the monthly cost of compliance was very high.
3. The majority of SMMEs relied on in-house functionaries for bookkeeping and record-keeping. The function of tax compliance was preferably outsourced. The reason for outsourcing was the lack of in-house expertise. Close corporations found it more affordable to outsource whereas partnerships and sole proprietors could not afford this accounting function.
4. Internal costs of compliance, such as time spent on preparing, completing and filing tax returns, were associated mainly with VAT and PAYE (including Skills Development Levy and Unemployment Insurance Contribution) taxes. The respondents felt that income tax and provisional tax compliance took up the least of their time.
5. The study showed that close corporations relied heavily on tax practitioners for tax-related affairs. In comparison, partnerships and sole proprietors could not afford the expertise of tax practitioners due to their small size and relatively small turnover. These businesses had a higher interaction directly with SARS since they had to perform these functions themselves, even in the case of specialised tax matters.
6. The average cost of lodging an appeal related to income tax was found to be R1 750. The most aggravating factor in the appeal process was found to be the time taken by SARS to respond to an appeal.
7. Many businesses with the smallest turnovers visited SARS most often. The time and cost of travelling to and from a SARS office as well as waiting in queues were found to be significant.
8. Around one third or 30% of the participants felt that there was nothing further SARS could do to improve compliance. These views were expressed by respondents who

exhibited high rates of compliance. The most common response of many small businesses related to possibilities for improvement was access to SARS and quality of service. The issue of the location of SARS offices was raised as ease of access was a factor in improving overall compliance. Saving on time and travel costs ranked high as a priority. Respondents noted further that service delivery relating to VAT should be more efficient, in particular the timeous release of VAT refunds as this could have an impact on the cash flow of an SME.

9. One sixth of the sample revealed that the process of tax registration should be simpler and easier to complete. Forms should be shorter and could be simplified by the use of explanatory notes.
10. Ten percent of the respondents felt that SARS should extend its services to communities in the form of providing education and training, holding roadshows and arranging direct initiatives for businesses. These actions could improve overall tax compliance.

In a study conducted by Mahlanza (2011), small businesses in the area of the Buffalo City Metropolitan Municipality in South Africa were interviewed using semi-structured interviews. The results showed similarities to the USAID findings cited above.

SME tax compliance costs in the four countries of the UK were also investigated by Hansford and Hasseldine (2012). They found that for 85% of SMEs who paid external service providers for tax-related work, completing tax returns was the most time-consuming activity and calculating VAT was more time-consuming than calculating other tax types.

Various other researchers (Abrie & Doussy, 2006; Chamberlain & Smith, 2007; Mahlanza, 2011; Ndlovu, 2015; Venter & De Clercq, 2007) concur with the above finding that regulatory and tax burden costs of SMEs are high. Specifically, compliance with tax regulations negatively impact on business operations and takes time that could have been spent on other business activities. Tax administration is found to be the most time-consuming. In certain instances the delay in refunding VAT is found to have a negative impact on the cash flow of a business and, considering the nature of an SME, such a setback could lead to company liquidation. Tax clearance certificates or letters of good

standing, which are required as part of tender processes, are also indicated as burdensome to obtain. If these cannot be obtained in time, rendering companies unable to submit tenders on time, it would mean loss of new business. Many SMEs in South Africa are heavily reliant on tender income from government contracts and some depend on this income for their existence. It is clear that the impact of taxation on SMEs, in particular high rates, interest and penalties, can determine the ability of SMEs to survive (Mahlanza, 2011).

This section has provided evidence that it is difficult for SMEs to survive in many economies globally because costs of complying with regulations are high. Tax compliance ranks as the highest cost since non-compliance can lead to penalties, interest and cash-flow problems. The lack of formalisation and the non-compliant nature of SMEs are cause for concern to tax authorities, and because of these factors they are targeted by tax authorities.

## **2.6 SPECIAL TAX CONSEQUENCES AND INCENTIVES FOR SMES IN THE CONSTRUCTION INDUSTRY**

It is widely acknowledged that, although the costs of tax compliance are high and tax regulations are onerous, there are ways in which these can be alleviated (Chamberlain & Smith, 2007; DTC, 2014; Freedman, 2003; Ndlovu, 2015; Venter & De Clerq, 2007; USAID, 2008). Some of these ways include:

- introducing tax incentives for SMEs;
- simplifying the tax administration system to help SMEs reduce the time spent on it, for instance by making the completion of the returns easy, less cumbersome and less frequent;
- reducing the tax rates for SMEs;
- providing assistance by tax administrators, running education campaigns and making tax guides on complex tax issues available; and
- reducing the burden of VAT compliance by increasing the threshold for VAT registration.



As far as the current study is concerned, it is, therefore, necessary to investigate what tax incentives are available for SMEs operating in the construction industry with a view to integrating this information into the questionnaire to be administered to respondents so that data can be obtained to meet the study's research objectives.

Table 4 presents a summary of the incentives available to SMEs based on the above discussion.

**Table 4: Tax incentives specific to SMEs and companies operating in construction**

<b>Income Tax Act 58 of 1962 (ITA)</b>	<b>Details</b>
Small Business Corporation Tax (SBC)	Progressive rates based on turnover
Section 12E	Small business deduction on assets used in the process of manufacture – preferential rates
Micro-business turnover tax	Turnover less than R1 m p.a.
Section 24C	Allowance for future expenditure on contracts
Section 13	Allowance on buildings or improvements to buildings used in a process of manufacture, research and development or similar process
<b>Value-added Tax Act 89 of 1991 (VAT Act)</b>	<b>Details</b>
Voluntary registration	Turnover less than R1 m – no registration required
VAT implications	Services in respect of the construction of buildings on fixed property
<b>Turnover tax</b>	<b>Details</b>
Micro business – Sixth Schedule of the ITA	Single tax – turnover less than R1 m
<b>Other legislation</b>	<b>Details</b>
Employment tax incentive	Youth employment incentives provided to ensure relief from payroll taxes
Interest, penalties and understatement penalties	Tax Administration Act 28 of 2011 (TAA)

*Source: Author*

Each incentive described in the above summary is explained in the paragraphs which follow.

## 2.6.1 Income tax considerations

Discussed below are the special incentives contained in the ITA; the SBC tax, section 12E, Micro-business turnover tax, section 24C and section 13. Their applications are explained as they relate directly to SMEs and/or the construction industry.

### Small business corporation (SBC) tax

SBCs are not taxed at a flat rate of 28% but on progressive rates of tax, therefore, according to their taxable income.

In section 12E of the ITA, an SBC is defined as a company (excluding trusts, sole proprietors and partnerships) with a gross income not exceeding R20 million per annum. There are various limitations to this definition and one of them is that the shareholders of the company cannot own equity shares or interest in any other company (except a venture capital company) in the year of assessment (South Africa, 1962).

Table 5 below provides the progressive rates applicable to small businesses according to the taxable income earned during the year of assessment starting 1 March 2016 and ending 28 February 2017.

**Table 5: SBC rates, 2016/2017**

Taxable income (R)	Rate of tax (R)
0 – 75 000	0% of taxable income
75 001 – 365 000	7% of taxable income above 75 000
365 001 – 550 000	20 300 + 21% of taxable income above 365 000
550 001 and above	59 150 + 28% of taxable income above 550 000

*Source: SARS (Not dated)*

In the DTC report (DTC, 2014) it is stated that surveys and studies have indicated that the election of becoming an SBC is mainly beneficial to companies with a high taxable income. The report stipulates that manipulation of this incentive is done amongst family members

(who usually own an SBC). One of the exceptions regarding election of an SBC is that the shareholders cannot own or be members of any other companies. However, if different members of one family each own businesses and claim an SBC tax incentive, this would be a clear manipulation of the system.

Section 12E of the ITA: Deductions in respect of small business corporations

A company that qualifies as an SBC can claim a write-off of 100% on new assets bought that will be used in the process of manufacture (South Africa, 1962; Stols, 2013).

Section 24C of the ITA: Allowance in respect of future expenditure on contracts

Income in the construction industry is usually received in advance for expenditure that will only be incurred in a subsequent tax year. In terms section 1: Gross income, definition in the ITA (South Africa, 1962), income is taxed on earlier receipt or accrual. Therefore, these advance receipts under a contract would generally be fully taxable in the year in which they were received.

However, section 12C allows for a relief whereby an allowance is made in the current year of assessment, which must be added back to income in the following year, equal to an amount in terms of a formula which is acceptable to SARS. The method applied to calculate the allowance is usually based on the gross profit percentage specific to that contract.

The allowance should be calculated on a contract-by-contract basis. This section applies to all companies that operate with construction contracts and that receive an advance payment in terms of a contract. It must be proved to SARS that the expenditure that will be incurred only in the following year is tax deductible expenditure (South Africa, 1962; SARS, 2014).

Section 13 of the ITA: Deductions in respect of buildings used in the process of manufacture

This allowance is applicable for buildings or improvements to buildings that are owned by the taxpayer and used for the process of manufacture (South Africa, 1962).

Depending on when the building was erected, the rate of the allowance is calculated as indicated in Table 6.

**Table 6: Applicable rates of allowances for buildings**

Date on which the erection of the building or improvements commenced	Rate of allowance
(a) Before 1 July 1985	2% x cost
(b) On or after 1 July 1985 but not later than 31 December 1988	2% x [cost – (17,5% x cost)*] * Initial allowance
(c) On or after 1 January 1989 but not later than 30 June 1996	5% x cost
(d) On or after 1 July 1996 but not later than 30 September 1999 and brought into use on or before 31 March 2000	10% x cost
(e) On or after 1 July 1996 but not later than 30 September 1999 and brought into use after 31 March 2000	5% x cost
(f) On or after 1 October 1999	5% x cost

Note: \* The initial allowance (which was 17,5% of the cost of qualifying buildings and improvements the erection of which commenced between 1 July 1985 and 31 December 1988, if completed and brought into use by 31 December 1989) was available under the now repealed section 13(7).

x = multiplied by

Source: SARS (2014:6)

## 2.6.2 VAT considerations

The discussions below are specific considerations which may be applicable to SMEs and/or the construction industry. These are extracted from the Value-Added Tax Act (Act 89 of 1991) (South Africa, 1991).

### Voluntary registration: turnover less than R1 m

Businesses with turnover less than R1 m can elect not to register and pay VAT. This means that their VAT inputs are also not claimable. Registration for VAT is voluntary and natural persons can elect to use the cash basis for VAT instead of the invoice basis.

The above is envisaged in section 23 of the VAT Act No. 89 of 1991.

### Services in respect of the construction of buildings on fixed property

There are various role players in the construction industry, namely, contractors (main contractors and subcontractors), architects, engineers and estate agents. The various services in respect of the construction of buildings on fixed property as well as the corresponding VAT implications are discussed below (SARS, 2013b:8).

Fixed property includes:

- “Land (together with improvements affixed thereto);
- any unit as defined in section 1 of the Sectional Titles Act 95 of 1986;
- any share in a share block company which confers a right to or interest in the use of immovable property Share Blocks Control Act, 1980;
- in relation to a property time-sharing scheme, any time-sharing interest as defined in section 1 of the Property Time-sharing Control Act 75 of 1983; and
- any real right in any such land, unit, share or time-sharing interest.”

The relationship between a landowner and a contractor is key to establishing the correct liability for VAT. The roles of contractors can take various forms. Engineers and architects involved in drawing up plans and preparing activities for the construction of the buildings

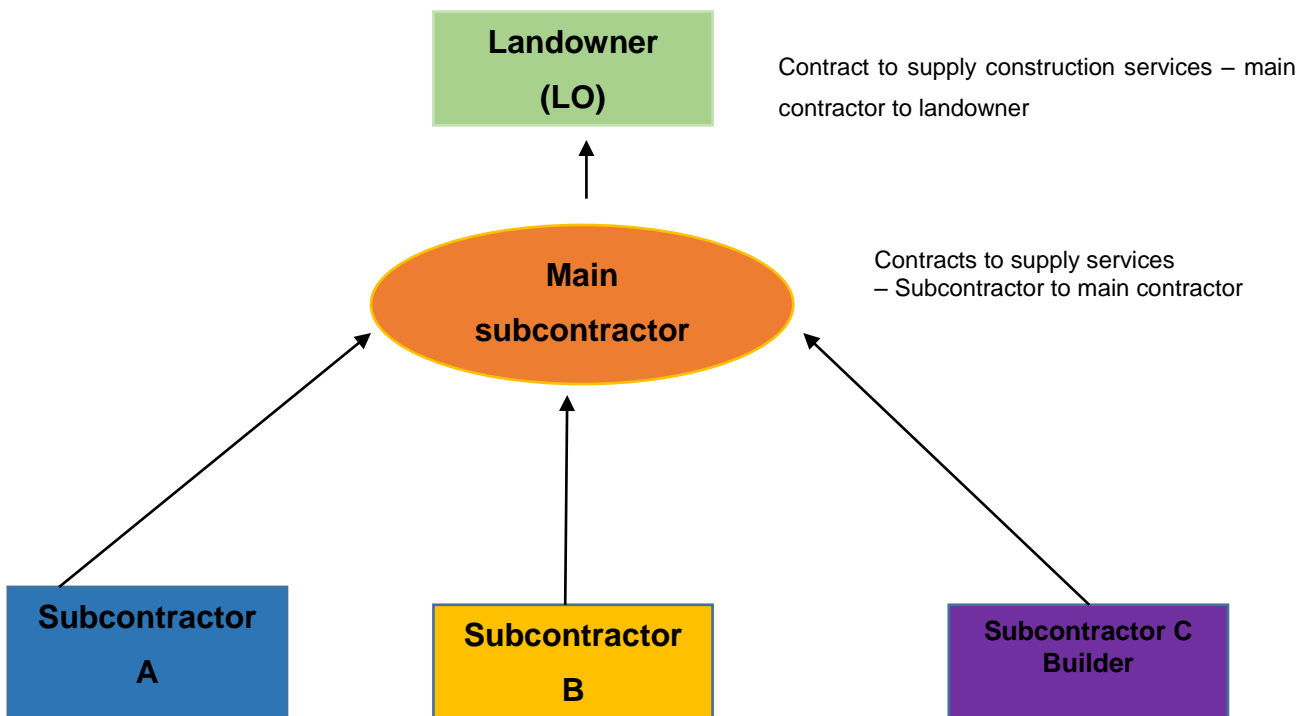
may also act as project managers. Project managers manage the projects by preparing contracts, issuing instructions and ensuring the work is done according to specification, including the certification of work done.

The project manager can act as an independent agent who provides services to the main contractor or acts as the landowner’s agent. In many cases the various contractors join together to make a joint bid to the landowner. This is called a joint venture (JV) which involves, for example, one contractor erecting the building and another one installing the electricity. The JV is separately created as a legal body of persons and it must register for VAT (if the threshold is met) if they co-operate with each other and share in the profits of the project.

The relationships described are important for determining whether input VAT can be deducted and also when output VAT is supposed to be declared (SARS, 2013b:49).

Figure 1 below shows the landowner contracted to one main sub-contractor. The main sub-contractor then employs the skills of other sub-contractors.

**Figure 1: Landowner contracts to one main subcontractor**

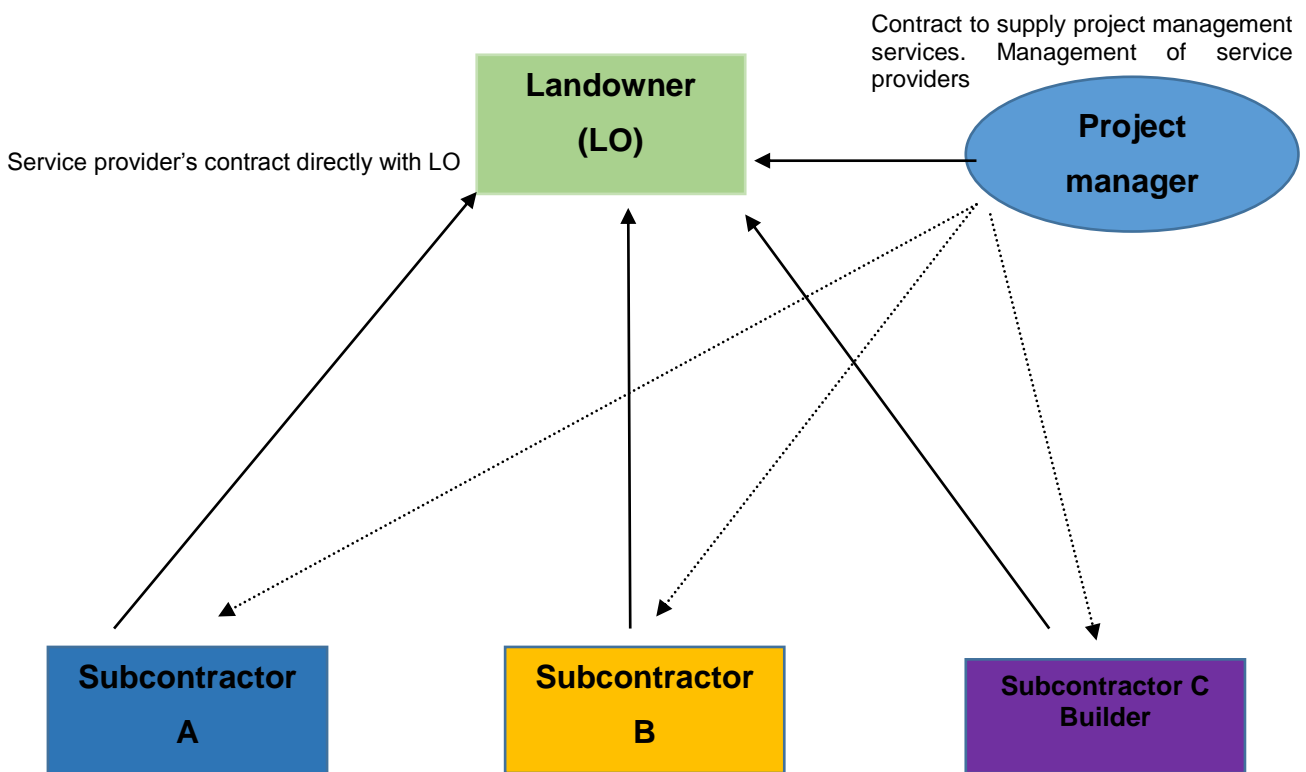


*Source: Adapted from SARS (2013b:49)*

The structure depicted in Figure 1 is one where the main subcontractor (principal, not agent) has a contractual relationship with the landowner only and the other subcontractors have a contract with the main subcontractor. In this case, subcontractors A, B and C issue tax invoices for supplies to the main subcontractor. The main subcontractor deducts these expense invoices as input VAT credits in his VAT returns. The main subcontractor then issues an invoice to the landowner, which becomes the landowners output VAT declared. The landowner can claim a VAT input credit for the invoice from the main subcontractor, provided the landowner meets the definition of an enterprise.

Figure 2 below shows, in contrast, the relationships where the landowner contracts with each separate sub-contractor. There is no main subcontractor in this situation but the landowner employs a project manager.

**Figure 2: Landowner contracts directly with each contractor using a project manager**



*Source: Adapted from SARS (2013b:49)*

In the case illustrated in Figure 2 there is no main contractor. The subcontractors will issue tax invoices directly to the landowner for services rendered. The landowner may deduct

the invoices paid as an input VAT deduction. The landowner may use a project manager and will also issue tax invoices directly for services rendered.

The VAT implications for construction services at the different stages of a project are set out in Table 7.

**Table 7: VAT implications for construction services at different project stages**

Construction contract stages	Detail	VAT application
<b>Pre-tender stage</b>		
<ul style="list-style-type: none"> <li>Register as vendor</li> </ul>	Turnover > R1 m Register only once tender is awarded.	Tax clearance certificates
<ul style="list-style-type: none"> <li>Setting prices</li> </ul>	Pricing of goods supplied	If vendor, deemed to include VAT Input cost can be later claimed on evidence of a valid tax invoice.
<b>Contract stage (awarded)</b>		
<ul style="list-style-type: none"> <li>Time of supply</li> </ul>	Section 9(3)(b) of the VAT Act on special time of supply rules – successive supplies deemed to occur when payment becomes due, is received or invoice issued, whichever is earlier	Usually in construction the obligation will only arise once the certificate of completion (COC) is certified by the third party.
<ul style="list-style-type: none"> <li>Escalations</li> </ul>	Included in COC	VAT is due once the COC is issued with invoice.
<ul style="list-style-type: none"> <li>Retentions</li> </ul>	Retentions are amounts withheld from the contract price for damages and sub-standard work. They are usually payable after timeframe agreed in the contract is kept to and work is of specified quality.	Vendor required to account for VAT, earlier of: <ul style="list-style-type: none"> <li>- invoice issued for retention amount;</li> <li>- retention due for payment;</li> <li>- retention recovered by contractor</li> </ul>
<ul style="list-style-type: none"> <li>Bonuses</li> </ul>	Contract may specify payment of a bonus on early completion of project.	Payment of bonuses attracts VAT – same as the contract price





Construction contract stages	Detail	VAT application
<ul style="list-style-type: none"> <li>Penalties</li> </ul>	Contract may make provision for penalties if failures to stick to timelines occur. It will be either a lump sum or set amount per day.	Effect is that the contract value will reduce, therefore, output VAT will also reduce. This is usually taken off the retention amount above.
<b>Tax invoices, debit notes and credit notes</b>		
<ul style="list-style-type: none"> <li>Tax invoices</li> </ul>	Vendor is only entitled to a deduction of input once a valid tax invoice is retained.	Three options available to adhere to requirements for issuing a tax invoice: <ul style="list-style-type: none"> <li>Use progress payment claim as tax invoice. If work certified for less or more then can rectify with debit or credit note.</li> <li>May issue tax invoice after 21 days after certification.</li> <li>Parties can agree to issue own invoices. (Binding general ruling 15 “Recipient – Created tax invoices...”)</li> </ul>
<ul style="list-style-type: none"> <li>Debit and credit notes</li> </ul>	Where a tax invoice is issued and there is a consequent adjustment, a debit or credit note can be issued to rectify the amount of VAT.	Where a greater amount is due than actual, a credit note is issued. The contractor can then either increase input VAT or reduce output VAT in the period the credit note is issued.
<b>Professional services</b>		
	Fees relating to project managers, architects and estate agents are subject to VAT at standard rates.	An input claim is deductible on the production of a tax invoice.

*Source: Created by author based on SARS (2013b:53–55)*

### 2.6.3 Turnover tax

The discussion below gives an explanation of how turnover tax operates and which companies can qualify as well as the rates of taxes applicable.

#### Micro-business turnover tax

In the case of micro businesses, turnover tax replaces all other taxes such as VAT, provisional tax, capital gains tax and dividends tax if these businesses have a qualifying annual turnover of R1 million or less. This regulation applies to individuals, partnerships, close corporations, companies and co-operatives. Turnover tax is based on a progressive rate according to gross income. For the year ending 28 February 2017, the rates as presented in Table 8 apply (South Africa, 1962):

**Table 8: Micro-business turnover tax rates**

Turnover (R)	Rate of tax (R)
0 – 335 000	0%
335 001 – 500 000	1% of each R1 above 335 000
500 001 – 750 000	1 650 + 2% of the amount above 500 000
750 001 and above	6 650 + 3% of the amount above 750 000

*Source: SARS (not dated)*

### 2.6.4 Employment tax incentives

The South African Employment Tax Incentive came into effect on 1 January 2014. It was introduced to stimulate the employment of graduates and young people. In accordance with this incentive an employer who is already registered for employee's tax is able to reduce its liability for PAYE when hiring qualifying employees who are "between the ages of 19 and 29, possess a South African ID and must receive a salary that is between the minimum wage for that specific sector and R6 000 per month. A minimum wage of R2 000 applies where no sectorial determination is applicable. The employee cannot be related or connected to the employer in any way. Domestic workers will not be eligible for the incentive" (DTC, 2014:38).

This incentive, which is worked out based on a formula, is only valid for the first two years of the qualifying employee's employment.

### **2.6.5 Tax Administration Act considerations**

The Tax Administration Act no 28 of 2011 (TAA) covers all the administrative powers of SARS including aspects regarding the imposition of penalties and the charging of interest, the resolution of disputes such as objections and appeals as well as audit assessments (Hall, 2013).

SARS may undertake an assessment of a taxpayer if their tax returns are not satisfactory or if no returns have been submitted. If a taxpayer feels aggrieved about the decision to have an assessment carried out, the taxpayer may object and appeal against it. These provisions are contained in sections 102 to 150 of the TAA (Keulder, 2013).

A specific penalty imposed as a result of an audit assessment is found in section 222 of the TAA. It is termed understatement penalties. SARS levies this penalty on the tax debt which has been understated by taxpayer. The percentage itself is guided by a table in section 222, which is based on the behaviour and conduct of the taxpayer. The highest percentage applicable is 200% for intentional tax evasion and second offence (Hall, 2013; South Africa, 2011).

In accordance with the TAA, SARS has the powers to collect tax debt even when a dispute has been declared. This principle is called the pay-now-argue-later principle, in terms of which, as set out in section 164 of the TAA, it is obligatory for a taxpayer to pay a tax debt on the due date and to argue later, following dispute rules. The TAA also authorises SARS to instruct a third party, for example a bank or a debtor, to settle a taxpayer's debt. This means that SARS can collect the tax owed to it directly from a taxpayer's bank or from a customer who owes the taxpayer money. However, the taxpayer can in terms of section 164(2) to (5) apply for a suspension of all or a portion of the debt that is due. This means that SARS is not legally entitled to insist on payment of the portion of the debt that is

suspended. The suspended portion remains in contest until all dispute resolution procedures have been finalised (Keulder, 2013)

## **2.7 EDUCATION OF A TAXPAYER AS A FACTOR THAT IMPROVES TAX COMPLIANCE**

“Small business taxpayers may be unintentionally non-compliant as a result of their apparent unawareness of their taxation knowledge shortfall. Knowledge levels can be improved provided that small business taxpayers can be convinced of their ‘need to know” (McKerchar, 1995:3).

The statement above encompasses the core of this research paper. Therefore, in the questionnaires that will be devised (see Chapter 3), the researcher will test the tax knowledge levels of the participating group of taxpayers and identify whether a gap exists in their tax knowledge, which will indicate their tax education needs.

Tax education is found to have a positive impact on tax knowledge, which in turn has a positive impact on the observance of tax fairness and compliance. When individuals become aware through education, their knowledge increases and this knowledge leads to an improvement in their positive attitude towards tax compliance (Mukhlis *et al.*, 2015). It is confirmed that an informed person will more likely want to be compliant whereas someone who is not will tend to be unintentionally non-compliant (McKercher, 1995).

Enhanced tax knowledge is also found to be a factor in deterring tax evasion. Once tax knowledge is increased, taxpayers take tax evasion more seriously (Eriksen & Fallan, 1996).

It is found that tax knowledge is an indispensable component of a voluntary compliant tax system. Under the self-assessment system, tax knowledge is rated as the most dominant factor. The complexity of taxes can take various forms, including computer complexity, complexity of forms, procedural complexity and rule application complexity. Tax complexity increases as the tax system becomes more complicated. Taxpayers are more likely to comply when they believe the system is not so complex. A survey conducted in New

Zealand involving 33 telephonic interviews indicated that most participants had inadequate knowledge of the technical aspects of the income tax system. It is posited that increasing tax knowledge through education will reduce non-compliance (Saad, 2013).

Improving tax literacy as compared to applying enforcement strategies has a more long-term impact on compliance, especially when people are educated from a young age (i.e., before they enter into the labour market or business environment) (Nichita, 2015).

“Voluntary compliance amongst taxpayers is heightened when taxpayer education and enforcement functions are balanced to achieve the desired output in tax compliance” (Misra, 2004:109).

Therefore there is a substantial amount of literature which confirms that through tax education, voluntary tax compliance is improved. Furthermore the benefits of educating taxpayers is found to also limit tax evasion and significantly enhancing tax literacy having a longer term result as compared to a short term impact.

## **2.8 CONCLUSION**

The exploration of the literature relevant to the research objectives has provided evidence that SARS is looking at the construction industry under a microscope as this industry displays various issues of tax non-compliance. Corruption associated with tender processes also has a significant impact on tax evasion, which in turn has a negative effect on tax collection and revenue.

In the current economic climate it is difficult for an SME to survive in South Africa, and the high cost of tax compliance compounds the problem. SMEs are an important part of the country's economy as they stimulate the creation of jobs. Therefore, the growth of the SME industry is crucial to healthy economic growth. The specific tax effects of transactions in the construction industry, coupled with the problems that beset SMEs, make it difficult for a small business owner to comply with tax requirements accurately.

Equipping small business owners in the construction industry with the necessary tax knowledge and education will positively impact on their tax compliance.

## **CHAPTER 3: RESEARCH DESIGN AND METHODS**

### **3.1 INTRODUCTION**

In this chapter, a discussion is presented of the research design and methods applied in this study with a view to meeting the study objectives and drawing a relevant conclusion. The discussion entails a description of the inquiry strategy, the sampling method adopted, target population used and the unit of analysis. A summary of the data collection and analysis processes is also provided. The chapter is concluded with an outline of the methods used to ensure the quality, rigour and ethics of the chosen research method.

### **3.2 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN**

#### **3.2.1 Strategy of inquiry**

A qualitative research methodology was used in this empirical study and the collection of new data was primarily relied upon. The method or research tool used to collect data was the interview method. This choice was prompted by the finding that “Social abstractions like education are best understood through the experiences whose work and lives are stuff upon which the abstractions are built” (Siedman, 2005:6). The interview method chosen for this study was different to the highly structured survey interviews and questionnaires used in epidemiology: it was less structured in that the person being interviewed was regarded as a participant who added meaning and value and not a subject from whom data was retrieved (DiCicco-Bloom & Crabtree, 2006).

Interviews can assist in gathering relevant, valid and reliable data that addresses the research objectives (Saunders, Lewis & Thornhill, 2009). Interviews are the most commonly used method to retrieve meaningful data in qualitative research, and the semi-structured interview is the most popular (Kallio, Pietila, Johnson & Kangasniemi, 2016). In-depth interviews can produce rich and profound information about the experiences and knowledge of individuals (DiCicco-Bloom & Crabtree, 2006).

Saunders *et al.* (2009) list three categories of interviews, namely, structured, semi-structured and unstructured interviews. The semi-structured interview is described as one that is in-depth and, therefore, unstructured. Semi-structured interviews are regarded as qualitative research interviews. A qualitative research interview consists of questions or themes that an interviewer has prepared for the respondent; however, the interviewer may vary the questions in order to omit certain questions or even to include new questions, depending on the flow of the interview with the specific respondent. The questions may also vary depending on the differentiating characteristics of the respondents/interviewees. Data can be recorded using an audio recorder or by taking notes.

Semi-structured interviews are usually set up in advance, are conducted outside the usual daily routine and can take between 30 minutes to several hours to complete (DiCicco-Bloom & Crabtree, 2006).

Research has shown that this chosen method of inquiry is seen to be an appropriate data collection tool and this view is supported in the social sciences (DiCicco-Bloom & Crabtree, 2006; Kallio *et al.*, 2016). Siedman (2005) suggests that interviewing is a powerful tool to gain insight into education since the interviewer interacts with people who have actually experienced the issues the interviewer is interested in.

For this study, which seeks to identify the tax education needs of business owners operating SMEs in the construction industry, a semi-structured interview technique was considered the most appropriate. Interviews were set up with business owners and the pre-prepared questionnaire was discussed. These were face-to-face interviews that entailed verbal responses and lasted about 30 to 45 minutes each. The researcher asked a respondent a question included in the questionnaire and recorded the answer on the interview template. The semi-structured nature of the interview was determined by each respondent's personal experience. The researcher took account of the tone of the business owners' answers and of the history of each of the owners; therefore, the unstructured questions were investigative in nature and delved deeper into the respondents' personal experiences.



### 3.2.2 Classification of the overall research design

Based on the discussion in section 3.2.1 of the strategy of inquiry followed in the current study, mention is made below of the terms that can give the best broad description of the design of the research in this study:

- **Empirical study:** The study involves the collection and analysis of data to be used specifically for this study and, therefore, the study can be categorised as empirical (Saunders *et al.*, 2009).
- **Qualitative study:** As the study is exploratory in nature and does not make use of quantitative data, it is seen to be qualitative (Golafshani, 2003). A qualitative study is further described as one that uses methods of inquiry such as narratives or case studies, and where unrestricted data is collected with the principal intent of developing themes from them (Cresswell, 2003).
- **Case study strategy:** A case study is described as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context” (Saunders *et al.*, 2009:145–146). The data tool used in this strategy is semi-structured interviews, which entail observation and questionnaires. Therefore, the strategy used in this study can be classified as a case study.
- **Primary data:** This study concerns the collection of data specific to this research (Saunders *et al.*, 2009).
- **Exploratory study:** The research seeks to answer the research question. It is investigative in nature and the objective is to provide insight (Saunders *et al.*, 2009).
- **Descriptive study:** A descriptive study is a mere extension of an exploratory study. Before undertaking the study, the researcher had a precise idea of the occurrences about which information would be collected (Saunders *et al.*, 2009).

### **3.3 SAMPLING**

The study focused on subjects who owned and operated SMEs in the construction industry in South Africa. Therefore, it produced results specific to South Africa, which is a developing country, and these results cannot be generalised to apply to other countries.

The selected construction business owners operated within the researcher's sphere and fitted into the category of SMEs.

#### **3.3.1 Target population**

In-depth interviews require that the sample of interviewees should share essential characteristics so that data can be obtained that can address the research question. The sample should be fairly standardised or the same (DiCicco-Bloom & Crabtree, 2006).

Saunders *et al.* (2009) indicate that, in relation to the design and methodology chosen for this study, the population will depend on the researcher's judgement about what will be required to meet the objectives of the study.

Therefore, keeping the objectives of the study in mind, the researcher selected a sample consisting of SME owners of construction companies located in Durban and Johannesburg, South Africa. Specifically, a balance between small- and medium-sized enterprises was maintained. Furthermore, these business owners were not required to have any formal finance-related education. This was done to achieve general balance in the population.

#### **3.3.2 Unit of analysis**

When the unit of analysis consists of natural persons, it is essential to consider the concept of life history. Using people as the unit of analysis has proved to be successful in various fields of study, such as psychology, sociology and education, as people can provide meaningful and broad understandings (Zucker, 2009).

Therefore, it was noted that to gauge the actual needs relating to tax education in the construction industry, choosing real-life samples in the form of people was important in addressing the overall objectives of the study.

### **3.3.3 Sampling method and sample size**

The sampling method was based on an iterative process whereby purposeful sampling was used to enhance the validity and depth of the data collected (DiCicco-Bloom & Crabtree, 2006). The sampling strategy employed was based on homogenous selection, in other words, all units of analysis or samples were similar, ensuring that an in-depth study of the relevant category/group could be achieved (Saunders *et al.*, 2009).

Zucker (2009) explains that when case studies are used, the collection and analysis of the data occur concurrently.

DiCicco Bloom and Crabtree (2006) note that purposeful sampling is best suited for research where small samples are used (such as in case studies).

The chosen method of semi-structured interviews falls within the ambit of non-probability sampling and the specific method used is based on the researcher's subjective judgement. For non-probability sampling techniques "the issue of sample size is ambiguous and, unlike probability sampling, there are no rules" (Saunders *et al.*, 2009:233). Therefore, the sample size can be dependent on various things, such as the research questions, objectives, the credibility of the data and the resources available. As much as there is subjectivity attached to the number of samples used for case studies, guidance is offered on the number of samples when conducting in-depth interviews with a homogenous group. The sample size that was noted to be sufficient for a study was 12 (Saunders *et al.*, 2009).

In using interviews, the issue that data can reach a saturation point needs to be considered. For instance, in a study in which in-depth interviews were conducted with 60 women in West Africa, data saturation occurred after 12 interviews. Usually sample sizes for purposive sampling are guided by saturation. Saturation describes the point at which

the data can no longer provide any meaningful or additional themes (Guest, Bunce & Johnson, 2006).

Based on the guidelines given in the literature, a purposive sample of 10 respondents was deemed to be sufficient for the current study (Saunderson, 2009). The researcher aimed to achieve a balance between small- and medium-sized entities in the samples. The amount of turnover earned was used to determine the category of SME to which the sample belonged, and the parameters applied to determine the categorisation are presented in Table 9 (also see section 2.3).

**Table 9: Categorisation of construction SMEs according to turnover**

Sector	Size	Turnover (max)
Construction	Medium	R26 m
	Small	R6 m
	Very small	R3 m
	Micro	R0.20 m

*Source: Extract from Schedule of SMMEs (South Africa, 1996)*

### 3.4 DATA COLLECTION

#### 3.4.1 Non-Standardised questionnaire and semi-structured interviews

Data was collected by means of a non-standardised questionnaire administered during a semi-structured, face-to-face interview. The questionnaire administered contained standard questions and the face-to-face interviews consisted of semi-structured, open-ended questions. These open-ended questions (see Appendix A, Section B) were formulated in the course of conducting the interviews and took account of the personal experiences of the respondents.

The intention of using this method was to be able to identify and explain common themes that emerged among the sample populations and to analyse these themes. This data collection tool also helped to achieve the objectives of the research (Saunders *et al.*, 2009).

The use of a standardised questionnaire during a semi-structured, face-to-face interview is considered to be a favourable type of data collection tool in qualitative exploratory research. Furthermore, personal interviews (as opposed to telephone interviews) and non-standardised questionnaires (as opposed to standardised online questionnaires) have been found to deliver higher response rates (Healey & Rawlinson, 1993).

In the case of semi-structured interviews, it is important that the researcher has a very good understanding of the research subject so that further probing is enabled. Therefore, prior planning and reading are necessary. It is also highly recommended that a pilot test be done in preparation so that the researcher is equipped with the skills required (Healey & Rawlinson, 1993). These requirements were met in the current study.

The interviews were conducted and the data was collected during October and November 2016.

The methods of audio recording and detailed note-taking were used to record the responses. Immediately after an interview was concluded, the actual record of the interview was compiled to properly capture the full account of the interview. This prevented data from being overlooked, mislaid or mixed up with interviews that took place at a later stage (Saunders *et al.*, 2009). Prior consent for the use of audio recordings was obtained from respondents.

To conclude, the use of a standardised questionnaire with a non-standardised, face-to-face interview that included open-ended questions was found to be appropriate for the chosen research method, namely a qualitative case study approach using semi-structured interviews.

### **3.4.2 Design of the questionnaire and interviews**

The questionnaire was designed to include an explanation of terms and definitions to avoid any ambiguities from the outset and to provide the interviewees with some background to clarify the objectives of the study (see Section A, Appendix A). The notes provided were extracted and adapted from two dissertations (one by Mahlanza dated 2011 and one by

Maholwana dated 2015) that focused on similar population groups. These two studies used qualitative methods and open-ended interview questions.

The questions asked during the interviews conducted for the current study were based on the objectives of this study that were formulated based on the literature review performed, academic guidelines provided by the above-mentioned two authors' dissertations (Mahlanza, 2011; Maholwana, 2015) and two reports written in South Africa, being the USAID report (USAID, 2008) and the Davis Tax Committee Interim Report (DTC, 2014).

The questions posed to respondents consisted of two sections: Section A that dealt with respondents' demographic information and Section B that contained open-ended interview questions (see Appendix A).

As said above, the demographic data of the respondents were gathered in the first section (Section A) of the questionnaire. It prompted respondents to include the specific sectors of the construction industry in which they operated as business owners. The open-ended questions in the second section (Section B) were grouped according to the themes identified from the literature review, namely, tax compliance costs, construction and SME tax incentives, income tax and VAT. The intention of the inclusion of these focus areas was to obtain data that would assist in addressing the research questions. In having in-depth interviews with business owners, the researcher aimed to confirm the tax knowledge and understanding these SME owners already had and to establish the required tax knowledge they lacked.

In the introduction to Section A, respondents were informed (in bold script) that the information they provided about their business and person would remain confidential and would only be used for the purposes of the study to explain the research. No names and details were used or disclosed in the study.

In Section A, the following demographic information about the respondents was elicited (Mahlanza, 2011):

- Geographic operation and turnover
- Gender

- Ethnic group
- Level of education
- Position in the business
- The nature of the construction industry the SME operated in
- The form of the business
- The number of years the business had been operating
- The average yearly turnover (to identify whether it was a small- or medium-sized business)

In the following section (section 3.5), the analysis of the data obtained from the interviews is discussed. The purpose of obtaining and analysing the data was to meet the objective of the problem statement, namely to identify the tax education needs of SMEs in the construction industry.

### **3.5 DATA ANALYSIS**

The data collected was primarily in a text format. The responses were summarised in sections for the capture of keywords and phrases. This enabled the researcher to scrutinise and explain common themes that had emerged in the responses of the business owners. The data analysis encompassed a discussion of the important themes, which was then summarised. The responses were analysed in detail to understand how much tax knowledge the business owners currently possessed and to establish if they believed that improving their current knowledge would enable them to better comply with the tax requirements of SARS.

The analysed data was also compared with and related to the information obtained from the literature review to identify common themes that had arisen.

Chapter 4 presents a detailed data analysis of the responses received and a discussion of the conclusions reached.

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

The quality and reliability of the design was achieved by employing methods to minimise any bias relating to the questionnaires and the face-to-face interviews.

#### **3.6.1 Defining reliability, validity and bias**

The reliability of the data obtained in the type of unstructured interview used in this study refers to the extent to which the same conclusions would have been reached if a different form of data collection tool had been used. In a non-structured interview, the lack of standardisation can also lead to issues of reliability (Saunders *et al.*, 2009).

Golafshani (2003) identifies two concepts relating to data reliability, namely, dependability and trustworthiness, adding that reliability is achieved through validity and that once validity is gained then so is reliability.

Validity refers to “the extent to which the researcher gains access to their participants’ knowledge and experience, and is able to infer a meaning that the participant intended from the language that was used by this person. The high level of validity that is possible in relation to non-standardised (qualitative) interviews that are conducted carefully is due to the questions being able to be clarified, meanings of responses probed and topics discussed from a variety of angles” (Saunders *et al.*, 2009:327). These authors further explain that with semi-structured interviews, validity of data is not a concern but the generalisation of data could be. They note that statistical generalisations on the entire population cannot be used when conducting in-depth interviews. However, this is limited to when an un-representative sample is used.

Based on the above, it can be concluded that the research method employed achieved validity and reliability. Validity was gained by conducting in-depth, semi-structured interviews, which enabled the researcher to extract and gain meaningful knowledge from the participants. Generalisation was not a concern in the case of this study since the research was done using a representative sample and not a non-representative sample.



### **3.6.2 Overcoming data quality issues**

Golafshani (2003) points out that generalisation of the population is more effectively applied when one can demonstrate the reliability and validity of the data obtained. A method by means of which validity and reliability can be obtained is triangulation, a procedure for investigating themes or categories emerging from the data. Should clear themes be identified, it further adds to the rigour and reliability of the data.

The triangulation technique was used in the current study to overcome data reliability concerns.

To obtain credibility of data and the confidence of respondents, attention must be paid to the “five Ps”, namely, “prior planning prevents poor performance” (Saunders *et al.*, 2009:328). These authors emphasise that proper planning is essential. If in-depth interviews will be conducted, the researcher must prepare well to acquire a thorough knowledge about the topic of the interviews. The authors confirm that “the ability to draw on this type of information in the interview should help to demonstrate your credibility, assess the accuracy of responses and encourage the interviewee to offer a more detailed account of the topic under discussion” (Saunders *et al.*, 2009:328).

For this study, the researcher studied the topic in depth by doing a literature review that covered studies done in South Africa and also in other countries that were relevant to the South African context. Having worked at SARS for five years, the researcher was able to add experience and knowledge to the current study, owing to which it was possible to engage with the interviewees based on actual experiences and to elicit honest responses from the interviewees based on real-life experiences.

As the trustworthiness of data can be lost when the full account of the interview is not compiled immediately after the interview (Saunders *et al.*, 2009), the researcher made sure that this was done.

Before the questionnaire was administered it was critically evaluated by Mrs Ruwayda Redfearn, Business Unit Leader at Deloitte, Durban after she had been briefed on the research study and its objectives. She is an independent academic with many years of experience in finance and is a qualified chartered accountant. The amendments suggested by Mrs Redfearn were considered and implemented.

Pilot testing as a means to achieve validity was not considered necessary since the non-structured, in-depth interviews allowed the interviewer to clarify any questions that might seem ambiguous (Saunders *et al.*, 2009).

The researcher made sure that the necessary time was allocated to compile and record in a concise manner an account of each semi-structured interview as soon as it had been concluded. In order to reduce participant bias, the participants were informed right at the outset that the confidentiality of the information received was guaranteed. They were also assured that their anonymity would be maintained and that the information they provided could in no way be traced back to them.

### **3.7 RESEARCH ETHICS**

The research ethics that were complied with in this study included:

- obtaining ethical clearance from the Research Ethics Committee of the Faculty of Economic and Management Studies at the University of Pretoria;
- ensuring that each respondent signed a consent form prior to collecting data; and
- Ensuring the anonymity of the data collected.

### **3.8 CONCLUDING REMARKS**

In conclusion, the research design which is used for this study is qualitative in nature. The method of enquiry followed was the face-to-face semi-structured interview technique with open ended and standard questions. An interview questionnaire containing both standardised and non-standardised questions was used to interview each respondent. The

respondents were a sample of 10 SME business owners from Durban and Johannesburg, RSA. The business owners were verbally interviewed and each response was recorded in writing and then captured in summary directly afterwards to achieve data reliability.

The summary of their responses to the standard and open ended questions are contained in Chapter 4.

.

## CHAPTER 4: ANALYSIS OF DATA

### 4.1 INTRODUCTION

Against the background of the information presented in chapters 1, 2 and 3, the results of the data analysis are presented in Chapter 4. In summary, the background information consisted of an outline of the research problem, namely the focus of SARS on the construction industry, in particular SMEs (which constitute a major part of the construction industry), as a tax non-compliant industry. A literature review was undertaken with the aim of exploring different research questions related to this research problem (see section 1.4) and formulating interview questions to be put to SME owners in the construction industry with the purpose of establishing their tax education needs.

The research method followed was qualitative in that primary data was collected by means of conducting in-depth, semi-structured interviews (DiCicco-Bloom & Crabtree, 2006).

A sample of 10 SME owners operating in KZN and Johannesburg, Gauteng was selected based on a non-probability purposive sampling technique (Saunders *et al.*, 2009:233). These 10 respondents were selected based on the researcher's subjective judgement with the aim of addressing the objectives of the study. A questionnaire (see Appendix A, Section A) was administered to the respondents, and all the respondents also agreed to answer the open-ended questions posed to them in the face-to-face interviews (see Appendix A, Section B). Therefore, the response rate was 100%.

In interpreting the qualitative responses obtained from the interviewees a narrative analysis was principally used. The use of analytical aids and data display tools (graphs, tables and diagrams) complemented the narrative analysis (Saunders *et al.*, 2009).

The data analysed in this chapter is categorised as follows based on the structure of the interviews. These categories are discussed in the following sections:

- Demographic and basic information about the respondents

- Costs of compliance
- Tax incentives for SMEs
- VAT, micro-business turnover tax and employment tax incentives
- The Tax Administration Act
- SME owners' views on whether SARS does enough to educate taxpayers in the construction industry and SME owners' recommendations about other types of initiatives SARS could implement

## 4.2 ANALYSIS OF DATA

Qualitative data was collected by means of a questionnaire by asking respondents to answer open-ended questions during interviews. The analyses of the categories of data referred to earlier are discussed in sections 4.2.1 to 4.2.5.

The responses were analysed using the narrative descriptive method, one of the preferred methods to analyse qualitative data (Saunders *et al.*, 2009). Common themes emerging during the analysis are discussed and data is summarised and depicted using visual aid tools such as graphs, tables and charts. This section, therefore, summarises the responses to the interview questions contained in Appendix A.

### 4.2.1 Demographic and basic information

The relevant demographic information obtained about the 10 respondents is summarised in Table 10. This table consists of 10 columns, and for ease of reference each column is assigned a number.

Since the construction companies wished to remain anonymous, each company was allocated a key consisting of a letter of the alphabet (see column 1). These keys will be used in the rest of the document to refer to comments made by specific business owners.

Columns 2 to 10 contain information about the following categories:

- main work specifications of the relevant business owner (ranging from design, architecture, consulting, residential buildings, earthworks, storm roads and commercial buildings to electrical)
- the period in which each business owner has been rendering its services in the industry
- confirmation as to whether or not the business owner is a shareholder
- the form of the business at initial registration
- the highest level of education achieved
- the gender of the business owner
- the annual average turnover of the business
- the category of SME
- Construction Industry Development Board (CIDB) registration status

**Table 10: Basic information about respondents (construction business owners)**

1	2	3	4	5	6	7	8	9	10
Business owner	Main area of construction	Period in operation	Shareholder	Form of business	Highest level of education	Gender	Annual average turnover	Category of SME	CIDB status
<b>A</b>	Architecture and design	22 years	Yes	Close corporation	National certificate level 7	Male	R15 M	Medium	GB
<b>B</b>	Engineering consulting	6 months	Yes	Private company	University degree in engineering	Male	R1 M	Very small	GB/CE
<b>C</b>	Substation construction	19 years	Yes	Private company	Master's in engineering	Male	R25 M	Medium	EBEP
<b>D</b>	Residential building	3 years	Yes	Private company	National diploma in town planning	Male	R8 M	Medium	GB
<b>E</b>	Civils and building construction	5 years	Yes	Private company	Certified financial advisor	Male	R3.4 M	small	GB/CE
<b>F</b>	Civils and building construction	25 years	Yes	Private company	National technical certificate	Male	R3.4 M	small	GB/CE

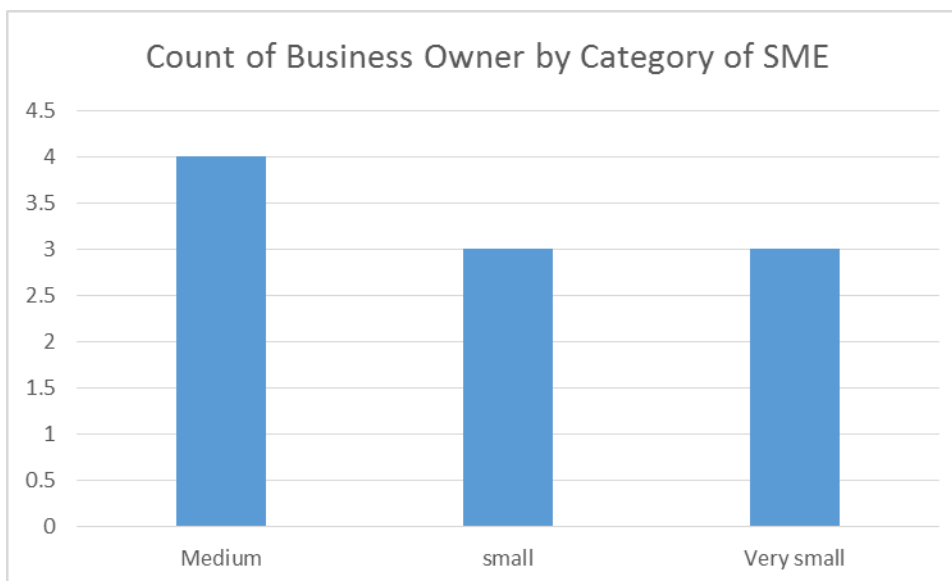


1	2	3	4	5	6	7	8	9	10
Business owner	Main area of construction	Period in operation	Shareholder	Form of business	Highest level of education	Gender	Annual average turnover	Category of SME	CIDB status
<b>G</b>	Roads, storm water	1 years	Yes	Private company	Certificate in project management	Male	R1 M	Very small	CE
<b>H</b>	Concrete rehabilitation works	2 years	Yes	Close corporation	University degree in engineering	Male	R13.5 M	Medium	CE/EBEP
<b>I</b>	Civil construction, bulk earthworks	2 years	Yes	Close corporation	Bachelor's degree	Male	R3.5 M	Small	CE/GB
<b>J</b>	Renovations and maintenance	7 years	Yes	Close corporation	Grade 12	Male	R350 K	Very small	GB

Note: M=Millions and K= thousands, CE= Civil works, GB = Building works and EBEP is electrical works and electrical engineering works infrastructure.

A company's annual turnover was used to determine its size as per Table 9: Categorisation of construction SMEs according to turnover (see section 3.3.3). Figure 3 depicts an analysis of these companies based on annual turnover.

**Figure 3: Business owners by SME category**



*Source: constructed by researcher for purposes of this study*

As indicated in the graph, four of the companies were classified as medium, three as small and three as very small, which is indicative of a good spread of SMEs among the categories.

The CIDB registration status is summarised in column 10 under the broad categories of civil engineering (CE), building work (GB) and electrical work (EBEP) (CIDB, 2013). Based on its work classification a company can apply for work in its specific category. Civil engineering (CE) entails construction work, such as bridges, dams, roads, water, sanitation and storm water that involves working with materials such as steel, concrete, earth and rock. General building (GB) construction works are defined as extensions or alterations to permanent shelters for occupation. Examples are buildings for domestic or commercial use, carports, stores and walls. Electrical engineering work building (EB) is defined as construction work for the installation or modification/alteration to any premises used for the transmission of electricity. It entails works such as electrical installations in buildings. Electrical engineering works infrastructure (EP) is defined as works that relate to the construction, modification or alteration of infrastructure used for the generation of electricity such as power substations, power lines and street lights (CIDB, 2015).

The information relating to each business owner as provided in Table 10 will be referred to again later in this chapter when the responses are interpreted in detail.

#### **4.2.2 Understanding the costs of compliance**

Guided by the literature review discussed in Chapter 2, the participants' responses to questions relating to the costs of tax compliance are analysed in this section. The relevant questions can be viewed in Appendix A, Section B: Open-ended questions – Costs of tax compliance.

In Table 11, a summary is presented of the responses of the business owners (A to J) to key interview questions about the costs of compliance.





**Table 11: Summary of responses relating to costs of compliance**

Response of a business owner and size of enterprise	B	G	J	E	F	I	A	H	C	D
	Very small	Very small	Very small	Small	Small	Small	Med.	Med.	Med.	Med.
Responses										
Spends time preparing and verifying information for inclusion in tax returns	N	N	N	Y	N	Y	N	Y	Y	Y
Understands what is meant by a certified tax practitioner	N	P	N	Y	N	Y	N	Y	Y	Y
Cost of outside accountant impacts on business	N	N	N	Y*	N	Y*	N	Y*	Y*	Y*
Understands who is liable for incorrect submissions to SARS	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Understands penalties and interest imposed by SARS	Y	P	N	Y	Y	N	Y	Y	Y	P
Understands what recourses are available against unjust actions by SARS	N	N	N	Y	Y	N	Y	Y	Y	N
Compliance issues with SARS?	N	N	N	Y	N	N	N	Y	Y	Y

Note: Med. = Medium; P = Partially; Y = Yes; N = No; Y\* = Yes, with good reason

From the responses received it can be deduced that only 50% of the companies spent time every month actually verifying information submitted to their accountants, despite 90% of all respondents understanding fully that a taxpayer is responsible for any fault on a tax return submitted.

Furthermore, 60% of the business owners understood how tax penalties and interest accumulated and what the original causes were.

Those business owners who did not spend time checking and verifying information on their tax returns (the other 50%) confirmed that they did not understand the tax requirements and relied completely on their accountants.

Of the 50% (five respondents) who verified information on their tax returns, only one respondent submitted his own returns on a monthly basis. The rest of the respondents had external accountants who filed their returns for them; however, they did perform monthly reconciliations and collated information for their accountants.

It is interesting to note that of the five respondents mentioned above, three (i.e., 60%, or 30% of the total respondents) have undergone audits by SARS. This could be viewed as a factor contributing to their decision to take the time to verify their tax information.

In Table 12 a summary is presented of the respondents' (SMEs') percentage of knowledge about tax compliance matters.

**Table 12: Percentage of knowledge about compliance matters**

Business owner and size of enterprise	B	G	J	E	F	I	A	H	C	D	Total
	Very small	Very small	Very small	Small	Small	Small	Med.	Med.	Med.	Med.	
Percentage of current knowledge											
% does not understand	71%*	57%	86%*	14%	57%	43%	57%	0%	0%	14%	40%
% understands	29%	14%	14%	86%	43%	57%	43%	100%	100%	71%	56%
% partially understands	0%	29%	0%	0%	0%	0%	0%	0%	0%	14%	4%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
% does not understand by size	71%*			38%			18%				

Note: Med. = Medium

The responses received indicate that 40% of the respondents did not understand the tax compliance matters mentioned in Table 11 whereas 56% did understand these matters. Based on the results obtained it can be stated that the very small SMEs possessed the least knowledge about the tax compliance matters mentioned. (The percentages are depicted by \* in Table 12.)

In respect of questions relating to the costs of compliance, the majority of the medium-sized SMEs indicated that their costs of compliance were high but in return for incurring these expenses they received the required additional assurance that they were tax compliant. This is a likely response since the sales figures of these companies are higher, allowing them to cover the outlay to get additional assurance. Two of the respondents

indicated that this cost was tax deductible and could be seen as just another item of business expenditure. On the other hand, the small and very small SMEs indicated that the cost of compliance did not impact on their businesses. Their responses could be ascribed to the fact that they either do not use an external accountant or they use one who is not a certified tax practitioner and whose fee is more affordable.

When discussing the recourse available to taxpayers, many of the respondents felt that despite the various avenues of objection and appeal, SARS was holding them to ransom. Respondent D (medium-sized enterprise) indicated that his company had recently undergone an integrated SARS audit and, therefore, he understood the process right to the debt compromise stage. However, the company's VAT refunds were being audited for compliance on a monthly basis. This respondent expressed the view that SARS would not be penalised for a transgression in the same way a taxpayer would be. The feeling that there was a degree of unfairness was common among the respondents.

The figures confirmed that, of the SMEs (50%) who felt there was no recourse against SARS or against an incorrect tax assessment, the majority (80%) belonged to the very small and small SME categories.

Of the respondents, 40% explained that they had experienced or were experiencing compliance issues with SARS. Of these, the majority (75%) were medium-sized enterprises.

The main problem the respondents experienced was the constant audit of SMEs' VAT refunds. This type of audit can delay a VAT refund for six to nine months. The business owners explained that the delay affected their cash flows and caused unnecessary delays in their making payments to suppliers.

Another key issue explained by respondent E, who used an accredited accounting package to prepare and complete his own tax returns, was that the E-filing platform and the SARS system did not correspond. For instance, on several occasions the E-filing system had confirmed the approval of his tax clearance certificate but on visiting a SARS

branch to collect the certificate he had been informed of discrepancies on his tax account. The respondent expressed frustration at being sent back and forth to have this rectified.

To summarise, the majority of the respondents understood the costs of non-compliance and had at one stage or another been penalised for non-compliance. Furthermore, the majority felt that the cost of having an external accountant was worth it considering the added level of assurance it provided. One of the issues of tax compliance noted by many of the respondents was the regular VAT refund compliance audits conducted by SARS. According to the respondents, the most time-consuming activity with regard to tax compliance was collating and verifying information for monthly VAT returns.

#### **4.2.3 Understanding tax incentives for small businesses**

In this section, a summary is presented of the business owners' responses reflecting their knowledge and understanding of the incentives available to small businesses, specifically in relation to the construction industry. The questions were devised based on the review of the literature on tax incentives done in Chapter 2.

As indicated in Table 13, most of the business owners interviewed were not aware of any tax incentives relating to SMEs operating in the field of construction. This is a matter for concern. However, two of the business owners (C and H, both medium-sized) deviated from the norm. They had recently undergone SARS audits and had gained more knowledge in the process. Furthermore, these two business owners indicated that they spent time each month verifying data for their returns, and this could have contributed to their increased knowledge. However, it could be argued that if these two SMEs had not undergone tax audits they would have had as little knowledge as the other business owners about the special tax incentives available to SMEs. If that had been the case, none of the SMEs (100%) would have had any knowledge of tax incentives for SMEs.

The knowledge of SME H about tax incentives was such that he had successfully applied section 12E of the Income Tax Act (South Africa, 1962). The SME in question had acquired new assets relating to manufacture and since it had subsequently qualified as an SBC it could write off 100% of the cost of the asset in the first year.

A summary of the results from the interviews are presented in Table 13.

**Table 13: Summary of responses regarding small business tax incentives**

Business owner	Category of SME	List incentives you are aware of.	What is your understanding of the requirements for small business corporation tax?	What is your knowledge of the incentive available regarding new assets to qualify as an SBC?	What is your knowledge of future expenditure deduction on contracts (section 24C of the ITA)?	Do you own your buildings?	What do you understand about building allowances?
B	Very small	None	Do not know	Do not know	Do not know	No	Do not know
G	Very small	None	Do not know	Do not know	Do not know	No	Do not know
J	Very small	None	Do not know	Do not know	Do not know	No	Do not know
E	Small	None	Yes	Do not know	Do not know	No	Do not know
F	Small	None	Do not know	Do not know	Do not know	No	Do not know
I	Small	None	Do not know	Do not know	Do not know	No	Do not know
A	Medium	None	Do not know	Do not know	Do not know	Yes	Do not know
H	Medium	Yes**	Yes	Yes	Do not know	Yes	Do not know
C	Medium	Yes*	Yes	Do not know	Do not know	Yes	Do not know
D	Medium	None	Do not know	Do not know	Do not know	No	Do not know
<b>Total</b>	<b>% no knowledge</b>	<b>80%</b>	<b>70%</b>	<b>90%</b>	<b>100%</b>	<b>70%</b>	<b>100%</b>
<b>Total</b>	<b>% aware</b>	<b>20%</b>	<b>30%</b>	<b>10%</b>	<b>0%</b>	<b>30%</b>	<b>0%</b>

During the interview, SME C explained that based on the understanding his firm had of the section 12E allowance it had concluded that the requirements were too onerous to comply with.

Of the respondents, 70% did not understand what SBC tax meant and what the requirements for qualification as an SBC were. Regarding the special allowance in respect of construction contracts under section 24C of the ITA (South Africa, 1962), none of the respondents had any knowledge of it. Respondent H only commented on the accounting provision and not on the tax allowance.

None of the respondents (100%) knew about building allowances let alone the ones relating to a small business.

From the interviews it was clear that all the respondents/business owners relied heavily on their accountants or tax representatives for knowledge. Many of the responses were “I don’t know, I rely on my accountant”.

When the researcher explained the various tax incentives available to business owners, the respondents were surprised but interested.

In Table 14, a summary is presented of responses in respect of VAT, micro-business turnover tax and employment tax incentives.

**Table 14: Summary of respondents' knowledge about VAT, micro-business turnover tax and employment tax incentives**

Business owner	Category of SME	Understands the non-compulsory regulation relating to VAT of less than R1 M	Understands when VAT is applicable to retention relating to construction contracts	Understands the documents required for claiming VAT input	Understands what micro-business turnover tax is	Has knowledge of employment tax incentives
B	Very small	Yes	Yes	Yes	No	None
G	Very small	Yes	No	Yes	No	None
J	Very small	Yes	No	Yes	No	None
E	Small	Yes	No	Yes	No	None
F	Small	Yes	No	Yes	No	None
I	Small	Yes	Yes	Yes	No	None
A	Medium	Yes	No	Yes	No	None
H	Medium	Yes	Yes	Yes	No	None
C	Medium	Yes	Yes	Yes	No	None
D	Medium	Yes	No	Yes	No	None
<b>Total</b>	<b>% aware</b>	<b>100%</b>	<b>40%</b>	<b>100%</b>	<b>0%</b>	<b>0%</b>
<b>Total</b>	<b>% no knowledge</b>	<b>0%</b>	<b>60%</b>	<b>0%</b>	<b>100%</b>	<b>100%</b>

On the grounds of the responses received from the business owners and summarised in Table 14 it can be concluded that these owners were reasonably aware of regular tax matters such as the documentation required for VAT input claims and the non-compulsory VAT registration threshold. All these businesses except for SME G, who had just started operating in the construction industry, were registered for VAT.

The business owners indicated that they had full knowledge of the information to be provided in a tax invoice for a section 16 input claim (South Africa, 1991).

Of the respondents, 60% did not understand when VAT on retentions became applicable. They did, however, understand the term retention and its applicability in terms of the construction industry since they knew the process of retention well.

The three very small or micro businesses (B, C & J) did not know the requirements for applying for micro-business turnover tax.

Employment tax incentives, which are applicable to the employment of full-time employees, were introduced as recently as in 2014 (DTC, 2014) and the participating SMEs were not aware of the tax credits these incentives carried. Most of the medium-sized business owners were involved in long construction contracts lasting from 18 months to three years and would certainly have appointed full-time employees in respect of whom they could have claimed tax credits. The smaller businesses, which made up 60% of the population, did not employ people on a full-time basis and their contracts were of a shorter duration.

One could argue that most taxpayers hiring young people on a full-time basis should have knowledge of the employment tax incentive as it was introduced only recently. On the other hand one could argue that since it is so new it has not gained momentum.

Overall, there is an apparent lack of knowledge about special tax incentives for SMEs in the construction industry. Most of the businesses participating in the current study depended on their tax advisors to educate them about the various incentives available.

#### 4.2.4 Understanding the Tax Administration Act

The construction business owners participating in the study were asked about their understanding of various concepts covered in the Tax Administration Act (South Africa, 2011) such as penalties, understatement penalties, debt compromises and third-party appointments (Hall, 2013; Keulder, 2013) and more specifically about their knowledge of disputes and the settlement of tax debts. Based on their answers, the researcher could determine whether they had an understanding of these concepts. A summary of the results is presented in Table 15.

**Table 15: Understanding dispute matters as set out in the Tax Administration Act**

Business owner	Category of SME	Understands the imposition of penalties and interest by SARS	Understands understatement penalties in the TAA	Understands the concept of third-party appointments in the TAA	Understands debt compromise as set out in the TAA
B	Very small	Yes	None	None	None
G	Very small	Yes	None	None	None
J	Very small	None	None	Yes	None
E	Small	Yes	Yes	None	Yes
F	Small	None	None	None	None

Business owner	Category of SME	Understands the imposition of penalties and interest by SARS	Understands understatement penalties in the TAA	Understands the concept of third-party appointments in the TAA	Understands debt compromise as set out in the TAA
I	Small	None	None	None	Yes
A	Medium	Yes	None	None	None
H	Medium	Yes	Yes	None	Yes
C	Medium	Yes	Yes	Yes	Yes
D	Medium	Yes	None	None	Yes
<b>Total</b>	<b>% aware</b>	<b>70%</b>	<b>30%</b>	<b>20%</b>	<b>50%</b>
<b>Total</b>	<b>% no knowledge</b>	<b>30%</b>	<b>70%</b>	<b>80%</b>	<b>50%</b>

The concepts mentioned in Table 15 are important ones about which every taxpayer (and not only SMEs in the construction industry) should have knowledge. However, since SARS has identified SMEs, particularly those in the construction industry, as showing a high degree of tax non-compliance, and since it is likely that they may be subjected to audits by SARS, it is imperative that these enterprises understand the concepts referred to in Table 15 (SARS, 2012).

According to the data, mainly the small or very small enterprises had no knowledge of the relevant concepts. SMEs C, E and H, who were aware of how understatement penalties are triggered, had recently been subjected to a tax audit by SARS and they indicated that they had had the misfortune of getting to know exactly how section 222 of the TAA (South Africa, 2011) was applied when they were audited by SARS.

Of the respondents, 80% had no knowledge of a third-party appointment. They were aware that their bank accounts could be frozen if they owed SARS money but they had no idea that SARS had the power to approach their customers to settle their tax debts. The business owners viewed the debt compromise as a garnishing order, a term that is generally used when, for example, a company or a debtor recovers debt from an employee.

The concept of debt compromise was understood by half of the respondents.

In summary it can be said that the business owners interviewed generally had little or no understanding of the relevant concepts and relied on their tax advisors for guidance when SARS audited them. Being audited by SARS was the last thing on their minds and most of



them were more concerned about obtaining new contracts or getting their own debtors to pay. Those who had knowledge of these concepts had learnt the hard way.

#### **4.2.5 Respondents' recommendations for further education initiatives by SARS**

After each interview, further open-ended discussions were held with the business owners to obtain a deeper understanding of their views regarding the research objectives of this study.

The inquiries that were made encompassed the following:

- Whether SARS does enough to educate taxpayers in the construction industry
- Whether a lack of knowledge rather than an intention to avoid paying tax mainly caused non-compliance
- What further initiatives SARS could implement to educate SME owners in the construction industry

It was found that 80% of the respondents believed strongly that SARS did not do enough to educate taxpayers in the construction industry. They indicated that prior to the interviews they had no knowledge of incentives available to them.

The remaining 20% of the respondents, a very small percentage therefore, felt that SARS did do enough to educate taxpayers. As noted earlier in the study, the respondents falling in the category of very small SMEs had very little knowledge of tax concepts and incentives.

One business owner expressed the need for more incentives in the construction industry as he believed his business was paying too much tax.

Whereas 70% of the respondents believed that a lack of tax knowledge and not an intention to avoid paying tax caused tax non-compliance, the other 30% had mixed views.

SME owner B (very small) agreed that a lack of knowledge about tax and not necessarily an intention to avoid paying tax led to non-compliance. He pointed out that the tax

consequences of many transactions concluded in the construction industry were unknown. It could be argued that many business owners in the construction industry are experts in their field of business or in the industry but that they know little about tax. They think about tax matters only when their accountant provides them with their tax statement for payment.

SME owner B (medium) indicated that while the intention to avoid paying tax was often a personal experience according to each individual's history and morale, having more tax knowledge would help him to understand why he is paying so much tax and how he could legally reduce his tax using incentives.

Business owner G (very small) expressed the opinion that all businesses knew they had to pay taxes and, therefore, should take the initiative to make the necessary enquiries.

Owner I (small) believed that although a lack of tax knowledge could play a role, it was possible that taxpayers could have the intention of avoiding to pay tax, especially if the government itself was corrupt.

Below is a summary of the points the business owners made about the types of initiative SARS could implement to educate taxpayers in the construction industry:

- SARS should try to understand the construction business better.
- SARS should host tax updates and seminars at forums, such as SAICE (South African Institution of Civil Engineering) and SAFCEC (South African Forum of Civil Engineering Contractors), where construction industry stakeholders meet.
- The world of information technology is robust and SARS should use this platform to promote tax knowledge. SARS could, for instance, hold webinars or send bulk email updates to CIDB registered contractors.
- SARS could present a mandatory half-day tax course for new business owners to help them understand their obligations and to inform them of incentives available to them.
- SARS could advertise their seminars and workshops on television or in local newspapers.

To conclude, the respondents were of the opinion that more initiatives such as those mentioned above should be implemented to improve tax knowledge in the construction industry.

### 4.3 CONCLUDING REMARKS

In Chapter 4, some indications were given of the various tax complexities SME owners faced and of their knowledge about these tax matters.

Based on the in-depth interviews conducted with the 10 respondents, some concluding remarks can be made about the findings concerning the following tax issues:

- *Costs of compliance*

The majority of the business owners who participated in the study understood that costs in the form of interest and penalties had to be paid by non-compliant taxpayers. Although the cost of hiring an external accountant was thought to be high, it was regarded as adding value and being worthwhile as it gave business owners the added assurance that they were tax compliant. Furthermore, having an external accountant saved them valuable time as the most time-consuming tax activity was preparing the information for monthly VAT returns.

The finding of this study that SMEs experienced administrative matters relating to tax as a burden corroborated findings in the literature (see Chapter 2 , section 2.5). SME owners indicated that the preparation of monthly VAT returns was the most time-consuming tax activity, which was the reason why almost all the SMEs relied on external accountants for tax services (Abrie & Doussy, 2006; DTC, 2014; Gupta & Sawyer, 2014; Hansford & Hasseldine, 2012; Lai & Arifin, 2011; Lignier *et al.*, 2014; Mahlanza, 2011; Ndlovu, 2015; Pope & Abdul-Jabbar, 2008; Venter & De Clercq, 2007).

- *Tax incentives for small businesses*

Most SMEs taking part in the study showed a lack of tax knowledge regarding the various special incentives available to them and to the construction industry. These business owners relied on their tax advisors and accountants for guidance in tax matters.

This finding supports the findings of Ndlovu (2015) that the majority of business owners do not have sufficient knowledge about applying the various tax incentives available to them and that they rely on external tax advisors to perform this function.

- *The Tax Administration Act*

Most of the participating business owners did not understand the dispute process of SARS and relied on the expert advice of their accountants. The respondents who did have some knowledge of the TAA dispute process had gained this knowledge because they had recently undergone SARS audits.

- *Respondents' views on further education initiatives by SARS for the construction industry*

The majority of the SMEs who were interviewed indicated that SARS had not done enough to educate taxpayers in the construction industry and they believed a lack of knowledge rather than an intention to avoid paying tax caused non-compliance. Some of the initiatives these SME owners suggested SARS could implement were webinars, tax updates at forums where construction role players met, bulk email updates on incentives, and media advertisements giving tax alerts.

The study confirmed the conclusion reached by Ndlovu (2015) that understanding taxes are indeed complex for the layman. It was found in the current study that most of the SME owners did not have formal finance qualifications and experienced difficulty with some complex tax matters. It should be noted that SARS has tried to assist SMEs to cope with heavy tax compliance costs by simplifying the tax registration system and introducing new tax incentives.

The researcher perused the SARS website for education initiatives aimed at SMEs in the construction industry and found none. Proper advertising mechanisms need to be implemented to make sure that small businesses are reached (Mahlanza, 2011; Ndlovu, 2015).

To conclude, the data analysis presented in Chapter 4 addressed the research objectives of this study in that the findings reported on in the literature review in Chapter 2 were confirmed and the tax education needs of SME owners in the construction industry were identified. In short, there is a need to know what tax incentives are available to small businesses, what tax incentives are available to the construction industry, what the consequences of tax non-compliance are (e.g., interest, penalties and understatement penalties) and what the various dispute resolution mechanisms are as envisaged in the TAA.

## CHAPTER 5: CONCLUSION

### 5.1 INTRODUCTION

Economies across the world rely on small businesses to thrive. Small businesses are vital for economic growth, fiscal health and job stimulation especially in developing countries (Abrie & Doussy, 2006; McKerchar, 1995; Nkwe, 2012). Like the rest of the world, South Africa relies on SMEs to stimulate the economy (DTC, 2014).

There is a substantial number of SMEs in South Africa and many of them are in the construction industry (CIDB, 2013). Statistics show that almost 70% of all work in this industry is sub-contracted and that it entails work in the fields of building, civil construction, architecture, general maintenance and electricity (CIDB, 2013; DTC, 2014).

SARS, like a number of other revenue authorities across the world, such as the USA's Internal Revenue Services (Curran & Donahue, 2013), the UK's Her Majesty's Revenue and Customs department and the tax authorities of Japan, Spain, India and Canada (Kyriacou *et al.*, 2015), has identified the construction industry as one in which tax non-compliance is rife. The way in which an SME operates (concluding various cash transactions and operating as an undeclared entity) creates an opportunity for tax non-compliance and tax evasion. It is also generally recognised that corruption and bribery are prevalent in the construction industry. In fact, this industry is seen to be the most corrupt industry in the world (Bowen *et al.*, 2012; De Jong *et al.*, 2009). The SARS compliance programme (SARS, 2013a) includes various initiatives to clamp down on non-compliance and to close the tax gap, and this programme includes the construction industry and SMEs as two separate groups to be targeted. Therefore, SMEs in the construction industry face a double risk of being subjected to stringent tax audits to address widespread non-compliance.

An unfortunate fact about SMEs worldwide is that they are often not sustainable and end up being liquidated after a short period of time. One reason for their demise is the various administrative burdens they have to carry such as those related to tax compliance. In

addition, other regulations they have to comply with cost time and money (DTC, 2014; Mahlanza, 2011; Ndlovu, 2015; Sieberhagen, 2008; Stols, 2013).

SMEs operating in the South African construction industry have their own set of challenges. The National Small Business Act (South Africa, 1996) and the Income Tax Act (South Africa, 1962) contain various incentives and provisions that ease some of the administrative and tax burdens that small businesses have to deal with (DTC, 2014).

The existing literature does not identify in detail what tax knowledge SME owners in the construction industry possess.

Tax education is identified as one of the means to reduce tax non-compliance. McKercher (1995) posits that small businesses are unintentionally non-compliant because they lack tax education.

In order to assist these small businesses to become more compliant, their current level of tax knowledge should be understood. It was, therefore, the aim of this study to investigate what the current tax knowledge of SME owners in the construction industry is and to establish what their tax education needs are. The findings in this regard are summarised in section 5.2.

## **5.2 SUMMARY OF FINDINGS ADDRESSING THE RESEARCH OBJECTIVES**

The study aimed to meet the following research objectives:

- To perform a literature review to confirm that many SMEs worldwide and in South Africa are tax non-compliant, to reach an understanding why corruption and tax non-compliance are rife in the construction industry, to list the tax incentives available for SMEs in the construction industry and to provide supporting evidence that tax education helps to reduce non-compliance
- To administer a questionnaire to SME owners in the construction industry with a view to determining their tax education needs

In Chapter 2 the relevant literature was reviewed to establish why SARS focuses on the construction industry and SMEs, how corruption in the construction industry causes tax leakages, what administrative burdens related to taxation are experienced by SMEs and what special tax incentives are available to SMEs and the construction industry.

In Chapter 3 it was explained that the research model used was qualitative in that semi-structured in-depth interviews were held with a sample of 10 natural persons. These natural persons, consisting of SMEs operating in the construction industry, were chosen using a purposive sampling method aimed at meeting the research objectives. Data was collected by means of a questionnaire (see Appendix A) consisting of two sections: Section A, which focused on gathering basic and demographic information relating to the respondents and Section B, which consisted of open-ended questions.

The response rate was 100%. All 10 respondents made time to take part in face-to-face interviews with the researcher. The sample consisted of four medium-sized, three small-sized and three very small-sized companies. Each category was determined on the basis of turnover according to the National Small Business Act (South Africa, 1996). The business owners operated in KZN and Johannesburg in South Africa. The construction fields they operated in were broadly separated into civil works, building works and electrical works.

The main findings of the interviews are presented below:

- ***Understanding the costs of compliance:***

The majority of the SMEs understood what the interest and penalties imposed by SARS entailed. All the respondents but one understood that taxpayers were liable for faults or omissions on the tax returns they submitted to SARS. Only 50% of the respondents spent time every month to check the information submitted on their tax returns whereas the rest of them did not verify this information but relied completely on their external tax advisors or accountants to perform this task. Interestingly, the medium-sized SMEs who spent time checking their tax returns or the information that had to be included in their tax returns expressed the opinion that although the



cost of having an external accountant was high, the service rendered by an accountant provided them with the added assurance that their information was correct. The business owners who indicated that the cost of tax services did not impact on their businesses consisted mainly of small and very small enterprises. The majority of the respondents in the small and very small enterprise category felt that no recourse was available against SARS in respect of disputes. The most time-consuming activity regarding tax was confirmed by the majority to be the compilation of information for monthly VAT returns. Finally, the SMEs that had the least tax knowledge in the area of costs of compliance belonged to the very small enterprise category. The findings of this study corroborated the findings of the relevant literature that was reviewed in Chapter 2 (Abrie & Doussy, 2006; DTC, 2014; Gupta & Sawyer, 2014; Hansford & Hasseldine, 2012; Lai & Arifin, 2011; Lignier *et al.*, 2014; Mahlanza, 2011; Ndlovu, 2015; Pope & Abdul-Jabbar, 2008; Venter & De Clercq, 2007).

- ***Understanding the tax incentives available to SMEs and the construction industry***

The results showed that the majority of the respondents were not aware of the various tax incentives available to small businesses. Only 20% were aware of the small business tax regime relating to SBCs. Almost 100% of the SMEs did not know about section 12E of the ITA and the building allowances that were available. The two medium-sized SMEs who were aware of SBC rates and section 12E gained their knowledge recently when they were audited by SARS. None of the business owners were aware of the section 24C deduction for future expenditure on construction contracts. All of the very small businesses did not understand the operation of micro-business turnover tax. It was confirmed that these very small businesses relied on their tax advisors for tax advice. The findings reported on in the existing body of literature on the tax knowledge of SMEs (Mahlanza, 2011; Ndlovu, 2015) are similar to the findings of the current study.

- ***Understanding the Tax Administration Act***

Overall, the SMEs participating in this study had little understanding of the dispute and audit processes set out in the TAA. They relied on the assistance of their accountants if they were audited by SARS. Those businesses that had some understanding of dispute and audit processes were knowledgeable because they had undergone a SARS audit.

- ***Key recommendations made by the respondents***

The majority of the SMEs were of the opinion that SARS did not do enough to educate taxpayers in the construction industry. The majority also felt that a lack of knowledge rather than an intention to avoid paying tax caused tax non-compliance. Some of the initiatives these SME owners recommended for implementation by SARS were presenting webinars, giving tax updates at forums where construction role players met, sending out bulk email updates on incentives and advertising tax alerts in the media. The above findings and recommendations confirmed the findings and recommendations recorded in the relevant existing literature reviewed, for instance the feeling among SMEs that SARS should initiate proper advertising campaigns on television and in newspapers (Mahlanza, 2011; Ndlovu, 2015).

### **5.3 IMPLICATIONS FOR FURTHER STUDIES**

Although the respondents taking part in the current study provided their views on and indicated their knowledge of the topic under study, the inclusion of a larger sample group in future studies could yield further valuable insights.

Judging from the responses received, many SMEs in the construction industry suffered from a lack of tax education. Therefore, further research could explore in detail the reasons why these business owners have so little knowledge about the various tax incentives available to them. It is worth noting that SARS may be implementing education initiatives but that the public has not been properly informed about them. This could be a topic for further study.

Most importantly, SARS should investigate taxpayers' views on further education initiatives to be implemented to improve the public's level of tax knowledge. The initiatives recommended by the SMEs taking part in the current study are innovative and should be investigated as increased tax knowledge could strengthen the economy of a country by enabling government to collect more taxes.

#### **5.4 FUTURE RESEARCH**

Further research can be conducted to address the following limitations of the current study:

- Conduct a similar study in another geographical location and compare the results.
- Conduct a similar study involving a comprehensive survey of a larger population.
- Conduct a similar study in which the education level of SME owners in the construction industry is considered as a factor that plays a role in the level of tax knowledge.

#### **5.5 FINAL CONCLUSION**

In this qualitative study, a purposive sampling method was used to identify 10 SME owners in the construction industry who could take part. Face-to-face interviews were conducted using a semi-structured interview schedule (see Appendix A). The results of the study revealed that the majority of the respondents displayed a lack of tax knowledge and that this lack rather than the intention to avoid paying tax led to non-compliance. The majority of these SMEs did not know about the basic incentives the Income Tax Act (South Africa, 1962) provides for, such as the SBC rates of tax and the section 12E and section 24C provisions. All the respondents relied heavily on their accountants and tax advisors to meet their tax education needs. One of the main outcomes of the current study is that the SMEs belonging to the category of very small businesses were identified as having the least tax knowledge. Furthermore, all the respondents but one believed that SARS should do more to educate taxpayers in the construction industry. This is an aspect that should be explored further in future research. The researcher is confident that the current study could

serve as a catalyst for further research relating to the tax education needs of SME owners in the construction industry.

## 6. LIST OF REFERENCES

Abrie, W. & Doussy, E. 2006. Tax compliance obstacles encountered by small and medium enterprises in South Africa. *Meditari Accountancy Research*, 14:1–13. [Online] Available from: Emerald Insight: <http://www.emeraldinsight.com/doi/pdfplus/10.1108/1022252920060000> [Downloaded: 11 March 2016].

Aghion, P, Akcigit, U, Cage' J & Kerr, WR. 2016. Taxation, Corruption and Growth. Harward Business School working paper 16-075. [Online] Available from: [http://www.hbs.edu/faculty/Publication%20Files/AACK-HBSWP-Jan16\\_520961cd-db29-47b9-a28a-7288d8e43cb1.pdf](http://www.hbs.edu/faculty/Publication%20Files/AACK-HBSWP-Jan16_520961cd-db29-47b9-a28a-7288d8e43cb1.pdf). [Downloaded: 13 November 2016]

Behling, F. & Harvey, M. 2015. The evolution of false self-employment in the British construction industry: A neo-Polanyian account of labour market formation. *Work, Employment and Society*, 29(6):969–988. [Online] Available from: <http://wes.sagepub.com.uplib.idm.oclc.org/content/29/6/969.full.pdf+html?> [Downloaded: 27 September 2016].

Bowen, P., Edwards, P. & Cattell, K. 2012. Corruption in the South African construction industry: A mixed methods study. In: Smith, S.D. (ed). *Proceedings of the 28th Annual ARCOM Conference*, Edinburgh, UK, 3–5 September: 521–531. Edinburgh, UK: Association of Researchers in Construction Management. [Online] Available from: [http://www.arcom.ac.uk/-docs/proceedings/ar2012-0521-0531\\_Bowen\\_Edwards\\_Cattell.pdf](http://www.arcom.ac.uk/-docs/proceedings/ar2012-0521-0531_Bowen_Edwards_Cattell.pdf) [Downloaded 17 June 2016].

Bowen, P., Robert, P. & Akintoye, A. 2007. Professional ethics in the South African construction industry. *Building Research and Information*, 35(2):189–135. [Online] Available from: <http://www.tandfonline.com/doi/pdf/10.1080/09613210600980267> [Downloaded: 17 June 2016].

Braşoveanu, I.V & Brasoveanu, L.O. 2009. Correlation between corruption and tax revenues. *Economic Computation and Economic Cybernetics Studies and Research*,

43(4):133–142. [Online] Available from: EBSCOHost:  
<http://eds.b.ebscohost.com/uplib.idm.oclc.org/ehost/pdfviewer/pdfviewer?sid=d013e770-30d6-4ad6-b984-0b6e9c83f994%40sessionmgr104&vid=1&hid=127> [Downloaded: 17 June 2016].

Briscoe, G., Dainty, A. & Millet, S. 2000. The impact of the tax system on self-employment in the British construction industry. *International Journal of Manpower*, 21(8):596–614. [Online] Available from: <http://dx.doi.org/10.1108/01437720010379501> [Downloaded: 11 March 2016].

Buchanan, J. & Allan, C. 2000. The growth of contractors in the construction industry: Implications for tax revenue. *Economic and Labour Relations Review*, 11:46–75. [Online] Available from: <http://elr.sagepub.com/content/11/1/46.abstract> [Downloaded: 14 March 2016].

CIDB (see Construction Industry Development Board).

Chamberlain, D. & Smith, A. 2007. *Recent findings on tax-related regulatory burden on SMMEs in South Africa*. Cape Town: University of Cape Town, Development Policy Research Unit. [Online] Available from: [http://www.dpru.uct.ac.za/sites/default/files/image\\_tool/images/36/DPRU%20WP06-105.pdf](http://www.dpru.uct.ac.za/sites/default/files/image_tool/images/36/DPRU%20WP06-105.pdf) [Downloaded: 25 June 2016].

Colin, C. & Nadin, S. 2012. Tackling the undeclared economy in the European construction industry. Sheffield, UK: University of Sheffield, Centre for Regional Economic and Enterprise Development Management School. *Policy Studies*, 33(3):193–214. [Online] Available from: EBSCOHost: <http://eds.b.ebscohost.com/uplib.idm.oclc.org/eds/pdfviewer/pdfviewer?vid=14&sid=7407bf26-4d5c-4fc6-8230-3485d0325a5f%40sessionmgr101&hid=126> [Downloaded: 4 October 2016].

Construction Industry Development Board. 2013. *Subcontracting in the South African construction industry: Opportunities for development*. [Online] Available from:

<http://www.cidb.org.za/publications/Documents/Subcontracting%20in%20the%20SA%20Construction%20Industry%20-%20Opportunities%20for%20Development.pdf> (Downloaded: 23 September 2016).

Construction Industry Development Board. 2015. Application for contractor registration. Grades 2 to 9. [Online] Available from [http://www.cidb.org.za/publications/Documents/app\\_form\\_registration\\_grade\\_%202\\_9\\_july\\_2015.pdf](http://www.cidb.org.za/publications/Documents/app_form_registration_grade_%202_9_july_2015.pdf) [Downloaded: 23 November 2016].

Cresswell, J.W. 2003. Research design – qualitative, quantitative and mixed methods approaches. In: Laughton, C.D. (ed.) *Research design – qualitative, quantitative and mixed methods approaches* (169–174). London: Sage [Online] Available from: [http://isites.harvard.edu/fs/docs/icb.topic1334586.files/2003\\_Creswell\\_A%20Framework%20for%20Design.pdf](http://isites.harvard.edu/fs/docs/icb.topic1334586.files/2003_Creswell_A%20Framework%20for%20Design.pdf) [Downloaded: 11 June 2016].

Curran, B.F. & Donahue, L.H. 2013. *Tax and policy implications of changes to reporting requirements for construction services*. (Research studies and reports, 12). Ithaca, NY: Cornell University ILR School. [Online] Available from: <http://digitalcommons.ilr.cornell.edu/reports/56/> [Downloaded: 29 September 2016].

Davis Tax Committee. 2014. *Small and medium enterprises: Taxation considerations: Interim report*. [Online] Available from: <http://www.treasury.gov.za/TaxReviewCommittee/DTC%20SME%20Report%20for%20Public%20Comment%2014%20July%202014.pdf> [Downloaded: 15 June 2016].

De Jong, M., Henry, W.P. & Stansbury, N. 2009. Eliminating corruption in our engineering/construction industry. *Leadership and Management in Engineering*, 9:105-111. [Online] Available from: [http://ascelibrary.org/doi/pdf/10.1061/\(ASCE\)1532-6748\(2009\)9:3\(105\)](http://ascelibrary.org/doi/pdf/10.1061/(ASCE)1532-6748(2009)9:3(105)) [Downloaded: 17 June 2016].

DiCicco-Bloom, B. & Crabtree, B.F. 2006. The qualitative research interview. *Medical Education*, 40:314–321. [Online] Available from: <http://onlinelibrary.wiley.com/doi/10.1111/j.1365-2929.2006.02418.x/pdf> [Downloaded: 15 August 2016].

DTC (see Davis Tax Committee).

Eriksen, K. & Fallan, L. 1996. Tax knowledge and attitudes towards taxation: A report on a quasi-experiment. *Journal of Economic Psychology*, 17:387–402. [Online] Available from: Elsevier: [http://dx.doi.org/10.1016/0167-4870\(96\)00015-3](http://dx.doi.org/10.1016/0167-4870(96)00015-3) [Downloaded: 5 June 2016].

eThekwini Metropolitan Municipality. Not dated. *The official website of the eThekwini Municipality*. [Online]. Available from: [http://www.durban.gov.za/Discover\\_Durban/Pages/AboutEM.aspx](http://www.durban.gov.za/Discover_Durban/Pages/AboutEM.aspx) [Accessed: 17 June 2016].

Freedman, J. 2003. *Taxing small business: Developing good tax policies*: 13–43. [Online] Available from: <http://www3.law.ox.ac.uk/themes/tax/documents/SmallBusinessTaxation.pdf> [Downloaded: 25 June 2016].

Golafshani, N. 2003. Understanding the reliability and validity in qualitative research. *Qualitative Report*, 8(4):597–606. [Online] Available from: <http://nsuworks.nova.edu/cgi/viewcontent.cgi?article=1870&context=tqr> [Downloaded: 16 August 2016].

Guest, G., Bunce, A. & Johnson, L. 2006. How many interviews are enough? An experiment with data saturation and variability. *Field Methods*, 18(1):59–82. [Online] Available from: [fmx.sagepub.com](http://fmx.sagepub.com) [Downloaded: 29 May 2016].

Gupta, R. & Sawyer, A. 2014. The costs of compliance and associated benefits for small and medium enterprises in New Zealand: Some recent findings. *Australian Tax Forum*, 30(1):135–177. [Online] Available from: EBSCOHost: <http://eds.a.ebscohost.com.uplib.idm.oclc.org/eds/pdfviewer/pdfviewer?sid=d81c5398-710c-4f9e-ada3-6cfbc8aa39bf%40sessionmgr4010&vid=0&hid=4211> [Downloaded: 8 October 2016].

Hall, C.W. 2013. *Tax administration: A comparison between the Income Tax Act and the Tax Administration Act: Assessments, objections, penalties and interest*. Unpublished master's thesis. University of Pretoria. [Online] Available from:



<http://search.proquest.com/docview/1703976688/fulltextPDF?source=fedsrch&accountid=14717> [Downloaded: 25 September 2016]

Hansford, A. & Hasseldine, J. 2012. Tax compliance costs for small and medium sized enterprises: The case of the UK. *eJournal of Tax Research*,10(2):288–803. [Online] Available from: <http://search.proquest.com.uplib.idm.oclc.org/docview/1115476140/fulltextPDF/51D7AAFD36D748DFPQ/4?accountid=14717> [Downloaded: 16 June 2016].

Healey, M.J. & Rawlinson, M.B. 1993. Interviewing business owners and managers: A review of methods and techniques. *Geoforum*, 24(3):339–55. [Online] Available from: [http://ac.els-cdn.com.uplib.idm.oclc.org/001671859390026E/1-s2.0-001671859390026E-main.pdf?\\_tid=ecedf7e0-6b7b-11e6-afe6-0000aacb35f&acdnat=1472209248\\_1c15314151dcc3f6b2f9a38a9f3398f6](http://ac.els-cdn.com.uplib.idm.oclc.org/001671859390026E/1-s2.0-001671859390026E-main.pdf?_tid=ecedf7e0-6b7b-11e6-afe6-0000aacb35f&acdnat=1472209248_1c15314151dcc3f6b2f9a38a9f3398f6) [Downloaded: 26 August 2016].

Inland Revenue Department (New Zealand). 2011. *Compliance Report 2011/2012*. [Online]. Available from: <http://www.ird.govt.nz/aboutir/reports/compliance-focus/compliance-previous-years/compliance-focus-2011-12/theme-based/theme-based.html> [Accessed: 15 June 2016].

Kallio, H., Pietila, A., Johnson, M. & Kangasniemi, M. 2016. Systematic methodological review: Developing a framework for a qualitative semi-structured interview guide. *Journal of Advanced Nursing*, 00(0). [Online] Available from: <http://onlinelibrary.wiley.com.uplib.idm.oclc.org/doi/10.1111/jan.13031/epdf> [Downloaded: 16 August 2016].

Keulder, C. 2013. "Pay now, argue later" rule – before and after the Tax Administration Act. *Potchefstroom Electronic Law Journal/Potchefstroomse Elektroniese Regsblad*, 16(4):1–37. [Online] Available from: <http://www.scielo.org.za/pdf/pej/v16n4/05.pdf> [Downloaded: 25 September 2016]

Kyriacou, A.P., Muinelo-Gallo, L. & Roca-Sagale, O. 2015. Construction corrupts: Empirical evidence from a panel of 42 countries. *Public Choice*, 165:123–145. [Online]

Available from: EBSCOHost: <http://eds.b.ebscohost.com.uplib.idm.oclc.org/eds/pdfviewer/pdfviewer?vid=8&sid=9b980f4e-4079-4316-9434-36a3791f56c8%40sessionmgr120&hid=126> [Downloaded: 4 October 2016].

Lai, M.L. & Arifin, M.Z. 2011. Small business enterprises and taxation: A case study of corporate clients of a tax firm. *Academy of Accounting and Financial Studies Journal*, 15(1):11–26. [Online] Available from: <http://search.proquest.com.uplib.idm.oclc.org/docview/1426388581/fulltextPDF/62954D9EDA264F44PQ/1?accountid=14717> [Downloaded: 8 October 2016].

Lignier, P. Evans, C. & Tran-Nam, B. 2014. Tangled up in tape: The continuing tax compliance plight of the small and medium enterprise business sector. *Australian Tax Forum*, 29(2):217–247. [Online] Available from: EBSCOHost: <http://eds.a.ebscohost.com.uplib.idm.oclc.org/eds/pdfviewer/pdfviewer?sid=cb0b4d1f-87cd-4688-b9fe-066b9ec0c728%40sessionmgr4006&vid=0&hid=4211> [Downloaded: 8 October 2016].

Mahlanza, Z. 2011. *The impact of regulatory compliance on small, medium and micro enterprises in the Buffalo City Metropolitan Municipality*. Published master's thesis. Nelson Mandela Metropolitan University. [Online] Available from: [http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwi4oeUgsLNAhXrLcAKHXNyCBYQFggaMAA&url=http%3A%2F%2Fcontent.pro.seals.ac.za%2Fiii%2Fcpro%2Fapp%3Fid%3D4477148858423331%26itemId%3D1011840%26lang%3Deng%26service%3Dblob%26suite%3Ddef&usg=AFQjCNH7pkIM8GbVDNn88ctGTvVp\\_e5aQ&sig2=2qZZtj8O6STIWn-4AOydgq](http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwi4oeUgsLNAhXrLcAKHXNyCBYQFggaMAA&url=http%3A%2F%2Fcontent.pro.seals.ac.za%2Fiii%2Fcpro%2Fapp%3Fid%3D4477148858423331%26itemId%3D1011840%26lang%3Deng%26service%3Dblob%26suite%3Ddef&usg=AFQjCNH7pkIM8GbVDNn88ctGTvVp_e5aQ&sig2=2qZZtj8O6STIWn-4AOydgq) [Downloaded: 16 June 2016].

Maholwana, U. 2015. *Support for small enterprises in the construction sector: Coega Development Corporation contractor development programme*. Unpublished master's thesis. Stellenbosch University. [Online] Available from: <http://scholar.sun.ac.za/handle/10019.1/97336> [Downloaded: 8 October 2016].

McKerchar, M. 1995. Understanding small business taxpayers: Their sources of information and level of knowledge of taxation. *Australian Tax Forum*, 10:25–43. [Online]

Available from: HeinOnline: <http://heinonline.org/HOL/LandingPage?handle=hein.journals/austraxrum12&div=6&id=&page=> [Downloaded: 5 June 2016].

Misra, R. 2004. *The impact of taxpayer education on tax compliance in South Africa*. Unpublished master's thesis. University of KwaZulu-Natal. [Online] Available from: Research space: [http://researchspace.ukzn.ac.za/xmlui/bitstream/handle/10413/2505/Misra\\_Roshelle\\_2004.pdf?sequence=1](http://researchspace.ukzn.ac.za/xmlui/bitstream/handle/10413/2505/Misra_Roshelle_2004.pdf?sequence=1) [Downloaded: 5 June 2016].

Mukasa, J. 2011. *Tax knowledge, perceived tax fairness and tax compliance in Uganda: The case of small and medium income taxpayers in Kampala Central Division*. Unpublished Masters dissertation. Makerere University. [Online] Available from: <http://makir.mak.ac.ug/handle/10570/2346> [Accessed: 5 June 2016].

Mukhlis, I., Utomo, S.H. & Soesetio, Y. 2015. The role of taxation education on taxation knowledge and its effect on tax fairness as well as tax compliance on handicraft SME sectors in Indonesia. *International Journal of Financial Research*, 4:161–169. [Online] Available from: Sciedu Press: <http://www.sciedu.ca/journal/index.php/ijfr/article/view/8053> [Downloaded: 5 June 2016].

National Treasury. Not dated. *General Procurement Guidelines*. [Online] Available from: <http://www.treasury.gov.za/legislation/pfma/supplychain/General%20Procurement%20Guidelines.pdf> [Downloaded: 17 June 2016].

Ndlovu, M. 2015. *A comparative study on the tax compliance burden and tax incentives for SMMEs in South Africa*. Unpublished doctoral dissertation. University of the Witwatersrand. [Online] Available from: <http://wiredspace.wits.ac.za/jspui/bitstream/10539/20180/1/M%20Ndlovu%2018%20September%202015.pdf> [Downloaded: 25 June 2016].

New South Wales Government, Office of State Revenue. 2015. *Compliance Program, Australian Tax Authority*. [Online] Available from: <http://www.osr.nsw.gov.au/info/compliance/factsheet/compliance-2016> [Accessed: 15 June 2016].

Nichita, R.A. 2015. Knowledge is power. Improving tax compliance by means of boosting tax literacy. *Annals of the University of Oradea (Economic Science Series, 24)*. (1):770-774. [Online] Available from: EBSCOHost: <http://eds.a.ebscohost.com.uplib.idm.oclc.org/eds/pdfviewer/pdfviewer?sid=f19d7c3a-dcb4-4a8e-adb0-21850d446acf%40sessionmgr4008&vid=0&hid=4211> [Downloaded: 8 October 2016].

Nkwe, N. 2012. Tax payers' attitude and compliance behavior among small & medium enterprises (SMEs) in Botswana. *Business and Management Horizons*, 1:113–137. [Online] Available from: <http://www.macrothink.org/journal/index.php/bmh/article/view/3486> [Downloaded: 5 June 2016].

NSW (see New South Wales Government).

OECD (see Organisation for Economic Co-operation and Development).

Olowookere, J.K. & Fasina, H.T. 2013. Taxpayers' education: A key strategy in achieving voluntary compliance in Lagos State, Nigeria. *European Journal of Business and Management*, 5:146–154. [Online] Available from: [http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&uact=8&ved=0ahUKEwiyq5mS54\\_NAhWoK8AKHbHEAG8QFggnMAI&url=http%3A%2F%2Fwww.iiste.org%2FJournals%2Findex.php%2FEJBM%2Farticle%2Fdownload%2F5153%2F5233&usg=AFQjCNGRC0RUHoiwR4zWdkPykcv4FPFQSA&sig2=9t6PhzGqI6bXwTa8OVCWog&bvm=bv.123664746,d.d24](http://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=3&cad=rja&uact=8&ved=0ahUKEwiyq5mS54_NAhWoK8AKHbHEAG8QFggnMAI&url=http%3A%2F%2Fwww.iiste.org%2FJournals%2Findex.php%2FEJBM%2Farticle%2Fdownload%2F5153%2F5233&usg=AFQjCNGRC0RUHoiwR4zWdkPykcv4FPFQSA&sig2=9t6PhzGqI6bXwTa8OVCWog&bvm=bv.123664746,d.d24) [Downloaded: 5 June 2016].

Organisation for Economic Co-operation and Development (OECD).2005. *Definition of SMEs*. [Online] Available from: <https://stats.oecd.org/glossary/detail.asp?ID=3123> [Accessed: 5 June 2016].

Pope, J. & Abdul-Jabbar, H. 2008. Small and medium-sized enterprises and tax compliance burden in Malaysia: Issues and challenges for tax administration. *Small Enterprise Research*, 16(1):47–60. [Online] Available from: EBSCOHost: <http://eds.a.ebscohost.com.uplib.idm.oclc.org/eds/pdfviewer/pdfviewer?sid=839a6b09->

3dab-4e1e-b092-3583a10e4dc4%40sessionmgr4008&vid=0&hid=4211 [Downloaded: 8 October 2016].

PricewaterhouseCoopers. 2015. *Highlighting trends in the South African construction industry. SA Construction*. 3rd ed. (1–48). [Online] Available from: <https://www.pwc.co.za/en/assets/pdf/sa-construction-2015.pdf> [Downloaded: 5 June 2016].

PWC (see PricewaterhouseCoopers).

Saad, N. 2013. Tax knowledge, tax complexity and tax compliance: Taxpayers' view. *Procedia – Social and Behavioral Sciences*, 109:1069–1075. [Online] Available from: Elsevier Science Direct: [http://ac.els-cdn.com/S1877042813052294/1-s2.0-S1877042813052294-main.pdf?\\_tid=771df5aa-2abd-11e6-89cf0000aacb362&acdnat=1465090571\\_b4f9f8a37ed20d9b072e1238089873c1](http://ac.els-cdn.com/S1877042813052294/1-s2.0-S1877042813052294-main.pdf?_tid=771df5aa-2abd-11e6-89cf0000aacb362&acdnat=1465090571_b4f9f8a37ed20d9b072e1238089873c1) [Downloaded: 5 June 2016].

Salaria, N. 2012. Meaning of the term – descriptive survey method. *International Journal of Transformations in Business Management*, 1(6):0. [Online] Available from: [http://www.ijtbm.com/images/short\\_pdf/Apr\\_2012\\_NEERU%20SALARIA%202.pdf](http://www.ijtbm.com/images/short_pdf/Apr_2012_NEERU%20SALARIA%202.pdf) [Downloaded: 15 August 2016].

SARS (see South African Revenue Services).

Saunders, M., Lewis, P. & Thornhill, A. 2009. *Research methods for business students*. 5th ed. Harlow, Essex: Pearson Education. [Online] Available from: [https://is.vsfs.cz/el/6410/leto2014/BA\\_BSeBM/um/Research\\_Methods\\_for\\_Business\\_Students\\_\\_5th\\_Edition.pdf](https://is.vsfs.cz/el/6410/leto2014/BA_BSeBM/um/Research_Methods_for_Business_Students__5th_Edition.pdf) [Downloaded: 16 August 2016].

Saunderson, M. 2009. *Critical success factors for South African foreign direct investment in sub-Saharan Africa*. Unpublished master's thesis. Johannesburg: University of the Witwatersrand.

Sieberhagen, H.S. 2008. *A qualitative literature review of the differentiated tax policy for small and medium enterprises in South Africa*. Unpublished master's thesis. University of Pretoria. [Online] Available from: <http://www.repository.up.ac.za/bitstream/handle/2263/23737/dissertation.pdf?sequence=1> [Downloaded: 8 October 2016].

Siedman, I. 2005. *Interviewing as a qualitative research: A guide to researchers in education and social sciences*. 3rd ed. New York, NY: Columbia University Teachers College. [Online] Available from: [http://homes.cs.washington.edu/~depstein/hcde596/papers/seidman\\_interview.pdf](http://homes.cs.washington.edu/~depstein/hcde596/papers/seidman_interview.pdf) [Downloaded: 15 August 2016].

South Africa. 1962. Income Tax Act, No. 58 of 1962. Government Gazette, Extraordinary: 1-189. [Online] Available from [[http://www.acts.co.za/income\\_tax\\_act\\_1962](http://www.acts.co.za/income_tax_act_1962)] [Accessed: 12 November 2016].

South Africa. 1991. Value-added Tax Act, No. 89 of 1991. Government Gazette, 13307: 1-173. [Online] Available from [[http://www.acts.co.za/value\\_added\\_tax\\_act\\_1991](http://www.acts.co.za/value_added_tax_act_1991)] [Accessed: 12 November 2016].

South Africa. 1996. National Small Business Act, No. 102 of 1996. Government Gazette, 17612: 1-20 [Online] Available from [<https://www.acts.co.za/national-small-business-act-1996/schedule>] [Accessed: 12 November 2016].

South Africa. 2011. The Tax Administration Act, no 28 of 2011. Governmen Gazzette, 35491: 1-193. [Online] Available from [[http://www.gov.za/sites/www.gov.za/files/a28\\_2011.pdf](http://www.gov.za/sites/www.gov.za/files/a28_2011.pdf)] [Accessed: 17 November 2016].

South Africa. 2012. *National Development Plan 2030: Executive Summary*. [Online] Available from: <http://www.gov.za/sites/www.gov.za/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf> [Downloaded: 17 June 2016].

South African Revenue Services. Not dated. [Online] Available from: [www.sars.gov.za](http://www.sars.gov.za). [Accessed: 13 November 2016].

South African Revenue Services. 2013a. *Media Release. Briefing Note: Update on SARS Compliance Programme*. [Online] Available from: <http://www.sars.gov.za/Media/MediaReleases/Documents/UpdateonSARSComplianceProgramme201213.pdf> [Downloaded: 5 June 2016].

South African Revenue Services. 2013b. *VAT 409: Value-added tax, Guide for fixed property and construction*. [Online] Available from: <http://www.sars.gov.za/AllDocs/OpsDocs/Guides/LAPD-VAT-G03%20-%20VAT%20409%20Guide%20for%20Fixed%20Property%20and%20Construction%20-%20External%20Guide.pdf> [Downloaded: 26 June 2016].

South African Revenue Services. 2014. *Draft guide to building allowances*. [Online] Available from: <http://www.sars.gov.za/AllDocs/LegalDoclib/Drafts/LAPD-LPrep-Draft-2014-12%20-%20Draft%20Guide%20to%20Building%20Allowances.pdf> [Downloaded: 26 June 2016].

South African Revenue Services. 2014. Interpretation note no. 78, 29 July 2014. Section 24C: Allowance for future expenditure on contracts. [Online] Available from: <http://www.sars.gov.za/AllDocs/LegalDoclib/Notes/LAPD-IntR-IN-2014-03%20%20IN78%20Allowance%20for%20Future%20Expenditure%20on%20Contracts.pdf> [Downloaded: 26 June 2016].

South African Revenue Services. 2012. *SARS Compliance Programme 2012/13–2016/17*. [Online] Available from: <http://www.sars.gov.za/AllDocs/SARSEntDoclib/Ent/SARS-Strat-07-G02%20-%20Compliance%20Programme%202012%202013%20to%202016%202017%20%E2%80%93%20External%20Guide.pdf> [Downloaded: 4 June 2016].

Stols, J.A. 2013. *A review of small business tax relief measures in South Africa*. Unpublished master's thesis. University of Pretoria. [Online] Available from: [http://www.repository.up.ac.za/bitstream/handle/2263/41575/Stols\\_Review\\_2014.pdf?sequence=1&isAllowed=y](http://www.repository.up.ac.za/bitstream/handle/2263/41575/Stols_Review_2014.pdf?sequence=1&isAllowed=y) [Downloaded: 8 October 2016].

Thornton, J. 2008. Corruption and the composition of tax revenue in Middle East and African economies. *South African Journal of Economics*, 76(2):316–320. [Online] Available from: EBSCOHost: 10.1111/j.1813-6982.2008.00176. <http://eds.b.ebscohost.com/uplib.idm.oclc.org/ehost/command/detail?sid=99f46e1e-093c-47ff-a520-d674a2185593%40sessionmgr107&vid=1&hid=127> [Downloaded: 16 June 2016].

United States Agency for International Development. 2008. *Formal SMME tax compliance survey report, prepared for National Treasury of South Africa*. [Online] Available from: [http://pdf.usaid.gov/pdf\\_docs/Pnadr986.pdf](http://pdf.usaid.gov/pdf_docs/Pnadr986.pdf) [Downloaded: 16 June 2016].

USAID (see United States Agency for International Development).

Venter, J.M.P. & De Clercq, B. 2007. Tax compliance burden for small, medium and micro establishments in the business services industry. *South African Journal of Economic and Management Sciences*, 10(1):72–88. [Online] Available from: <http://sajems.org/index.php/sajems/article/view/537/205> [Downloaded: 25 June 2016].

Zucker, D.M. 2009. *How to do case study research*. (School of Nursing Faculty Publication Series, 2). [Online] Available from: [http://scholarworks.umass.edu/nursing\\_faculty\\_pubs/2](http://scholarworks.umass.edu/nursing_faculty_pubs/2) [Downloaded: 18 August 2016].



## **APPENDIX A**

### **Interview schedule for the research project**

#### **The tax education needs of SME business owners in the construction industry**



**PLEASE NOTE THAT ANY INFORMATION GATHERED DURING THIS PROCESS WILL REMAIN CONFIDENTIAL AND WILL BE USED FOR ACADEMIC PURPOSES ONLY. NO NAMES OF PERSONS AND/OR ORGANISATIONS WILL BE MENTIONED IN OUR REPORT.**

**Section A: Demographic information**

Area of business operation:

-----  
-----  
-----  
-----

1. Please specify your gender.

Male	
Female	

2. Please indicate which population group you belong to.

White	
Coloured	
Black	
Asian	
Other (specify)	

3. Are you the owner of this business?

-----  
-----  
-----

4. What is highest level of education you achieved?

-----  
-----  
-----

5. Do you have an accounting department? Do they prepare your financial statements?

-----  
-----  
-----

6. What form of business is the company registered as?

Sole trader	
Close corporation	



Private company	
Partnership	
Family business	
Other (specify)	

7. What is the nature of your construction business? What type of construction services do you offer?

-----  
 -----  
 -----  
 -----

8. How many years has the business been in operation?

-----  
 -----  
 -----

9. What is/are the average yearly turnover/sales of the business?

-----  
 -----  
 -----

**Section B: Open-ended questions**

**Costs of tax compliance**

1. Is your business registered for VAT, income tax and PAYE?
2. Do you prepare your own VAT and PAYE information for the monthly returns?
3. If YES, how much time per month is being spent on this task on average? If NO, then who prepares them? If outsourced to an accountant, is this person a certified tax practitioner registered with SARS? What do you understand by the term registered tax practitioner? Does the cost of hiring an outside accountant/tax practitioner impact your business?
4. Who do you believe is ultimately liable when an incorrect submission has been made?
5. What is your understanding of penalties and interest on late payment of taxes, non-submission of returns and incorrect submissions?

6. What is the most time-consuming activity for you in regard to tax?
7. What recourse do you as a taxpayer have should you be assessed incorrectly?
8. Do you experience compliance issues with SARS, and, if so, what are they?

### **Tax incentives for SMEs: Income tax and VAT**

1. As a small- or medium-business owner, what tax incentives are you aware of for your business, if any?
2. What is your understanding of the term small business corporation's tax? Do you believe that you may qualify? What are the requirements for qualification? Is it compulsory or can you elect to pay this tax?
3. Other than the benefit of a progressive tax rate relating to an SBC, what other incentives relating to the purchase of new assets are available to an SBC and which you are aware of?
4. As you may be aware, income for tax purposes is taxed on earlier of receipt or accrual. Therefore, in instances where you receive an advance payment on a contract, the full amount is liable to tax as soon as you receive it. However, in tax law, expenses can only be claimed when they have actually been incurred. The issue arising here is that income is taxed in advance but the expenses have not yet been incurred. A mismatch for tax has occurred.

Are you aware of a special tax allowance provided in this circumstance to alleviate this tax cost mismatch?

5. Do you own any building which you use for your business for manufacturing purposes? If so, what do you understand by a building allowance claim for tax?
6. Regarding VAT, are you aware that you are not legally required to register for VAT if your turnover or projected turnover is less than R1 M?

7. What is your understanding of retentions in construction contracts? When, do you believe, is VAT applicable to retentions?
8. When can you claim a VAT input? What supporting document do you require from your supplier in this regard?
9. Do you know what makes an invoice valid for a VAT claim?
10. What do you understand by micro-business turnover tax?
11. Do you know about the new employment tax incentive introduced on 1 January 2014?
12. If you are audited by SARS and it turns out you have under-declared your taxes, what are the ways in which SARS can penalise you for that understatement?
13. How do understatement penalties work?
14. Do you think SARS checks your bank account or corroborates information with third parties? Can SARS obtain information on tender payments from government departments?
15. What do you know about third-party appointments to satisfy tax debts?
16. Are there many cash transactions which occur in this industry and in your business? Can you name them?
17. What is your understanding of the term lifestyle audit? Do you believe that this type of audit alleviates the risk that SARS loses taxes through cash transactions which are unrecorded?
18. Do you know what a debt compromise is?
19. In general, do you believe SARS does enough to educate taxpayers in respect of a



specific targeted industry like construction?

20. What more do you think SARS can implement to make taxpayers knowledgeable enough to understand key issues as discussed above relating to construction?

21. Do you believe that if you were more educated about tax, it would encourage you to be more tax compliant? Could it be that it is more of a lack of tax knowledge as opposed to intention that taxpayers in this industry are non-compliant?



**APPENDIX B**  
**Informed consent form**

•



## Informed consent for participation in an academic research study

Department of Economic and Management Sciences

### THE TAX EDUCATION NEEDS OF SMES IN THE CONSTRUCTION INDUSTRY

Research conducted by:

Mrs S. Ramharak (U15332820, 082 5201 353)

Ms. I.Q. Intellect (10100000)

Cell: 080 123 4567

Dear Participant

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

The purpose of the study is to identify the tax education needs of SME business owners operating in the construction industry.

Please note the following:

- This is an anonymous study as your name will not appear on the questionnaire. The answers you give will be strictly confidential as you cannot be identified 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 60 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 study leader, Mrs Theresa van Oordt on 012 420 4590 or at [theresa.vanoordt@up.ac.za](mailto:theresa.vanoordt@up.ac.za) if you have any questions or comments regarding the study.

Please sign the form to indicate that:

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

---

Participant's signature

---

Date