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Compliance costs matter – the case of South African individual taxpayers

Karen Stark* and Sharon Smulders**

Abstract

This empirical study evaluates the tax compliance costs of individual taxpayers in South Africa with regard to the 2016/17 year of assessment, in order to establish a baseline against which future studies and tax system enhancements can be measured. The study is a work in progress and was conducted using an online questionnaire and provides credible estimates of the tax compliance costs for individuals. These costs were analysed and were found to be the highest for self-employed individuals. Various practical recommendations, particularly regarding the digital transactions with the South African Revenue Service, and suggestions to influence policy direction are provided.

Key words: tax compliance costs, individual taxpayers

* Senior Lecturer, Department of Taxation, University of Pretoria, South Africa. Email: karen.stark@up.ac.za.

** Associate Professor, Department of Financial Intelligence, University of South Africa (UNISA), South Africa.

1. INTRODUCTION AND MOTIVATION

The South African Revenue Service (SARS) is an autonomous agency established in terms of the *South African Revenue Service Act, No. 34 of 1997* (SARS Act) and is responsible for administering the South African tax system. One of its objectives is the '*efficient* and *effective*' collection of revenue, which must be achieved by securing the '*efficient* and *effective*' and widest possible enforcement of the legislation.[1] In section 4(2) of the SARS Act, it is stated that SARS must perform its functions in the most 'cost-efficient and effective' manner and in accordance with the values and principles of section 195 of the Constitution.[2]

SARS has managed to keep its costs of administering the South African tax system (internal operating costs) as a ratio to tax revenue[3] in line with the international benchmark of 1% (African Tax Administration Forum, 2017, p. 92) while increasing the amount of revenue it has collected over the past five years as is shown in Table 1 below (National Treasury & SARS, 2017, p. 14).

Table 1: Cost of Revenue Collections, 2012/13 – 2016/17

	Tax revenue collected (ZAR million)[4]	SARS' internal operating costs (ZAR million)	SARS' cost of collection (% of tax revenue)
2012/13	813,826	8,696	1.07%
2013/14	900,015	8,702	0.97%
2014/15	966,295	9,523	0.97%
2015/16	1,069,983	10,245	0.96%
2016/17	1,144,081	10,696	0.93%

Source: National Treasury & SARS (2017, p. 14).

The costs that are borne by SARS to collect tax revenue are commonly referred to as 'tax administrative costs' and the costs that are borne by the taxpayers are known as 'tax compliance costs' (Pope, 1989, p. 126; Evans, 2003, p. 64; Evans et al., 2014b, p. 454). Various definitions of tax compliance costs have emerged in the literature, but in essence, 'pure' tax compliance costs are the costs incurred by taxpayers to comply with their tax obligations, without taking the actual tax liability into account (Evans et al., 1997, pp. 2-3), or alternatively, they are 'the costs which would disappear if the tax was abolished' (Sandford, 1995, p. 1). In South Africa, only the tax administrative costs are calculated on an annual basis by SARS with no similar calculation performed with respect to the tax compliance costs incurred by individual taxpayers.[5] One of SARS's outcomes as stated on its website is '[i]ncreased ease and fairness of doing business with

[1] *South African Revenue Service Act, No. 34 of 1997* (SARS Act), ss 3(a) and 4(1)(a) (our emphasis).
[2] These principles include (amongst others): the maintenance of a high standard of professional ethics; the promotion of efficient, economic and effective use of resources; the provision of services impartially, fairly, equitably and without bias; responding to people's needs, and encouraging the public to participate in policy-making (*Constitution of the Republic of South Africa*, 1996, s 195(1)).
[3] This ratio does not include the non-tax revenue and social security contributions collected by SARS, and SARS is therefore more efficient than suggested by this ratio (National Treasury & SARS, 2017, p. 14).
[4] The conversion rate from South African rand to Australian dollar on 16 March 2018 was ZAR 1=AUD 0.108. Alternatively put, AUD 1 = ZAR 9.26.
[5] In South Africa, studies quantifying tax compliance costs have only been performed for small and medium enterprises (Smulders et al., 2012).

SARS'.[6] The authors postulate that if the quantum of tax compliance costs is not known, then evaluating this outcome is difficult to achieve.

Knowing the quantum of taxpayers' tax compliance costs is also important, as various Taxpayer Bills of Rights (TBOR) in other jurisdictions mention that one of these taxpayers' rights is the 'right to have the cost of compliance taken into account when administering tax legislation' (Tax Review Committee, 2017 (Davis Tax Committee), p. 70). South Africa does not currently have a TBOR that entrenches this right, but in 2005 SARS published the SARS Client Charter ('the Charter') which was intended not only to create and improve the service culture of SARS personnel when dealing with taxpayers, but also to increase taxpayers' awareness of their rights and obligations (Davis Tax Committee, 2017, p. 65). Examples of taxpayers' rights contained in this Charter are the entitlement to expect help from SARS through courteous and professional service at all times, provision of clear, accurate and helpful responses and accessibility to SARS via call centres and walk-in centres. In return, taxpayers are obliged to (for example) be honest, submit full and accurate information on time and encourage others to pay their tax (Davis Tax Committee, 2017, p. 66).

A charter should be distinguished from a TBOR. Only a TBOR is an enforceable document and the Davis Tax Committee (2017, p. 73) therefore recommended that South Africa develop a TBOR to 'not only guarantee taxpayers' rights' whilst interacting with SARS, but also to make 'SARS responsible in its dealings with taxpayers and regulate the interactions and expectations of the relationship between SARS and taxpayers'. A strong TBOR provides a 'roadmap for effective tax administration' and should be used as the lens through which tax systems measure their performance so that taxpayers will be confident that they are treated correctly (National Taxpayer Advocate (US), 2014, p. 4).

Although South African taxpayers' rights above were contained in the Charter, the Charter 'disappeared' from the SARS' website around 2014 which left South African taxpayers' rights with respect to dealing with SARS flowing from the Bill of Rights contained in the Constitution (Croome, 2014, p. 12). This Bill of Rights 'enshrines the rights of all people in the country and affirms the democratic values of human dignity, equality and freedom. The state must respect, protect, promote and fulfil the rights in the Bill of Rights' (*Constitution of the Republic of South Africa, 1996*, section 7). In terms of the Bill of Rights, taxpayers thus have, *inter alia*, the right to property (section 25 of the Constitution); the right to equality (section 9); the right to privacy (section 14); the right of access to information (section 32); the right to just administrative action (section 33), and the right of access to courts (section 25). Thus these rights referred to also have a direct bearing on the powers conferred on SARS by the various fiscal statutes in South Africa (Croome, 2010). The Charter did, however, reappear on 1 July 2018 providing taxpayers with the commitment to a service that is fair, accurate and based on mutual trust and respect and that endeavours to adhere to reasonable timeframes (SARS, 2018).

Despite these rights, it is of concern that the South African Institute of Chartered Accountants' (SAICA) members have indicated that in their experience there has been a significant increase in the cost of tax compliance and collection. They state that this

[6] SARS, 'About us', http://www.sars.gov.za/About/Pages/default.aspx (accessed 21 February 2018).

increase, especially since 2008, is due to various additional compliance and disclosure procedures required of taxpayers by SARS (SAICA, 2016, p. 4).

In light of these concerns, conducting research into the tax compliance costs for South African taxpayers is therefore very relevant and indeed essential. In addition, Klun and Blažić (2005, p. 419) warn that tax compliance costs affect the economic behaviour of both individuals and businesses, and Erard and Ho (2003, p. 100) also observe that a large burden may induce taxpayers to 'cheat in [an] attempt to recoup their costs associated with preparing and filing their return[s]'. This is concerning as individual taxpayers are critical to the South African economy – personal income tax is South Africa's largest source of tax revenue and comprised 37.2% of the total tax revenue collected in 2016/17, followed by value-added tax at 25.3% and company income tax at 18.1% (National Treasury & SARS, 2018, p. 19). It is thus important to ensure that tax revenue stemming from individual taxpayers is safeguarded, as this revenue plays a fundamental role in ensuring the functioning of the South African economy.

Furthermore, only 35%[7] of the population are registered taxpayers (National Treasury & SARS, 2018, p. 38; Statistics South Africa, 2017, p. 2) of which only 25.7% contribute just over 80% of the total personal income tax collected (Joffe, 2017). Knowing the quantum and drivers of tax compliance costs will assist in ensuring the continued flow of personal tax revenue to the fiscus and prevent placing a further burden on the limited number of individual taxpayers.

According to the World Bank (2011, p. 5), tax compliance costs surveys can help identify problems and onerous tax compliance activities and assist in establishing a baseline against which progress can be monitored and measured. SARS will thus only know if there has been an 'increase' in the ease and fairness of doing business with it, if taxpayers are given the opportunity to express their views and a baseline (or point of departure) is established.

The objective of the current study is therefore to establish a baseline of the tax compliance costs for individual taxpayers in South Africa against which future progress can be measured, as no such study has yet been performed. This current study is part of a broader initiative – a joint project between SAICA and the University of South Africa (UNISA) – to evaluate the total tax compliance costs for all taxpayers (individuals and corporations) in South Africa. This article, however, only addresses the initial phases of the quantification of tax compliance costs incurred by South African individuals with regard to their 2017 income tax return. Further articles will delve deeper into the drivers of tax compliance costs and the link between tax compliance costs and individual taxpayers' experiences when dealing with SARS.

2. The survey

2.1 Methodology

The methodology adopted for the current study was an online survey. The questionnaire was designed using the Qualtrics software package. The target population for the survey was all individuals who had submitted an income tax return to SARS for the 2016/17 tax year. Although a firm-level panel administrative data set containing all individuals registered for tax exists, all variables that could be used to identify individuals were

[7] Calculated as 19,980,110 registered taxpayers divided by a population of 56,521,900.

removed and therefore a stratified and systematic random sampling method was not possible (Pieterse, Gavin & Kreuser, 2018, p. 26; Tran-Nam, Evans & Lignier, 2014, p. 140). An alternative approach, namely the 'snowball' technique, was used, as recommended by Coolidge (2012, p. 280). The initial channels used to distribute the survey were: (i) SAICA members (SAICA, 2017); (ii) social media platforms (namely LinkedIn and FaceBook), and (iii) the e-mail contacts of the researchers. These recipients were requested to forward the survey to other taxpayers. Entities such as PKF (Durban) and OUTA (Organisation Undoing Tax Abuse) also assisted with the distribution of the questionnaire to their clients/members. Despite the fact that the rationale of probability theory cannot be relied upon in this study, Anieting and Mosugu (2017, p. 33) state that non-probability samples could be representative of a population.

In designing and developing the questionnaire, previous questionnaires[8] were used to inform the current study. We expanded the breadth of the questionnaire by including, for example, detailed questions on post-filing activities and more attitudinal questions to develop an appropriate survey instrument in the South African context. A pilot study was conducted to 'refine the questionnaire so that respondents would have no problems in answering the questions and there would be no problem in recording the data' (Saunders, Lewis & Thornhill, 2007, p. 451). The draft questionnaire was piloted by local and international academics, tax practitioners, persons with no tax knowledge and high net worth individuals to, amongst other things, measure the time required to complete the questionnaire; ensure that the questions were unambiguous, and verify whether or not any relevant questions were/should be omitted. These individuals were diverse enough to test these aspects, and various comments for improving the questionnaire were received, especially from the international academics[9] who have substantial experience in drafting questionnaires. Following those tests and taking the feedback of the experts into account, the questionnaire was revised and distributed. Ethical practices were followed at all stages of the research process and ethical approval for the research was obtained from UNISA.

2.2 Responses received

By the cut-off date for data collection for this article (9 March 2018), 582 responses had been received. Of these, 26 respondents commenced with the questionnaire but did not complete it. The data from the partially completed responses were not usable and were therefore ignored. The data of the remaining 556 complete responses were cleaned and analysed using Excel and SPSS. All calculations were performed using the 5% trimmed mean, which excludes extreme values (i.e., outliers) at the upper and lower ends, as recommended by Evans et al. (1997, p. 7). It was thought appropriate to use this measure in order to eliminate extreme values that could be caused by incorrect recollection, extreme personal valuation or misunderstanding of questions such as mixing up an hourly rate with a total amount (Evans et al., 1997, p. 7). All references to the mean in the remainder of this article denote the 5% trimmed mean.

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[8] For example, the questionnaire used by Tran-Nam et al. (2014) in Australia.

[9] Chris Evans (Professor of Taxation at the School of Taxation and Business Law, Australian School of Business within the University of New South Wales, Australia) and Lisa Marriott (Professor at the School of Accounting and Commercial Law, Victoria University of Wellington, New Zealand).

3. EMPIRICAL RESEARCH FINDINGS

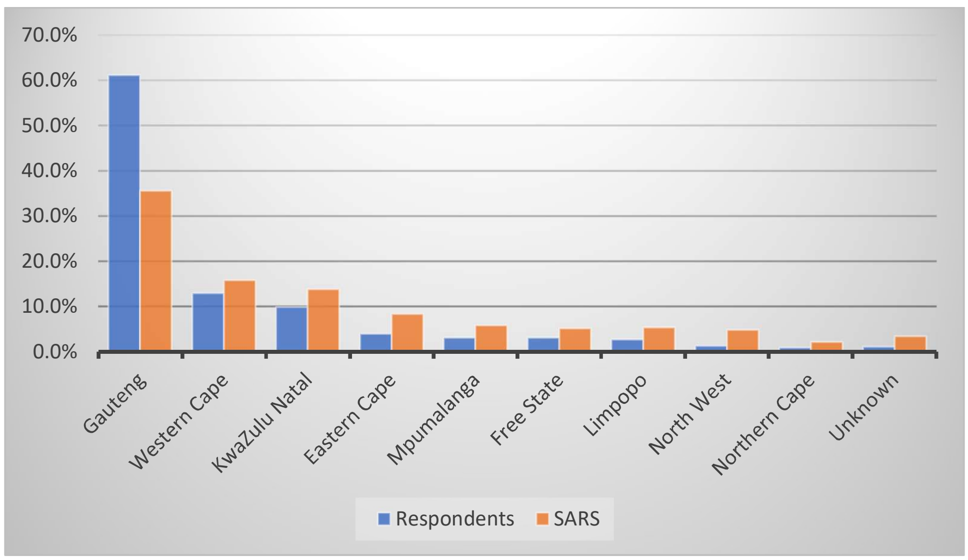
3.1 Profile of respondents

Various demographic questions were asked to determine the geographic location, gender, age, level of education, tax knowledge and employment status of the respondents.

3.1.1 Geographic location

All nine provinces of South Africa were represented by the respondents. Most of the respondents were resident in Gauteng (61%), followed by the Western Cape (13%) and KwaZulu Natal (10%). This representation follows a similar pattern to the distribution of assessed individual taxpayers (National Treasury & SARS, 2018, p. 49). Gauteng is, however, slightly overrepresented (refer to Figure 1).

Fig. 1: Distribution According to Geographic Location

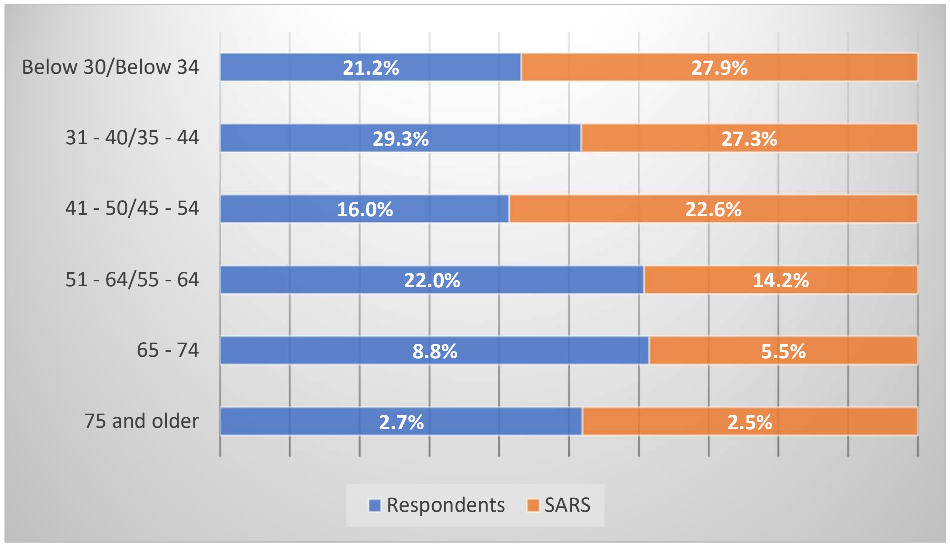


Source: Own data and National Treasury & SARS (2018, p. 49).

3.1.2 Gender and age distribution

Of the respondents, 54% were male and 46% female. This aligns with SARS' distribution analysis where males were 54.7% and females were 45.3% of assessed individual taxpayers (National Treasury & SARS, 2018, p. 53). With regard to age, even though the age categories in the questionnaire were not exactly the same as those of the assessed individual taxpayers, the distribution of the ages of the respondents is roughly comparable as illustrated in Figure 2.

Fig. 2: Age Distribution

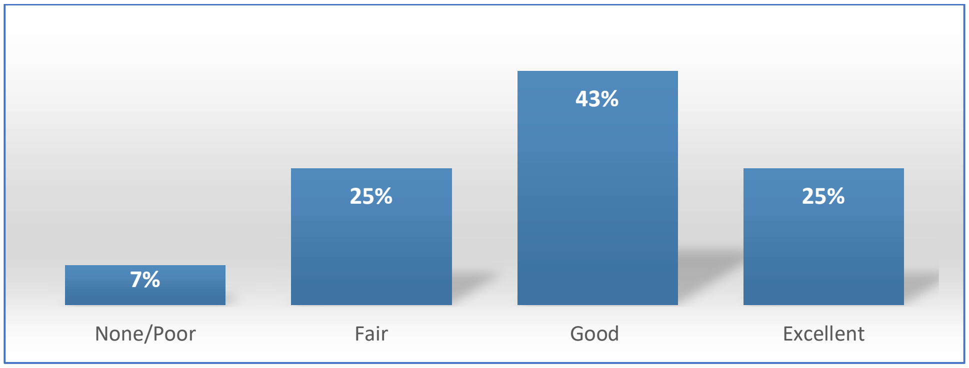


Source: Own data and National Treasury & SARS (2018, p. 67).

3.1.3 Level of education and tax knowledge

Almost one-third (29%) of the respondents had tertiary education up to certificate, diploma or degree level, while just over two-thirds (67%) had postgraduate tertiary education. The respondents were thus mainly well-educated individuals which could explain why almost half of the respondents (43%) stated that their personal income tax knowledge was 'good', with a similar percentage stating that their knowledge was 'fair' (25%) or 'excellent' (25%) (see Figure 3). Although it may appear that the respondents were skewed towards highly educated individuals, which normally results in higher incomes, it must be noted that a natural person earning remuneration from only one employer (from which employees' tax has been withheld) that does not exceed ZAR 350,000 (an approximate salary of ZAR 30,000 per month), is not obligated to complete and submit an income tax return (SARS, 2017, p. 3). For 2017, 72.8% of the assessed individual taxpayers had a taxable income below ZAR 350 000, thus most of the taxpayers fell below the return submission threshold (National Treasury & SARS, 2018, p. 41). Hence, the respondents to the current study are generally expected to be higher educated and higher income earners, but the sample bias (i.e., the channels used to distribute the questionnaire) could have also contributed to this.

Fig. 3: Personal Income Tax Knowledge

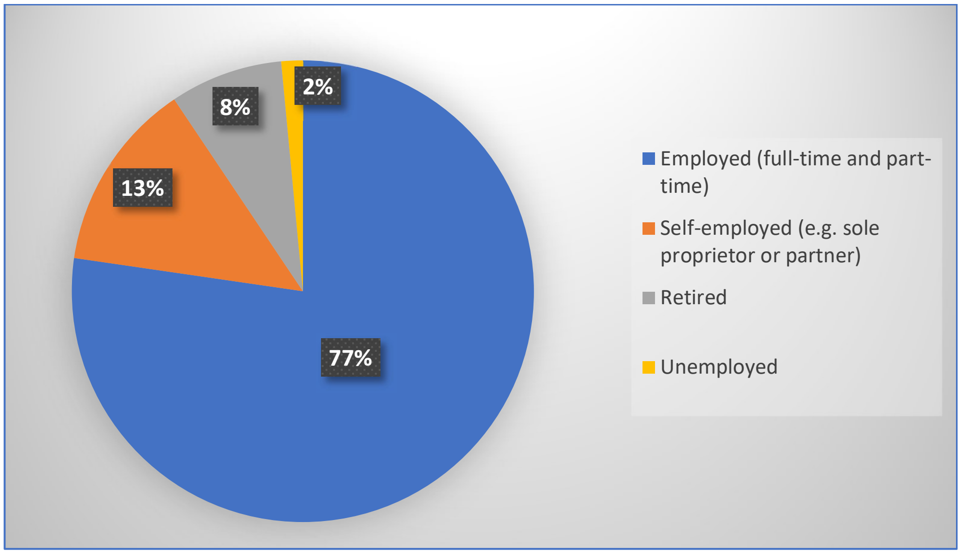


3.1.4 Employment status

As shown in Figure 4, most of the respondents (77%) were employed, while 13% were self-employed,[10] 8% retired and 2% unemployed. According to SARS' statistics (National Treasury & SARS, 2018, p. 58) on average 5.1% of assessed taxpayers are self-employed. The results of the current study were weighted to cater for the over-representation of self-employed individuals because the compliance cost burden of self-employed taxpayers is typically significantly higher than that of individuals earning employment income (Eichfelder & Vaillancourt, 2014, p. 119). Half of the respondents who were self-employed conducted their business in the 'financing, insurance, real estate and business service' sector. Even though the sample bias could have attributed to this result, this sector is the most represented sector (33%) in South Africa according to the SARS' statistics (National Treasury & SARS, 2018, p. 58).

[10] Namely earning business income either as a sole proprietor or as a partner in a partnership.

Fig. 4: Employment Status



3.1.5 Representativeness of respondents

The respondents were not entirely representative of the South African personal taxpaying population, but previous studies have indicated that an important driver of tax compliance costs is employment status (Eichfelder & Vaillancourt, 2014, p. 119; Blaufus, Eichfelder & Hunsdoerfer, 2014, p. 817). Taking this into account, the results were reweighted (see sections 3.4 and 3.5 below) in terms of employment status and we therefore do not expect a significant bias when extrapolating the results to the South African individual taxpayer population.

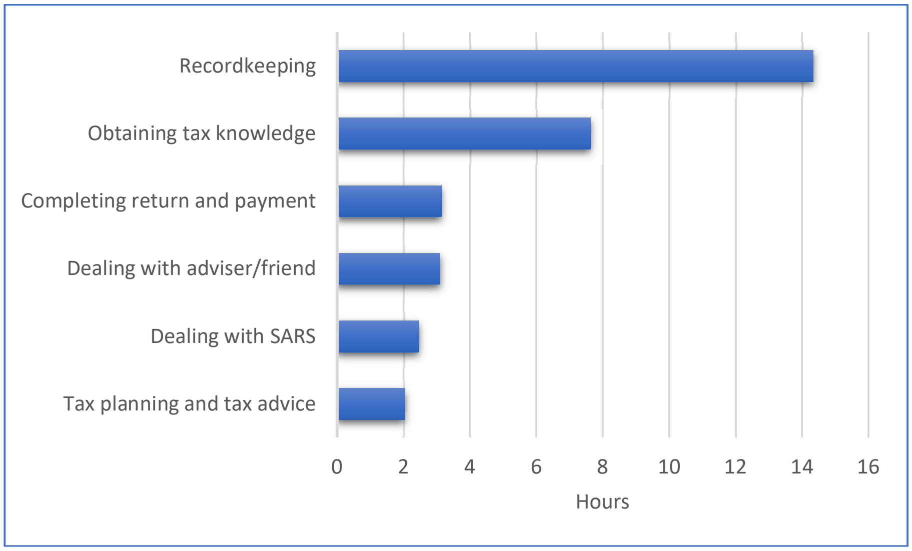
3.2 Compliance cost activities

Tax compliance costs result from different activities such as:

- Learning/updating tax knowledge (including attending tax seminars and workshops);
- Tax planning and tax advice (e.g., tax opinions);
- Record-keeping (compiling information needed for tax);
- Dealing with SARS (e.g., relating to changing banking or other personal information);
- Dealing with family members/friends/tax practitioners (including providing information to them);
- Calculating tax, completing income tax returns and paying tax, and
- Post-filing activities (Tran-Nam et al., 2014, p. 141).

According to the literature (Eichfelder and Vaillancourt, 2014, p. 128), the two most time consuming activities are record-keeping and tax return preparation. The findings of the current study confirmed that record-keeping was the most time consuming activity (see Figure 5 below). The second most time consuming category in the current study was learning/updating tax knowledge specifically incurred by individuals completing their tax returns themselves, as opposed to those obtaining help. An explanation for this would require further research, but one possible reason could be that in order for them to be competent in their tax matters (refer to section 3.3 below) they need to learn and/or update their tax knowledge in light of annual tax amendments.

Fig. 5: Average Time Spent on Compliance Cost Activities

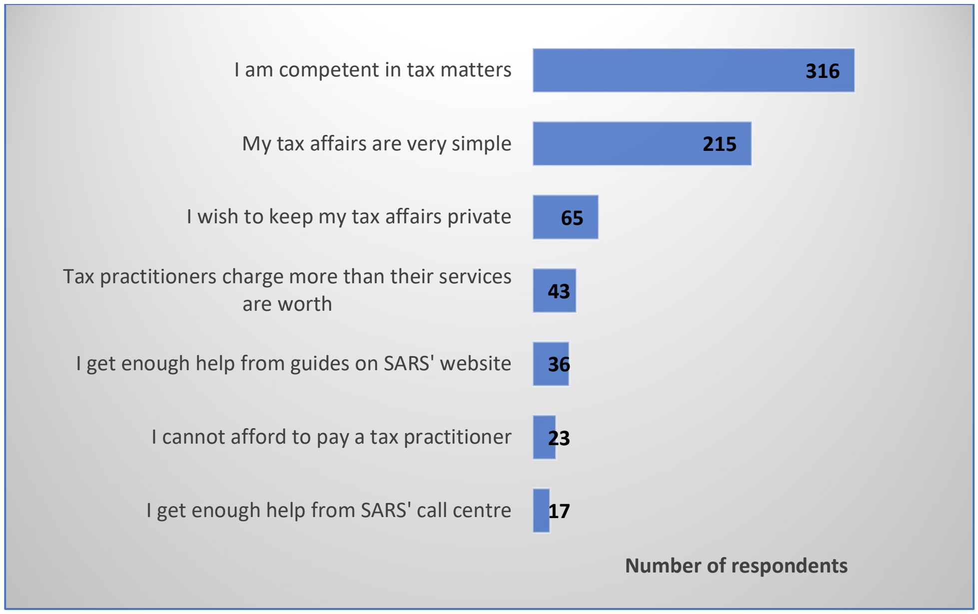


Most studies do not consider in detail post-filing compliance activities such as objection, appeal and litigation (Eichfelder & Vaillancourt, 2014, p. 128). However, certain studies found post-filing compliance costs to be a significant burden for certain individual taxpayers (Tran-Nam & Blissenden, 2001). Post-filing compliance costs were considered in the current study, but due to their relative importance in relation to recent reports in South Africa (Office of the Tax Ombud, 2017, pp. 22-23), they will be considered in a separate article devoted to their incidence and quantum.

3.3 Completion of tax return – person responsible

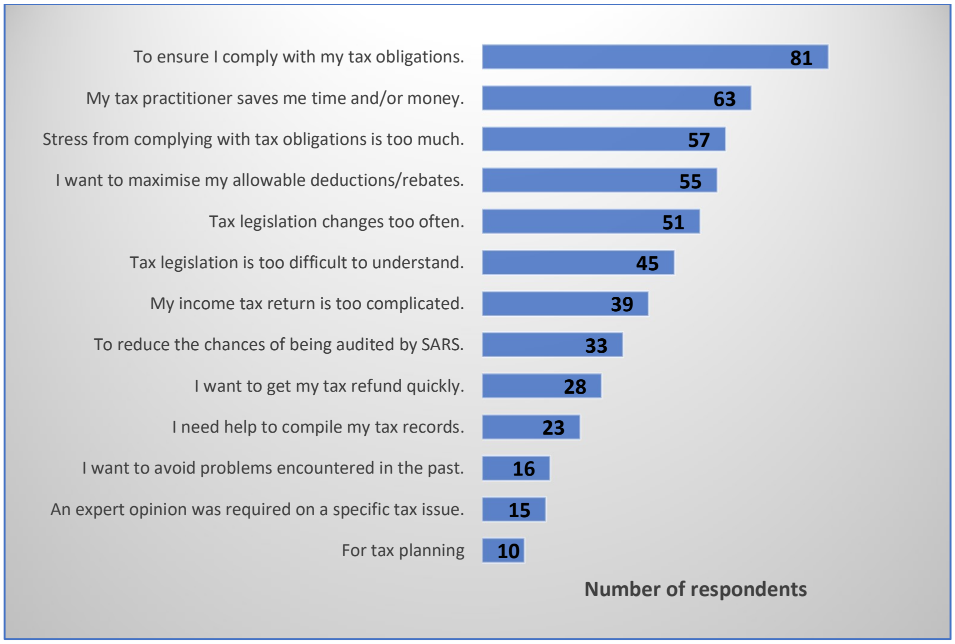
Most of the respondents (75%) completed their own 2016/17 income tax return. The respondents were provided with a list of possible reasons as to why they completed their income tax return themselves and could select more than one option if applicable. The main reason provided was that the person was competent in tax matters, followed by the reason that his/her tax affairs were very simple (see Figure 6).

Fig. 6: Reasons for Individuals Completing Their Own Tax Returns



Twenty-one per cent (21%) of the respondents used a tax practitioner to complete their tax returns, while the remaining 4% either used a family member or friend or a SARS employee. Those who made use of a tax practitioner were provided with a list of possible reasons as to why they obtained this help and could select more than one option if applicable. The three main reasons for why they needed the assistance of a tax practitioner were first, to ensure he/she complied with tax obligations, secondly the tax practitioner saved them time and/or money and thirdly the stress from complying with the tax obligations was too great. A summary of all the reasons is depicted in Figure 7 below.

Fig. 7: Reasons for Using a Tax Practitioner



The fact that the main reason for using a tax practitioner was to ensure that the taxpayers were tax compliant is an encouraging finding. This may indicate that taxpayers generally do want to comply and it is therefore important that tax compliance is made easy and cost-effective, so that tax compliance does not become a hindrance for them.

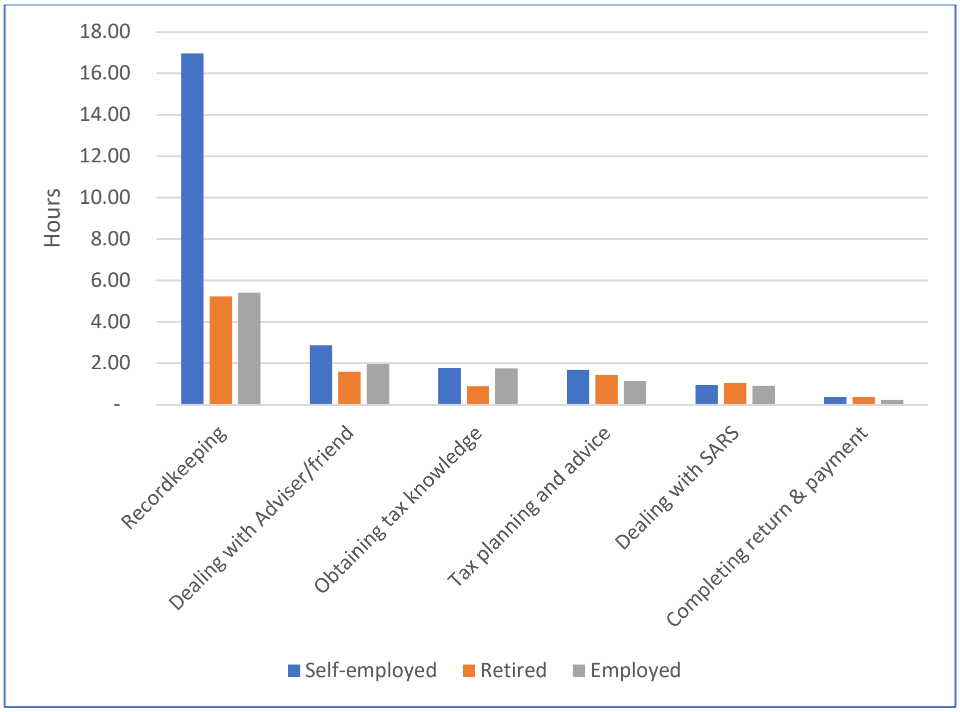
3.4 Compliance cost components

The components of compliance costs for individual taxpayers vary considerably in the literature, but generally consist of the cost of taxpayers' time spent, advisers' fees and incidental expenses (Evans, Tran-Nam & Lignier, 2014a, p. 68). Eichfelder and Vaillancourt (2014, p. 121) conclude that the time spent on tax compliance is the main part of the tax compliance cost burden, comprising on average 70% of the cost burden. Advisers' fees comprise approximately 25% and incidental expenses approximately 5%. The results of the current study follow the same trend, albeit at slightly higher levels, with the average time cost burden amounting to 80%, advisers' fees 11% and incidental expenses 9% of the total cost burden.

Typically, the compliance cost burden of self-employed taxpayers (such as sole proprietors and partners) is significantly higher than that of individuals earning employment income (the employed) (Eichfelder & Vaillancourt, 2014, p. 119). In the current study, the respondents were disaggregated according to the taxpayer's employment status (full-time employed (423), self-employed (74) and retired (44)). The 'full-time employed' category is hereafter referred to as 'employed'. As the number of respondents who were employed part-time (7) or unemployed (8) were not sufficient to provide statistically generalisable results, these responses were not analysed further.

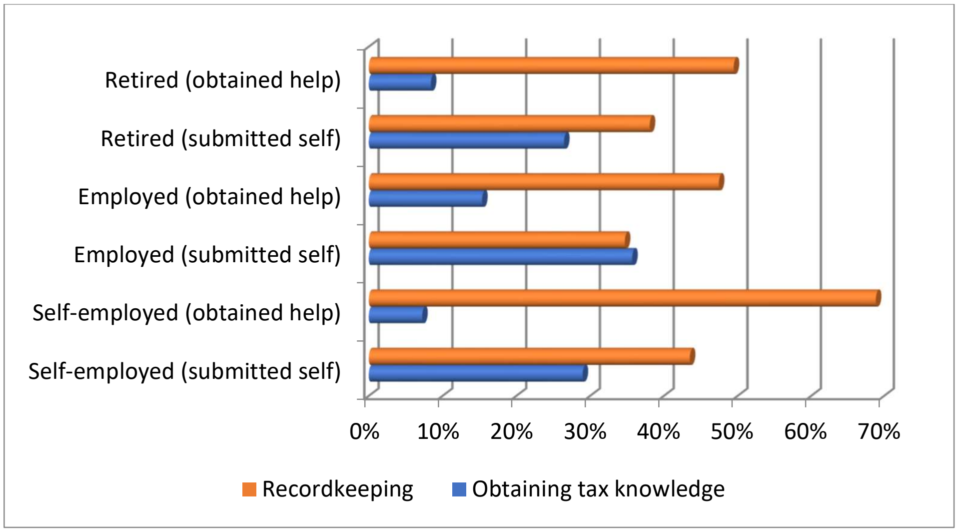
It was established that 78% of the employed, 66% of the self-employed and 52% of the retired individuals completed their income tax returns themselves, while the remaining percentages (12%, 34% and 48% respectively) obtained assistance. Of the respondents who obtained assistance, just over three-quarters (78%) used a tax adviser, while the remainder made use of a family member, a friend or SARS employee. Despite an individual using an adviser/friend, the individual still spent time on certain compliance activities (especially record-keeping if the individual was self-employed) as depicted in Figure 8 below.

Fig. 8: Compliance Activities of Taxpayers Using Advisers/Friends



In each of the categories, the hours spent on record-keeping exceeded the time spent on all other activities. Furthermore, taxpayers who obtained assistance with the completion of their returns spent more time on record-keeping and less time on learning/updating their tax knowledge than taxpayers who completed their returns themselves, as illustrated in Figure 9. A possible explanation for this could be that taxpayers who obtained assistance with the completion of their tax returns (and thus spent less time on learning/updating their knowledge) were unsure of what documentation was required by SARS and thus potentially spent time on unnecessary record-keeping.

Fig. 9: Time Spent on Record-Keeping versus Learning/Updating Tax Knowledge



3.5 Compliance cost quantification

To calculate the total tax compliance costs for each category of taxpayer, the total hours spent on compliance activities (up to the submission of the income tax return and payment of the tax due) were multiplied by an hourly rate. It is this hourly rate that has been broadly debated in the literature, and ultimately six methods of valuing taxpayers' time have been recognised (Pope, 1995, pp. 115-117). These methods are:

1. each individual's own valuation of time;

2. each individual's own valuation, subject to a maximum hourly rate;

3. the median (or mean) value of time as reported by individual taxpayers;

4. what taxpayers would pay to be rid of all compliance costs;

5. before-tax hourly wage rate; and

6. after-tax hourly wage rate.

There is no preferred method of valuing time used in compliance cost studies and the use of a combination of these methods is also regarded as acceptable (Pope, 1995, p. 118; Malmer, 1995, pp. 242, 248). The current study used a combination of the first, second, fourth and sixth methods depending on employment status of the respondent. For the employed individuals, their gross monthly salary (provided by them[11]) was converted to an hourly rate by dividing it by 176 (normal working hours per month[12]). This rate was then reduced to an after-tax rate and used to calculate the value of their time. For self-employed and retired respondents, the mean was first calculated based on

[11] This gross monthly salary for those individuals in the category 'more than R100,000' was capped at ZAR 120,000 – which is a conservative estimate.
[12] This is based on an average of 22 working days in a month and 8 working hours per day.

all the hourly rates provided by the respondents. This rate was then used to limit the hourly rate provided by those respondents whose rate exceeded this limit. This was done in order to provide a more realistic and conservative estimate. It is acknowledged that other methods may have led to substantially different estimates (Yesegat, Coolidge & Corthay, 2017, p. 81). The value of the unpaid friend/family member's assistance was based on the mean of the values provided by the respondents.

Once the hourly rates were finalised, the value of the total time spent by individual taxpayers was determined. The value of this time was calculated (per employment category) for those individuals who completed their tax returns themselves ('*self*') and those who did not complete their tax returns themselves ('*help*') – that is they used the assistance of an adviser/friend. The value of total time spent by taxpayers who did not complete their tax returns themselves was calculated until the point of obtaining assistance.

To obtain the total cost of compliance, the abovementioned calculated time values were added to the mean of the advisers' fees and incidental costs incurred. The mean of the estimated time value of friends that assisted with the respondents' tax return submission (if applicable and as provided by the respondents) was also added to this cost for each employment category, under the subcategories *self* and *help*.

The total compliance costs for each employment category were then weighted based on the number of respondents in each subcategory (*self* and *help*). For example, in the employed category, 330 of the 423 respondents filed their income tax returns themselves, while the remaining 93 respondents obtained assistance. The total compliance cost for the employed category of ZAR 3,314 was thus calculated as the sum of the appropriate portion of the *self*-subcategory (330/423) and the *help*-subcategory (93/423). Tables 2 to 4 provide a summary of the total compliance costs per category and per subcategory.

Table 2: Total Compliance Costs – Employed

	Self	Help	Weighted total
	n = 330	*n = 93*	
	(R)	(R)	(R)
Value of time	2 385	3 481	**2 626**
Advisers fee	-	1 703	**374**
Friends time	-	67	**15**
Incidental expenses	211	613	**299**
Total cost	2 596	5 864	**3 314**

Table 3: Total Compliance Costs – Self-Employed

	Self	Help	Weighted total
	n = 49	*n = 25*	
	(R)	(R)	(R)
Value of time	22 626	16 317	**20 494**
Advisers fee	1 521	6 140	**2 214**
Friends time	-	-	**-**
Incidental expenses	211	2 074	**1 708**
Total	24 358	24 531	**24 416**

Table 4: Total Compliance Costs – Retired

	Self	Help	Weighted total
	n = 23	*n = 21*	
	(R)	(R)	(R)
Value of time	14 383	5 964	**10 365**
Advisers fee	36	258	**142**
Friends time	-	1 892	**903**
Incidental expenses	441	697	**563**
Total	**14 860**	**8 811**	**11 973**

When comparing Tables 2 to 4, it is apparent that the compliance costs of individuals in the self-employed category are the highest (ZAR 24,416), followed by the individuals in the retired category (ZAR 11,973), with the costs of the individuals in the employed category being the lowest (ZAR 3,314).

To ensure that these costs were reasonable, they were compared to the value that respondents thought they would save in terms of money, time and effort if the tax system in South Africa was abolished. For the self-employed respondents, a saving of ZAR 23,958 was reported; for the retired respondents it was ZAR 6,688 and for the employed respondents it was ZAR 3,125. These amounts are in line with the calculated amounts (ZAR 24,416, 11,973 and 3,314) and no further adjustments to the calculated compliance costs were considered necessary based on this triangulation.

In order to establish the total average tax compliance costs of all individuals in South Africa, the weighted average compliance cost of the 541[13] individual taxpayers had to be calculated. This weighted average amounted to ZAR 6,905 and was calculated using

[13] This number excludes the 15 respondents from the unemployed and part-time employed categories that were excluded from the total responses of 556.

the number of taxpayers in the respective employment categories, namely 423 (employed), 74 (self-employed) and 44 (retired) and multiplying them by the compliance cost per employment category.

As explained earlier (refer to section 3.1.4), self-employed individuals normally have higher compliance costs than employed taxpayers and the self-employed individuals were over-represented in the current study. To adjust for this, a further weighting was applied. This weighting was based on the SARS Tax Statistics (National Treasury & SARS, 2018, p. 58) (where available) for each of the categories:

- Self-employed – 5.1% ((National Treasury & SARS, 2018, p 58; also refer to section 3.1.4);
- Retired – 8.0% (National Treasury & SARS, 2018, p. 67; also refer to section 3.1.2); assumed to be individual taxpayers who are 65 years and older; and
- Employed – 86.9% (balancing figure).

Based on these calculations, the average compliance cost of an individual in South Africa amounts to ZAR 5,083. If this amount is extrapolated to the total population (based on 6,399,319 taxpayers who were required to submit a tax return for the 2016/17 year of assessment: National Treasury & SARS, 2018, p. 38), it is estimated that the total compliance costs for individuals in South Africa with regard to the 2016/17 year of assessment was ZAR 32.5 billion. This amounts to 7.64% of tax revenue[14] and 0.74% as a percentage of GDP.[15] The average compliance costs as a percentage of tax revenue is higher than almost all of the other countries summarised by Eichfelder and Vaillancourt (2014, p. 120) and set out in Table 5 below, although cognisance must be taken of the concerns raised with regard to international comparisons (Evans et al. 2014b, p. 455) when interpreting this result.

Table 5: Average Compliance Costs of Individuals – Findings of Various Compliance Cost Studies

Country	Average compliance costs as a percentage of tax revenue
United States of America (USA)	5.0 – 7.0%
United Kingdom	3.6%
Canada	2.5%
Australia	7.9 – 10.8%
Netherlands	1.4%
Spain	3.3%
Sweden	1.7%

[14] Personal income tax contributed ZAR 425.9 billion (37.2%) of total tax revenue of ZAR 1,144 billion in 2016/17 (National Treasury & SARS, 2018, p. 19).
[15] GDP was ZAR 4,413 billion for 2016/17 (National Treasury & SARS, 2018, p. 7).

Australia	4.0 – 5.6%
Spain	1.8% (1.2%)
USA	8.3%
Croatia	0.9%
Slovenia	2.5%
Canada	2.2 – 3.2%
Germany	3.1% – 4.7%
Australia	Employment income: 5.5%

Source: adapted from Eichfelder and Vaillancourt (2014, p. 120)

4. Respondents' comments and recommendations

Respondents were given the opportunity to provide comments on their interactions with SARS (good and bad) and to provide suggestions for improvements that could reduce compliance costs. Only comments in relation to their digital interactions with SARS (namely e-filing) are elaborated upon in this article. Even though this article focused on compliance costs up to submission of the income tax return, the comments provided with regard to both pre- and post-filing activities were considered in this article.

Although many respondents stated that e-filing had assisted them to save time with their tax compliance duties, others stated that they did not regard e-filing as being user-friendly. Certain respondents also said that SARS' staff were knowledgeable and could assist them with e-filing; however, several stated that the SARS staff in the branches did not know how e-filing worked and 'were not willing to help in the event that e-filing was not allowing objections or requests'.

Three dominant digital frustrations experienced by the taxpayers were raised. The first was the exclusive use of Internet Explorer (not Chrome or Firefox) to view one's documents on the e-filing system. Furthermore, respondents said that it cost them data and time to ensure that they had the latest version of Adobe Reader, in order to access their returns and other documents on e-filing. The second frustration raised by the respondents was with regard to the number (20) and size limitation (only 2mb) of supporting documentation permitted to be uploaded on e-filing to support their income tax return information. Respondents were forced to go into branches to provide their supporting documentation due to this limitation and this increased their compliance costs further. Although not mentioned as frequently as the above two frustrations, a concern was raised that a completed income tax return could not be printed before submission for review purposes.

Suggestions on how to improve e-filing or the use thereof in order to reduce their compliance costs included the following: (i) expanding the number and size[16] of supporting documents allowed to be uploaded on e-filing; (ii) offering e-filing stations at SARS branches; (iii) offering more e-filing training for taxpayers and user-friendly manuals; (iv) ensuring that SARS' call centre and branch office staff are trained in the use of e-filing and can assist taxpayers in this regard; (v) allowing changes in bank details to be submitted via e-filing and not only at a branch; (vi) increasing the font size of assessments issued on e-filing; (vii) offering an e-filing app that does not have data costs (as is already offered by most of the major banks in South Africa: Venktess, 2017); (viii) offering an e-filing mobile app that has more support functions so that taxpayers are not forced to use a computer, and (ix) introducing electronic chat agents for automated intelligence agents (robots) to service non-residents outside of normal South African working hours.

None of these suggestions appear unreasonable and if adopted by SARS could go a long way to assisting taxpayers with their compliance obligations.

5. Conclusion

Although the current study is a work in progress to establish a baseline for tax compliance cost for South African individuals, the number of responses and quality of the data received were sufficient to make a modest attempt to establish this baseline. It therefore lays the foundation for future studies of this nature in South Africa.

It was established that most of the respondents (75%) completed their own tax returns – mainly because they felt competent in tax matters. Overall, record-keeping was the most time consuming compliance activity, even for those who made use of a tax adviser. Those respondents who used a tax adviser did so mainly because they wanted to ensure that they were tax compliant and also generally spent less time on learning/updating their tax knowledge.

From a costs perspective, the value of the time spent by the individuals on all tax compliance activities formed the largest component (80%) of the total compliance cost. The tax adviser fees (11%) and other incidental costs (9%) made up the remainder. When this was analysed between the different categories of respondents (employed, self-employed and retired), it was found – in results consistent with international literature – that self-employed individuals incurred the greatest cost in order to be tax compliant.

In aggregate, tax compliance costs (calculated up to the submission of an income tax return) of South African individual taxpayers for the 2016/17 year of assessment were estimated at about ZAR 32.5 billion (approximately AUD 3.6 billion). These costs account for 7.64% of income tax revenue and 0.74% of GDP in the same fiscal year. The ratio of compliance costs to income tax revenue (7.64%), if compared to other

[16] The maximum allowable size per document that is permitted to be uploaded on the SARS e-filing platform was increased to 5MB from 23 April 2018, shortly after a draft version of this article was provided to them: see SARS, 'What if I'm audited or selected for verification?', http://www.sars.gov.za/ClientSegments/Individuals/What-If-Not-Agree/Pages/Being-Audited.aspx (accessed 18 August 2018).

international tax compliance cost studies, is high (although this comparison should be treated with caution as mentioned previously).

From a practical perspective, and specifically in connection with the digital side of SARS' services, respondents suggested making accessing and uploading supporting documents on e-filing easier and ensuring that SARS staff are knowledgeable on these matters, in order to assist taxpayers more effectively and efficiently. An e-filing app that requires zero data fees would be welcomed by the respondents. Providing free WiFi in most of SARS' branches for taxpayers to download the app should also be considered. From a policy perspective, National Treasury is encouraged to include tax compliance cost studies as a regular component of policy-making. Introducing tax compliance cost assessments (studies to determine the impact of compliance costs on *proposed* legislation) is therefore suggested as a means to achieve this.

In summary, the *tax burden* for individual taxpayers in South Africa has been shifted onto a tapered tax base over the last few years. This does not bode well for these individuals, especially if the *tax compliance cost burden* should be found to be increasing year-on-year. Knowing the quantum of the tax compliance costs therefore *does matter*, especially if SARS and the National Treasury want to ensure continued revenue from these important stakeholders in the fragile South African economy.

6. Future research

Additional responses received after the cut-off date decided upon for this article (9 March 2018) will be used to further improve and explore the tax compliance costs and the determinants thereof. Correlations will be explored between the tax compliance costs and taxpayers' demographics, between the tax compliance costs and different pre- and post-filing activities and also between the tax compliance costs and the taxpayers' feedback relating to their interactions with SARS (using the slippery slope framework as showcased by Kirchler et al., 2008, pp. 201-225). The outcomes from the analysis of these interactions will expose whether there are any legitimate compliance concerns, frustrations and/or inconveniences in the tax system.

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