

# **A COMPARATIVE STUDY OF SOUTH AFRICAN STUDENTS' PERCEPTIONS OF TAXATION**

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## ABSTRACT

# A COMPARATIVE STUDY OF SOUTH AFRICAN STUDENTS' PERCEPTIONS OF TAXATION

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Perception is a process of obtaining information about the world. Perceptions influence a person's behaviour and previous research has found that perceptions influence a person's tax compliancy. The objective of this study was to analyse and compare the perceptions about taxation of second year university students studying a BCom Law degree, taking into account the effect of a tax module elected by some of the students. This was done by collecting data from students that elected a tax module as part of their curriculum and from students that did not elect a tax module as part of their curriculum. The data was then analysed to determine whether there was a difference in students' perceptions which may have resulted from the additional tax knowledge that the one group was acquiring. A questionnaire was used to collect the data. From the analysis of the data it was found that the perceptions between the two groups of students were not significantly different. This can be attributed to the fact that students electing the tax module were only exposed to the tax module for a limited time. It is important to note that the nature of this study was exploratory and the purpose was not to generalise the results.

Key words: Perceptions, taxation, tax compliance, tax education.

## OPSOMMING

### **‘n VERGELYKENDE STUDIE VAN SUID AFRIKAANSE STUDENTE SE PERSEPSIE VAN BELASTING**

deur

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Persepsie is ‘n proses om informasie van die wêreld te verkry. Persepsies beïnvloed ‘n persoon se gedrag en vorige navorsing het gevind dat persepsies ‘n persoon se belastingnakoming beïnvloed. Die doel van die studie was om die persepsies van belasting van tweede jaar universiteit studente wat ‘n BCom Regte graad volg te ontleed en te vergelyk, met inagneming van die belastingmodule wat sommige studente gekies het. Die ondersoek was gedoen deur data van studente wat die belastingmodule as deel van hulle leergang gekies het, en van studente wat nie die belastingmodule as deel van hulle leergang gekies het nie, te versamel. Die data was dan ontleed om vastestel of die addisionele belastingkennis ‘n verskil in die studente se persepsies wat belasting geneem het, teenoor die ander groep wat nie belasting geneem het nie, maak het. ‘n Vraelys was gebruik om die data te versamel. Uit die ontleding van die data was vasgestel dat die persepsies tussen die twee groepe studente nie betekenisvol verskil nie. Dit kan toegeskryf word aan die feit dat studente wat die belastingmodule gekies het, slegs vir ‘n beperkte tyd aan die belastingmodule blootgestel was. Dit is belangrik om te vermeld dat die studie ondersoekend van aard is. Die doel was nie om die resultate te veralgemeen nie.

Kernwoorde: Persepsies, belasting, belastingnakoming, belastingopvoeding.

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# A COMPARATIVE STUDY OF SOUTH AFRICAN STUDENTS' PERCEPTIONS OF TAXATION

## CHAPTER 1 - INTRODUCTION

### 1.1 BACKGROUND

"Is the glass half full or half empty?"- Lord Acton

The answer to this question depends on how a person perceives the object in question. Perception is the process of acquiring knowledge of the world through the human senses (O'Brien, 2004). Perception is one of the factors which motivates a person's behaviour (Ferguson & Bargh, 2004:33-39).

Perceptions on taxation may be formed from a very early age, as young as from primary school going age as that is when scholars are first taught some aspects of taxation (Department of Education, 2002:18). These perceptions may change as a person grows older due to new knowledge being obtained and different experiences a person goes through (Oberholzer, de Kock, & Walker, 2008:33). If South African citizens perceive the idea of paying tax as the correct thing to do and perceive that the tax is being used correctly, greater tax compliance may result. Tax compliance is crucial to all countries as the tax which is collected is used to fund the government's administration and to provide certain benefits to a country's citizens and residents (Huxham & Haupt, 2009:1).

Previous studies in South Africa looked at perceptions of South African taxpayers in general (Oberholzer, 2008:44-69) and specifically in connection with tax evasion and tax compliance (Oberholzer & Stack, 2009:737-755). Perceptions of previously disadvantaged South Africans in connection with taxation and the need for tax education were also studied (Oberholzer, 2005:249-275; Oberholzer, 2007:158-189).

No research has been undertaken to study university students currently being educated about South African taxes and how this education may affect the student's perceptions

towards taxation. In the study by Oberholzer (2005:259), it was stated that: “People perceive through a frame of reference – a set of interlocking facts, ideas, beliefs, values and attitudes.” This frame of reference could be developed through the tax education that students receive at university. University students are South Africa’s future taxpayers and their perceptions on taxation may have a significant impact on their tax compliance in the future. The results of a study conducted to determine the effect of increased tax knowledge on university students, indicated a positive change to those students’ attitude towards taxation (Eriksen & Fallan, 1996:387-402).

This study is of importance, since if increased tax knowledge leads to positive perceptions of future taxpayers, then more effort should be placed on tax education for all South African university students. This in turn may lead to greater tax compliance by all South Africans. As stated by Oberholzer (2008:45): “One of the most effective tools for making people more positive is to empower them with knowledge.”

## **1.2 PROBLEM STATEMENT**

Tax compliance or rather the lack thereof is a problem in many countries, as noted in various research studies (Chau & Leung, 2009:034; Smulders & Stiglingh, 2008:608). Individuals avoid paying tax for many reasons; for example, financial constraints, dissatisfaction with government spending and corruption in government, to name a few. Their tax avoidance is also sometimes connected to the perceptions they have about taxation (Oberholzer, 2008:45). The question arises as to whether increased tax knowledge could influence the taxpayers’ perceptions positively towards taxation? It was noted that there is no study in South Africa that analysed the perceptions of university students towards taxation and specifically compared these perceptions between students studying a tax module and those who are not studying a tax module. University students are future taxpayers and their perceptions about South African taxation may have an effect on their future tax compliance.

### **1.3 PURPOSE STATEMENT**

The main purpose of this study was to obtain and compare the perceptions, regarding taxation, of students studying a BCom degree with tax as a subject to students studying the same BCom degree without tax as a subject at the University of Pretoria.

### **1.4 RESEARCH OBJECTIVES**

The main purpose of this study was supported by the following research objectives:

- To critically analyse the literature and previous research studies in order to establish the theoretical construct for this study.
- To obtain, analyse and compare the perceptions about taxation of students who have tax as a university subject to students who do not have tax as a subject at university, using the theoretical construct as the underpin.

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

This study is important as it will indicate whether tax should be taught to all students at universities. If increased tax knowledge can influence students' perceptions positively then the authorities might consider including tax as a module for all students at university. University students are being studied as it is assumed that they will most likely earn high salaries or start businesses which will attract high South African taxes.

This study may assist the South African Revenue Service (SARS) in obtaining information on how to improve potential taxpayers' opinions on paying taxes. It may also give government information about how its citizens perceive the levying of tax and its use by the government. Universities in South Africa may benefit from this study by obtaining information about whether all students should register for a compulsory tax module, in order to encourage tax compliance in the country.

## 1.6 DELIMITATIONS AND ASSUMPTIONS

### 1.6.1 DELIMITATIONS

The study had several delimitations related to the context, constructs and target population, namely:

- the nature of this study was exploratory and the purpose was not to generalise the results of the study;
- the study focused only on second year undergraduate students studying at the University of Pretoria, South Africa;
- only students studying a BCom Law degree were included in the sample and not any other students studying for different degrees offered by this university;
- only the perceptions that the students currently have on taxation were explored and not whether there was a change in the perceptions due to increased tax knowledge over a period of time;
- the study only considered the effect of the elective tax module as possibly influencing the perceptions of the students. Other modules that the students have taken where tax may have been discussed; for instance, accounting, economics and business management, were not considered;
- due to the time constraint to complete the research the exposure to the tax module was limited to six weeks which limited the influence that the elective tax module could have had on the students' perceptions.

### 1.6.2 ASSUMPTIONS

The following assumptions underpin this study. Firstly, the studying of factors that affects tax compliance is of continuing importance. Secondly, students have some idea of what the concepts “tax” and “taxation” means and they know that there are different types of taxes levied in South Africa. Thirdly, students all have some perceptions on the taxes levied in South Africa and that these perceptions can change due to external factors, for instance, increased tax knowledge through education. Fourthly, it is also assumed that

different students have different perceptions on taxation. Lastly, it is assumed that survey research in the form of structured questionnaires can detect differences in perceptions.

It must be noted that certain assumptions were also made when the data was analysed. These assumptions can be found in the chapter 4 - Results.

## 1.7 ABBREVIATIONS AND DEFINITION OF KEY TERMS

The following abbreviations as listed in Table 1 were used in this document:

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

Abbreviation	Meaning
BCom	Bachelor of Commerce
BEL 200, 213, 223	Compulsory taxation modules offered for students in their second year
BEL 220	Elective taxation module offered in second semester for students in their second year
BEL 300, 310, 320	Compulsory taxation modules offered for students in their third year
PAYE	Pay as you earn
SARS	South African Revenue Service
SITE	Standard Income Tax on Employees
VAT	Value Added Tax

### Definition of key terms

This study involves a number of key concepts; namely, *attitudes, perceive, perception, tax, taxation, tax compliance* as well as *tax gap*. The manner in which these key terms are defined for the purpose of this study is listed below:

**Attitude** refers to a “state of mind, behaviour, or conduct regarding some matter, as indicating opinion or purpose” (Webster Comprehensive Dictionary, 1998:94). It is how a person views something (Collins Pocket English Dictionary, 1989:620). Attitudes may be expressed as positive or negative feelings towards something (also see section 2.5.1).

**Perceive** refers to becoming “aware of (something) through the senses; recognize or observe” (Collins Pocket English Dictionary, 1989:621) or “to come to understand;

apprehend with the mind” (Webster Comprehensive Dictionary, 1998:935). The human senses; namely, seeing, hearing, feeling, tasting and smelling, help obtain this awareness and understanding of the world (see also section 2.5.1).

**Perception** refers to “the act, power, process, or product of perceiving; knowledge through the senses of the existence and properties of matter and the external world. Cognition of fact or truth in general by the activity of thinking: moral perception; apprehension; knowledge” (Webster Comprehensive Dictionary, 1998:936) (see also section 2.5.1). Perception is the process of acquiring knowledge of the world through the human senses (O’Brien, 2004) (see also section 1.1).

**Tax** refers to “a compulsory financial contribution imposed by a government to raise revenue, levied on income, property, or goods and services” (Collins Pocket English Dictionary, 1989:875) (see also section 2.2.1).

**Taxation** refers to “the act or principle of levying taxes or the condition of being taxed” (Collins Pocket English Dictionary, 1989:875) (see also section 2.2.1).

**Tax compliance** refers to complying with tax reporting requirements. This means that “... the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the Internal Revenue Code, regulations, and court decisions applicable at the time that the return is filed” (Roth, Scholz & Witte, 1989:2) (see also section 2.3).

A **tax gap** is defined as “a measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources” (National Treasury, 2009:138). A tax gap is therefore the difference between the taxes received by the government and the taxes which were expected to be raised (see also section 2.2.4).

## **1.8 RESEARCH DESIGN**

The research design that was followed is a combination of survey research and comparative study. The study is therefore an empirical, exploratory study. The aim of the study was not to generalise the results to the whole population but to rather obtain an understanding of the phenomenon of perceptions of students on taxation. The study will be a cross-sectional, ex post facto design and qualitative, primary data will be collected with the use of a questionnaire. Comparisons between the two groups of analysis will be made with the use of the data from the survey.

## **1.9 OVERVIEW OF CHAPTERS**

The rest of the research document is as follows: Chapter 2 gives a review of the current literature that supports this study. Chapter 3 covers the research design and methods that were used in the study. Chapter 4 describes the results obtained from the survey and the analysis of these results. In Chapter 5 a discussion is provided about whether the research objectives were met and a suggestion for further research is given.

## CHAPTER 2 - LITERATURE REVIEW

### 2.1 INTRODUCTION

The purpose of the chapter is to give a synthesised summary of factors influencing both tax compliance and perceptions that people have about taxation, which have been noted in previous studies made internationally and nationally. Particular attention was given to how education affects tax compliance and perceptions about taxation.

### 2.2 AN OVERVIEW OF TAXATION AND OTHER RELATED MATTERS IN SOUTH AFRICA

Income tax has been levied in South Africa from 1914. But even as early as 1894 taxes were levied on certain persons in South Africa according to the Glen Grey Act (Oberholzer, 2005:252).

#### 2.2.1 Definition and reasons for tax

Tax is defined as: “a compulsory financial contribution imposed by a government to raise revenue, levied on income, property, or goods and services” (Collins Pocket English Dictionary, 1989:875). In *Nyambirai v National Social Security Authority and Another* 1996 (1) SA 636 (ZS) the following definition was given for tax: “a compulsory (not optional) levy imposed by the legislature or other competent authority upon the public as a whole or a substantial sector and which is utilised for the public benefit and to provide a service in the public interest” (Croome & Olivier:2010:2).

Taxes are therefore levied by the government in order for revenue to be collected to fund government expenditure. Government expenditure is made up of social and economic programmes, which includes amongst others, providing public goods and services such as schools, universities, hospitals, clinics, roads and a defence force (SARS, not dated a).

The Minister of Finance presents the government budget to parliament and the public every year. This budget details the total budgeted government expenditure for the following year and the method that this expenditure will be financed. Tax revenue is mostly used to finance government expenditure (Oberholzer, 2005:249-250).

### **2.2.2 Principles of taxation**

In 1776 Adam Smith, in his Wealth of Nations address, recognised that there were four basic principles which taxation should meet (Smith, 2000:888-889):

- “The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.” - this is the equity principle;
- “The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor.” - the certainty principle;
- “Every tax ought to be levied at the time, or in a manner in which it is most likely to be convenient for the contributor to pay it.” - the convenience principle; and
- “Every tax ought to be so contrived as to both take out, and keep out, of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.” - the economy principle.

Huxham and Haupt (2009:4) stated that these four principles are still as applicable to today’s tax system as they were in the 1770’s. In the 2008 Tax Statistics, it was also “... acknowledged that the tax system should be fair, efficient and certain” (National Treasury & South African Revenue Service, 2008: iii). Considering Smith it can be stated that all the taxes in South Africa should be based on the principles of equity, certainty, convenience and economy.

### 2.2.3 Types of tax revenue and how they are collected

South Africa has a mixture of direct and indirect taxes. Direct taxes are levied on persons and indirect taxes are levied on transactions (Huxham & Haupt, 2009:1).

The following tax revenues, as indicated in Table 2, are currently levied by National Government:

**Table 2: National tax revenues in South Africa**

Nature of tax	Type of tax
Taxes on income and profits	<ul style="list-style-type: none"> <li>• Income Tax (IT) (using Pay As You Earn (PAYE) and Provisional Tax as means for collection)</li> <li>• Capital Gains Tax (CGT)</li> <li>• Secondary Tax on Companies (STC)</li> <li>• Turnover Tax</li> <li>• Interest on overdue taxes</li> </ul>
Domestic taxes	<ul style="list-style-type: none"> <li>• Value Added Tax (VAT)</li> <li>• Excise duties</li> <li>• Fuel levy</li> <li>• International air passenger departure tax</li> <li>• Environmental levy</li> </ul>
Taxes on property	<ul style="list-style-type: none"> <li>• Donations Tax</li> <li>• Estate Duty</li> <li>• Securities Transfer Tax (SIT)</li> <li>• Transfer Duty</li> </ul>
Taxes on payroll and workforce	<ul style="list-style-type: none"> <li>• Skills Development Levy (SDL)</li> </ul>
Taxes on international trade and transactions	<ul style="list-style-type: none"> <li>• Customs duties</li> </ul>

Source: Summarised and adapted from National Treasury & South African Revenue Service (2008:8-11).

Of the above taxes, the main sources of tax revenue are income tax from individuals and companies and Value Added Tax (VAT) which makes up 80% of the National Revenue Budget. Fuel levy, excise and customs duty make up another 12% to 14% of the Budget (National Treasury & SARS, 2008:1). The tax revenues that may therefore affect the largest amount of South Africans is income tax, VAT and certain excise duties and levies; for example, fuel levy and excise duties on tobacco and alcohol.

Income tax is levied according to the Income Tax Act 58 of 1962. It is levied on individuals using a progressive table, of between 18% and 40%. The tax threshold for individuals under the age of 65 for the 2010/11 tax year, is a taxable income of R57 000 (SARS, 2010a). Taxable income is the sum of gross income, less exemptions, less allowable deductions (National Treasury & SARS, 2008:8). Therefore a person earning taxable income, which includes remuneration, above R4 750 per month will be liable for tax. Personal income tax is mainly collected by an employer by means of calculating and deducting Standard Income Tax on Employees (SITE) and Pay-As-You-Earn (PAYE) on the employee's taxable remuneration. The employer is then responsible to pay over the taxes to SARS and the net remuneration is then paid to the employee. In the 2010 Budget Speech it was recommended that SITE will be discontinued from 1 March 2011. Personal income tax is also paid over by the individual themselves by means of Provisional Tax if they are earning taxable income other than remuneration; for instance, interest or rental over R20 000 per year, providing the individual is younger than 65 (SARS, 2010a).

VAT is levied according to the Value Added Tax Act 89 of 1991, on the supply of goods and services at a rate of 14% by registered vendors (SARS, 2010a). VAT is carried by the end consumer and therefore any person who buys goods or services from a registered VAT vendor is affected by this type of tax. A tax invoice is created at time of supply of the goods and services by the VAT vendor. This tax invoice is issued to the consumer which indicates, amongst other things, the vendors VAT registration number, the total of the consideration including VAT and either the VAT rate or VAT amount charged (SARS, 2010b:72-73). Therefore most end consumers should be aware that they are paying VAT when they receive the tax invoice.

Excise duties and levies; for instance, fuel levy and excise duties on tobacco and alcohol are also very relevant to a large number of South Africans. These excise duties and levies are payable by the manufacturers of, amongst others, fuel, tobacco and alcohol products. The excise duties and levies are then added to the cost of these products and the end consumer is indirectly affected by these taxes when he / she purchases these products. Excise duties on tobacco and alcohol are sometimes referred to as "sin taxes" (Smillie, 2009).

SARS has the responsibility to collect all national taxes, levies and duties as indicated in Table 2, on behalf of the National Treasury. SARS also collects Unemployment Insurance Fund Contributions and Road Accident Fund Levies on behalf of the respective funds (National Treasury & SARS, 2008:12-13; SARS, not dated b).

SARS states that its mandate is "... to increase the revenue available to the government to rebuild the country and create an economic order in which all South Africans are prosperous." With improved service-delivery and more effective enforcement of tax legislation, SARS is working hard to change a culture of non-compliance into one of voluntary compliance and thereby reduce the tax gap (Kruger, 2008:20; SARS, not dated a). This may be evident from the increased taxes collected and increased taxpayers registered according to 2008 Tax Statistics (National Treasury & SARS, 2008:4).

#### **2.2.4 The tax gap**

The tax gap is defined as: "A measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources." (National Treasury, 2009:138). Therefore the tax gap is the difference between the amount of tax that is collectable in theory from economically active persons and that which is actually collected (Oberholzer & Stack, 2009:737).

The first report of the Katz Commission in 1994, mentioned that South Africa had an estimated tax gap of between R5 billion and R15 billion (National Treasury, 2000:67). A figure of R30 billion was quoted by researchers in 2009 (Oberholzer & Stack, 2009:738). An exact figure could not be established to date as the SARS Commissioner stated that the tax gap was difficult to quantify but that SARS was moving towards closing the gap (Temkin, 2010).

One of the reasons for the tax gap is non-compliance by the taxpayers (Oberholzer & Stack, 2009:737). Non-compliance occurs when the taxpayer fails to comply with the tax reporting requirements (Roth *et al.*, 1989:1-2). Non-compliance by the taxpayer may result in tax evasion, which is dealt with in section 104(1) of the Income Tax Act of 1962

(hereafter referred to as “the Act”). Tax evasion is a punishable offence of either a fine or imprisonment, not exceeding five years according to section 104(1) of the Act.

So long as the tax gap exists, it is difficult for government to meet the targets as set out by the national budget and consequently to deliver essential services to the public. It is therefore important to analyse the factors which influence tax compliance in order to build in strategies to lessen this tax gap.

### **2.3 DEFINITION OF TAX COMPLIANCE AND NON-COMPLIANCE**

Before the factors influencing tax compliance will be considered, the definition of tax compliance and non-compliance needs to be understood.

Tax compliance is defined as complying with tax reporting requirements. This includes filing all required tax returns timeously, completing the returns and calculating the tax liability accurately in accordance with the tax act, regulations and court decisions applicable at the time that the return is filed (Roth *et al.*, 1989:2).

Non-compliance therefore includes underreporting taxable income, overstating taxable deductions or non-filing of tax returns. This can be caused by a deliberate underreporting, underreporting due to lack of knowledge, misunderstanding, negligence or some other cause (Roth *et al.*, 1989:2).

Non-compliance does not include situations where a taxpayer structures his financial affairs within the law so as to reduce his tax liability, nor is it where there is ambiguity in the interpretation of a tax section (Roth *et al.*, 1989:2).

Non-compliance is not always favourable to taxpayers as they may over-report income, fail to claim all the deductions they are entitled to or not file their returns and thereby lose out on refunds that they should have received (Roth *et al.*, 1989:3).

Tax compliance by all citizens in the country is therefore important to ensure that all persons who should be registered as taxpayers are registered as taxpayers and that all

income earned is declared. This will ensure “... that the tax burden is spread more evenly in the country” (Croome, 2008).

## **2.4 FACTORS INFLUENCING TAX COMPLIANCE**

Different types of models have been created to investigate the factors that influence tax compliance. “[The] economic deterrence models assume that taxpayers are amoral rational economic evaders who assess the likely costs and benefits of evasion behaviour.” (Loo, Mckerchar & Hansford, 2009:182). The sociological / psychological models take into account attitudes, level of education and knowledge affecting tax compliance. The expanded models take economic, sociological and psychological factors into account. One of the expanded models was the Fischer model (Loo *et al.*, 2009:183-184).

The Fischer model grouped factors which influenced tax compliance into four categories, namely demographic, non-compliance opportunity, attitudes and tax structure (Fischer, Wartick & Mark, 1992).

### **2.4.1 Demographics**

Under demographics, age and gender indirectly affected tax compliance as these factors impacted non-compliance opportunities, attitudes and perceptions.

Young taxpayers are less tax compliant. Young taxpayers take more risks and are less sensitive to penalties (Chau & Leung, 2009:035; Richardson, 2006:152).

Males were found to be less tax compliant than females. It was noted though, that studies had varying results about whether men or women were more tax compliant (Chau & Leung, 2009:035; Richardson, 2006:152). In a study by Fallan (1999:173) it was found that male students obtain a stricter attitude towards their own tax evasion and female students obtain a stricter attitude towards other people’s tax evasion when exposed to tax knowledge. In another study it was found that men are less tax compliant than women and men are more likely to act strategically when paying taxes (Kastlunger, Dressler, Kirchler, Mittone, & Voracek, 2010:1).

### **2.4.2 Non-compliance opportunities**

Education, income levels, income source and occupation were considered to directly affect tax compliance and were included in the non-compliance opportunity category.

Education, both tertiary education and general fiscal knowledge had a positive link to attitudes and tax compliance (Chau & Leung, 2009:035-036; Eriksen & Fallan, 1996:387; Fallan, 1999: 173; Loo *et al.*, 2009:189; Richardson, 2006:164). It was noted though, that increased knowledge of tax evasion opportunities may increase likelihood of non-compliance (Richardson, 2006:152).

Theoretical models indicate that higher income levels are positively correlated to tax evasion (Chau & Leung, 2009:036). But there is also mixed findings about how income levels affect tax compliance (Kirchler, Muehlbacher, Kastlunger & Wahl, 2007:6; Richardson, 2006:152).

Richardson (2006:152,165) found that there was less opportunity to evade taxes where the taxpayer received wages or salary as these types of income are subject to withholding tax. Self-employed individuals have more opportunities to evade tax and commit different forms of tax non-compliance (Chau & Leung, 2009:036; Kirchler, *et al.*, 2007:7).

Sutherland (in Chau & Leung, 2009:036) “argues that tax evasion is ... committed by an individual of respectability and high social status in the course of performing his employment.” Individuals employed in agriculture, independent trades and self-employed find the greatest opportunities to evade tax (Richardson, 2006:152).

Financial constraints were also noted to negatively affect tax compliance for self-employed taxpayers (Loo *et al.*, 2009:194).

### **2.4.3 Attitudes**

Tax compliance is affected by taxpayers' attitudes; for example, ethics, perceptions of the fairness of tax system and peer influence.

Where tax morale is high, lower tax evasion is found (Kirchler, Hoelzl & Wahl, 2008:218; Richardson, 2006:165).

According to studies, it is believed that the tax systems are unfair, which therefore results in tax non-compliance. The tax systems are considered as unfair as it is believed that the benefit received from services provided by the government is not equal to the amount of tax paid, as well as that there is no equity between the burden carried by one taxpayer in comparison with another taxpayer. Perceptions of fairness are affected by the ability and need of the taxpayer to pay tax (Chau & Leung, 2009:036). In the study by Richardson (2006:165), fairness of tax policy was associated with lower levels of tax evasion. Kirchler *et al.* (2008:219) included perceived fairness in their “slippery slope framework” and noted that perceived fairness is positively correlated to tax compliance.

Attitudes towards the tax administration and tax officers’ duties also affected tax compliance (Kirchler *et al.*, 2008:220; Loo *et al.*, 2009:196). More contact with administration appears to have a negative impact on tax compliance (Richardson, 2006:153). Kirchler *et al.* (2008:220) explains that if the tax authorities communicate a “cops and robbers” attitude rather than a “service and client” attitude, taxpayers may be more likely to be less tax compliant.

Where the taxpayer’s peers are practicing tax non-compliance, the taxpayer may perceive this as being acceptable and also commit non-compliance (Chau & Leung, 2009:037; Kirchler *et al.*, 2008:218).

Chau and Leung (2009:038) added another factor to the Fischer model, namely culture. Cultural differences like individualism and collectivism may affect social norms and ethical values which in turn may influence tax compliance. Individualism is where a person focuses on themselves and is seen as separate and independent from the rest of the group, whereas collectivism is where a person is “... expected to follow and subscribe to the values of their in-groups in order to gain peer acceptance and social status” (Chau & Leung, 2009:038).

#### 2.4.4 Tax structure

Finally the tax system or structure affects the extent of tax compliance.

Complexity of the tax law and system is an important determinant for tax non-compliance (Chau & Leung, 2009:037; Richardson, 2006:164). Taxpayers' perceive that tax law is complex and ambiguous and this results in non-compliance (Kirchler, Niemirowski & Wearing, 2006:503&511).

Probability of non-compliance being detected influences tax compliance. High probabilities of being caught out, encourages tax compliance (Chau & Leung, 2009:037; Kirchler *et al.* 2007:10). Subjectively perceived probability of being audited for tax purposes has a stronger influence on tax compliance than an objective probability of being audited (Kirchler *et al.* 2008:215).

Penalties are also regarded as a means of increasing tax compliance. The higher the penalties, the higher the tax compliance (Chau & Leung, 2009:037). Kirchler *et al.* (2007:15) noted that empirical evidence from previous studies showed that penalties either had a weak effect on tax compliance or no effect at all. It was noted though, that a combination of audits and penalties acts as a good deterrence for tax non-compliance.

There are mixed findings about whether tax rates influence tax compliance (Kirchler *et al.*, 2008:216; Richardson, 2006:153). Tax rates appear to have an effect on the tax compliance as it was found that high tax rates are positively correlated with tax non-compliance (Chau & Leung, 2009:037; Kirchler *et al.*, 2007:9; Loo *et al.*, 2009:191).

From the above it can be concluded that there is a complex interrelationship between all the above factors and tax compliance. Attitudes and perceptions appear to influence all four categories above and should therefore be considered in more detail.

## 2.5 PERCEPTIONS AND ATTITUDES REGARDING TAXATION

“One of the causes of non-compliance has been demonstrated to be the attitudes and perceptions of people” (Oberholzer, 2008:46).

### 2.5.1 Perceptions and attitudes defined

Attitude is defined as a “state of mind, behaviour, or conduct regarding some matter, as indicating opinion or purpose” (Webster Comprehensive Dictionary, 1998:94). It is how a person views something (Collins Pocket English Dictionary, 1989:620). Attitude is sometimes used as a substitute for the concepts “beliefs” and “values”, but it is more than these two concepts. Attitude identifies a specific way of how a person aligns oneself to the world, through emotion. It is a way that a person thinks about something and includes either positive or negative feelings about the concept in question. Attitude takes into account “... the role of emotion and the power of social systems to shape, regulate, and evoke it, producing both social cohesion and conflict” (Johnson, 2000:17-18).

Perception, on the other hand, is defined as “1. The act, power, process, or product of perceiving; knowledge through the senses of the existence and properties of matter and the external world. 2. Cognition of fact or truth in general by the activity of thinking: moral perception; apprehension; knowledge” (Webster Comprehensive Dictionary, 1998:936). Perceive is defined as becoming “... aware of (something) through the senses; recognize or observe” (Collins Pocket English Dictionary, 1989:621) or “To come to understand; apprehend with the mind” (Webster Comprehensive Dictionary, 1998:935). Perception is the process of interpreting and understanding the world through the gathering of information through the human senses (Oberholzer, 2005:259). Human senses, namely seeing, hearing, feeling, tasting and smelling, contribute to this awareness, understanding and knowledge of the world being obtained.

Gibson (1967:3) explains perception as “... the process by which we obtain firsthand information about the world around us. It has a phenomenal aspect, the awareness of events presently occurring in the organism’s immediate surroundings. It has also a

responsive aspect; it entails discriminative, selective response to the stimuli in the immediate environment.”

O’Brien (2004) states that to perceive you need concepts, which are ways of representing and thinking of the world. A person can perceive the world correctly or perceive the world to be a certain way but be wrong. He gives an example of a stick which is half submerged into water which appears to be bent but is not. A person sees it as bent so it is perceived to be bent. This is an incorrect perception though.

Perceptions can be influenced by various factors; for example, motives, experiences, culture, to name a few (Smulders & Stiglingh, 2008:609).

While attitude appears to have an emotional factor, perceptions appears to have a factual element. The focus of this study is on perceptions rather than attitudes as the concept of perceptions will give a better understanding of how a university student interprets and understands the concept of taxation in South Africa.

### **2.5.2 Previously reported perceptions on taxation of South Africans**

It is important to determine what taxpayers’ perceptions on taxation are so as to influence government’s fiscal policy and for government to see how it can market itself and its services better (Oberholzer, 2008:45). Oberholzer appears to be the main researcher in South Africa studying South African’s perceptions on taxation.

In a study by Oberholzer (2005:249-275), focusing on previously disadvantaged South Africans perceptions of taxation, reasons given for not paying income tax, which indicated negative perceptions were: “Income tax must only be paid by wealthy groups of people”, “All taxes are nonsense” and “Government is not utilizing income tax recovered appropriately.” These comments were in the minority though (Oberholzer, 2005:266).

Oberholzer (2005:271) compared the perceptions that the respondents had about where the tax revenue should be utilized to the 2001 Government Budget Review. The results reveal that the respondents’ perceptions and government’s goals are not always 100% in-

line with each other and can result in dissatisfaction by the citizens as indicated in the previous paragraph.

Oberholzer (2005:271) also tested where the respondents thought the tax revenue was being utilized and found that there were a few respondents that did not understand at all where the tax money was being used. This indicates a misperception held by these respondents. But it may be that the respondents misinterpreted the question and thought that they were being asked where tax money should be used rather than where it is actually used. Misperceptions can be cleared up by educating people.

Oberholzer (2007) also did a study on previously disadvantaged black South African learners in grade 12 at a school in Mamelodi, Pretoria. Just over half of these learners, who ranged from 16 to 22, believed that they knew a lot about income tax and VAT. After an education session on income tax and VAT, carried out by the author, it was noted that nearly all the learners perceived to have a better understanding about these taxes. Nearly all the learners believed that other learners would also benefit from an education session on tax. Students most likely thought they knew everything about tax until they received information that showed them otherwise. The author stated that these learners possibly lack exposure to taxes, receive insufficient information on taxes and that the learners' parents and educators most likely also lack knowledge about taxes (Oberholzer, 2007:178–179).

In a study looking at how SARS persuades tax compliance through advertising Oberholzer *et al.* (2008:33&35), noted the following about the perceptions of taxpayers towards SARS and the completion of tax returns:

- “Perceptions were embedded in their [the respondents] prior experience and knowledge of SARS and income tax.”
- “The general perception amongst respondents was that the payment of income taxes is a necessity in order to make South Africa a better place to live in.”
- “Respondents highlighted that they perceived the payment of taxes as the right thing to do and in turn stated that they felt content when they paid their taxes.”
- “There is a negative stigma concerning the actual amount that taxpayers have to pay annually.”

- “Respondents believed that there is a possible misallocation of funds.”
- “Respondents highlighted the degree of inequality regarding the payment of tax between the higher income bracket individual and the lower income bracket individual.”
- “The payment of income tax is perceived to be a low-involvement decision; and that most people pay income taxes because it is an obligation, rather than because they want to.”

To get a better understanding about the perceptions of taxation, it is necessary to determine the factors that influence such perceptions.

## **2.6 FACTORS THAT INFLUENCE PERCEPTIONS OF TAXATION**

The following factors were identified which have an effect on the perceptions that people have regarding taxation:

### **2.6.1 Perceived tax law complexity**

Taxpayers perceive that tax laws are too complex. This is a negative evaluation about tax and contributes to lower tax compliance (Kirchler *et al.*, 2006:504). A study was undertaken by Cuccia and Carnes (2001:113) which determined if tax compliance complexity influenced equity perceptions. It was found that equity perceptions were only influenced negatively if the participant was made aware of other provisions which would lead to more favourable economic outcomes and no justification was given for the more complex provisions and its economic outcomes.

South Africa has a complex tax system and taxpayers feel they need to obtain the help from tax practitioners in order to determine their tax liability and for tax planning (Kruger, 2008:20). In a study by Oberholzer and Stack (2009:748) it was noted that only 37,69% of the sample did not believe that calculating their tax liability was complicated.

Therefore there appears to be a link between tax complexity and perceptions on tax. The complexity of the tax law may be decreased by increased tax knowledge and thereby it may influence the taxpayers' perceptions positively.

## **2.6.2 Tax morale, tax ethics and social norms**

Tax morale, tax ethics and social norms were also found to be linked with perceptions.

Tax morale is defined by Cummings, Martinez-Vazquez, McKee and Torgler (2006:4) as the "... intrinsic motivation to pay taxes arising from the moral obligation to pay taxes or belief in contributing to society by paying taxes." Tax morale was found to be affected by religion (Torgler, 2006:81) and perceptions of government (Cummings *et al.*, 2006:5).

Tax ethics which could be seen as similar to tax morale focussed more on honesty as it is defined as "... one's belief that there is a moral imperative that one should be honest in ones tax dealings" (Wenzel, 2005:492). Mcgee (2006:17) examined three views about tax evasion, namely: it is always unethical to evade tax, it is never unethical to evade tax and it is sometimes unethical to evade tax. Reasons for tax evasion being unethical were the perception that there is a duty to God, the state or the community. The reason for tax evasion being ethical was that taxpayers perceived the government as illegitimate and not worthy of receiving the tax revenue. The reasons for the last view are dependent on the facts and the circumstances which a taxpayer uses to justify his tax evasion.

While tax ethics focuses on a person's own perception about the acceptability of tax compliance or non-compliance, social norms focus on a person's perception about what most other people believe is acceptable (Wenzel, 2005:493).

Social norms relate to the behaviour of a reference group, for instance; friends, acquaintances or work colleagues. If a taxpayer perceives that tax non-compliance is everywhere and is accepted or approved by his reference group, he will very likely also become non-compliant (Kirchler *et al.*, 2008:218). Social norms can be affected by the perceptions that the government can be trusted, that the tax enforcement mechanisms are fair and that paying taxes is beneficial (Cummings *et al.*, 2006:7).

From the above it is evident that perceptions of government play an important role in tax morale, tax ethics and social norms.

South Africans appear to have unethical tax practices as just over half of the sample in the study by Oberholzer and Stack (2009) reported all their income to South African Revenue Services. 17,69% of the sample indicated that they have claimed higher deductions than allowed and 31,54% indicated that they would take a job if the employer offered not to deduct the income tax which he legally is obliged to deduct (Oberholzer & Stack, 2009:752-753).

Oberholzer and Stack (2009:749&752) noted that 63,85% of their sample believed that wealthy people evaded tax more often than poor people and 12,31% of the sample believed that they can evade tax because so many taxpayers evade tax. These beliefs may be perceived to be the social norm which is contributing to tax non-compliance.

Tax morale and tax ethics may be increased with increased tax knowledge. Negative social norms on taxation may also be corrected with increased tax knowledge.

### **2.6.3 Fairness of the tax system**

One of the factors which is mentioned often in literature is the perception of fairness of the tax system.

There are different fairness judgements. The first one relates to the fairness of distribution. This is when a taxpayer considers his/her own tax burden and either compares it with that of others who are similar to him/her or compares it with the tax burden across different taxpayer groups. The second one relates to the fairness of exchange. This is when a taxpayer considers the relationship between taxes paid by him/her and the benefits and services received in return from the government. If taxes are perceived to be fair, higher tax compliance takes place (Kirchler *et al.*, 2006:505; Kirchler *et al.*, 2008:219).

Perceived fairness can also be influenced by how the taxpayer perceives being treated by the tax authority and the information provided by the tax authority about tax laws and

amendments. If a taxpayer perceives to be treated equally, in a polite and respectful way, voluntary tax compliance may result (Kirchler *et al.*, 2008:219).

High tax rates can be perceived as unfair treatment of the taxpayer but it can also be perceived as contributing to the country which will be to the benefit of all (Kirchler *et al.*, 2008:216). Tax audits and penalties were also perceived as unfair. This leads to negative attitudes and possibly increased tax non-compliance (Kirchler *et al.*, 2008:219).

In a study in South Africa, it was noted that 76,15% of the sample believed that the government should receive all the income earned and thereafter redistribute the income evenly to all South Africans and 63,08% of the sample believed that rich people should pay tax at a higher rate. This is most likely due to the fact that 38,85% of the sample was either unemployed or economically inactive and of those that were employed or self-employed 38,47% were earning less than R3 000 per month before deductions. Interestingly enough 73,46% of the sample believed that tax was fair but 77,31% and 82,31% believed that the income tax rate and VAT rate respectively, must be reduced (Oberholzer & Stack, 2009:747-748).

The fairness of the tax system may be increased with increased tax knowledge as it was noted that the tax system is perceived to be more fair by taxpayers when they have more tax knowledge (Fallan, 1999:182).

#### **2.6.4 Perception about tax preparers or tax experts**

Tax preparers and tax experts help taxpayers to calculate their tax liability and do effective tax planning.

The quality of support and interaction that tax preparers or experts offer taxpayers affects the perceptions that the taxpayer has on taxation. Positive experiences should increase tax compliance (Kirchler *et al.*, 2006:505).

### **2.6.5 Attitude towards government**

Perceptions can be influenced by how the government is seen to be using tax money and running the country in general.

Perceptions are formed about the quality of the political institutions. Taxpayers form perceptions specifically on whether the government is using tax revenue for socially desirable purposes, whether the government is responsive and whether the government is fair. All these perceptions affect tax compliance. If a taxpayer perceives that his/her interests are properly represented by government and he/she receives the desired public services, there will be an incentive to cooperate with tax authorities. But if the government is corrupt, there will be mistrust by the citizens and no incentive to comply with taxes (Cummings *et al.*, 2006:3-4&11).

In a South African study by Oberholzer and Stack (2009:747-748), it was noted that only 42,31% of their sample supported the government strongly while the rest either had no opinion or did not support the current government. It was also noted that 87,69% of the respondents believed that there was waste and corruption in the government, with 58,46% believing that large amounts of taxes are being used for meaningless purposes. This could be the reason for the low support of the government. The sample had a bleak outlook on the future with only 34,62% hopeful about South Africa's future.

By educating the taxpayers about how their tax money is being used by the government, perceptions may be influenced positively and increased tax compliance may result.

### **2.6.6 Power of tax authorities and trust in tax authorities**

Tax authorities, like SARS, have been given the authority to collect the country's taxes on behalf of the government (National Treasury & SARS, 2008:13; SARS, not dated b). They are the intermediary between the taxpayer and government, though for some taxpayers, the tax authorities may be perceived to be the ones using the taxpayers' monies.

People have a perception about the ability of tax officers to detect tax evasion and also the severity of the punishment. Subjectively perceived audit probability appears to have more effect on tax compliance than objective audit probability. Fines are also perceived to be "... retribution for behavior that harms the community." The greater the perceived detection probabilities and the resulting fines, the greater the tax compliance may be (Kirchler *et al.*, 2008:212&215).

Oberholzer and Stack (2009:749) noted that 61,15% of their sample believed that SARS would be able to detect if they evaded their tax obligation.

Tax knowledge can contribute to the perceived power of the tax authorities (Kirchler *et al.*, 2008:217).

Another factor influencing perceptions is the trust that the taxpayer has for the tax authorities. People have a perception about the legitimacy of the tax authorities and their role in working for the common good of all citizens. Increased trust in authorities may lead to increased tax compliance. Simplifying tax laws, training and educating, and providing better services to the taxpayer will increase their trust in the tax authorities. Perceived fairness of the tax authorities will increase the trust in the tax authorities (Kirchler *et al.*, 2008:212,217&219).

Smulders and Stiglingh (2008:609) also acknowledge that the quality of SARS' services was important as it may influence tax compliance in South Africa. SARS released a Service Charter in October 2005 that set out the expected levels of service that SARS officials must meet. Taxpayers who are aware of this Service Charter may form perceptions about whether SARS is meeting their performance standards. Smulders and Stiglingh (2008:608-628), studied the perceptions of South African tax practitioners about whether certain of the performance standards were being met. It was noted that there was room for improvement.

Therefore power of the tax authorities and trust in these authorities may play an important role in the perceptions that taxpayers have about taxation. Knowledge about the tax

authorities duties, performances and trustworthiness may positively influence the taxpayers' perceptions on taxation.

### 2.6.7 National Budget

Many perceptions may be created or reinforced as a result of the national budget.

It was noted that tax compliance may be affected by the way that the government budget is determined, especially in respect of whether the decisions determining what goods and services should be provided, were transparent and fair (Cummings *et al.*, 2006:7).

In South Africa the spending priorities were translated into the following national budget for 2010/11 (see Table 3 below):

**Table 3: Government expenditure 2010/11**

Spending priorities	R billion
Education	R165.1
Public order and safety	R85.6
Economic affairs	R154.8
Social protection	R130.9
Housing and community amenities	R93.2
Health	R102.1
Defence	R33.8
Other	R135.4

Source: Adapted from PricewaterhouseCoopers (2010:2).

From the above, the taxpayers and future taxpayers are able to see where their hard-earned revenue will be used by government. Whether or not they agree with the areas of spending may influence their perception of taxation. In Oberholzer (2005:273) it was suggested that the government should consider aligning the citizens' perceptions with its revised economic strategy, starting with its future voters, which the author thought to be primary and secondary school pupils.

The degree of participation in the decision processes, found in a direct democracy, concerning taxes has a positive effect on tax compliance (Kirchler *et al.*, 2008:216).

During the 2010 South African national budget speech the Minister of Finance made mention of a campaign introduced in prior years, where ordinary citizens could contribute to the budgeting process by sending in advice to the Minister. Many forms of media such as Facebook were used to capture the advice of the citizens of South Africa. The Minister listed some of the advice received, even naming the citizen who sent in the comment. The campaign for 2010 asked for advice on how government could save money (Gordhan, 2010:24). This campaign allows the voices of the ordinary citizen to be heard. Citizens may perceive that their opinions matter to the government and that they can make a difference in the budgeting process.

The national budget plays an important role in informing the taxpayer about how their taxes will be used by government and this could improve the perceptions on taxation.

### **2.6.8 Class-consciousness**

Oberholzer (2005:260–261) discusses class-consciousness as having a possible impact on the perceptions of South Africans.

“Class-consciousness is the feeling of shared identification with other’s in one class. Class reflects what people wear, do, think and feel.” Oberholzer suggests that this class-consciousness may be influenced by racial segregation, known as “apartheid”, which was applied in South Africa from 1948 to 1990. In 1990 President FW de Klerk started negotiations to end racial segregation, which lead to the multi-racial democratic elections in 1994, the African National Congress becoming the ruling party and Nelson Mandela becoming president of the Republic of South Africa. Traces of apartheid still affect society and South African politics today (Wikipedia, 2010).

### **2.6.9 Tax education**

Perceptions on taxation can also be affected by tax education.

Eriksen and Fallan (1996:387) performed a quasi-experiment on two groups of students to determine how specific tax knowledge would influence the attitudes towards taxation. Tax

knowledge is a combination of tax rules for different taxpayers and financial knowledge which enables tax liability to be calculated by the taxpayers (Fallan, 1999:174). It was found that there were significant changes in the students' attitudes towards tax evasion and towards the fairness of the tax system. Increased tax knowledge resulted in the students perceiving their own tax evasion as serious, perceiving tax being more fair and being more strict about others evading tax. The flaw in this research was that the students were not taxpayers as yet and had therefore not had the opportunity to evade taxes. The authors did not consider this a problem as, "Studies have shown that the responses from students in such experiments do not seem to be different from the responses from other categories" (Eriksen & Fallan, 1996:391).

The above authors stated that, "When myths and misperceptions are replaced by knowledge, we expect a change in attitudes towards taxation even if the subjects' basic ideology and values remain unchanged and the tax law is unchanged" (Eriksen & Fallan, 1996:388). The authors concluded that "... it would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools" (Eriksen & Fallan, 1996:399). Tax education will therefore help to correct incorrect or false perceptions.

A study by Fallan (1999) tested how attitudes of men and women students changed when exposed to more specific tax knowledge. Increased tax knowledge changed students' attitudes towards the fairness of the tax system. When men are exposed to tax knowledge they become more aware and stricter about their own attitudes to tax evasion. Females on the other hand become more aware and stricter towards other people's tax evasion (Fallan, 1999:173). It was also noted in the study that men students have better tax knowledge than women students. Women students have stricter attitudes towards tax ethics than men students. Tax ethics improve with increased tax knowledge more significantly with men than women students (Fallan, 1999:182).

In Oberholzer (2005:272), the need for tax education amongst previously disadvantaged South Africans was noted, specifically more knowledge about the South African tax system, the implementation thereof and how the taxes are used. The author suggests that tax education should be included in the school curriculum. In Oberholzer (2008:65) it again

became apparent that the South African respondents wanted more knowledge about tax in general, about why they should pay tax, how to calculate tax and how the taxes are distributed. In Oberholzer (2007:181-182), it appears that even previously disadvantaged grade 12 learners are very interested and eager to learn more about taxes. It also appeared that by giving learners information about taxes they were able to see it as a fair system.

Oberholzer and Nel (2006:105) did a study on the existing levels and adequacy of tax education in South African schools. The authors noted that tax education should be implemented at school level as: “This will ensure that the majority of South Africans will have the opportunity to receive a basic understanding of tax and be more aware of what may be expected of them in the future” (Oberholzer & Nel, 2006:105).

The National Curriculum for South Africa sets out the learning outcomes and assessment standards for Grade 0 to 12. It was implemented in stages from 2004, starting in Grade R (which is the reception year before Grade 1) (Oberholzer & Nel, 2006:107). (It must be noted that a new National Curriculum will come into effect from 2011. This curriculum was not considered in the literature review as the students used in the study were educated under the old curriculum and would therefore not be influenced by this new curriculum.)

A quick study of the current Grade R to 12 National Curriculum, focussing on taxation being taught, revealed the following (see Table 4 below):

**Table 4: Tax concepts taught from Grade 4 to 12**

<b>Grade:</b>	<b>Learners should be able to:</b>
4	explain the concept of tax in simple language;
5	differentiate between direct taxes (e.g. income tax) and indirect taxes (e.g. VAT, tax on petrol);
6	explain different types of taxes and how they influence consumers and businesses;
9	discuss the effect of the national budget on the economy (e.g. taxation and expenditure on education, social welfare, health and security);
10	explain indirect taxes, basic VAT concepts and the need, purpose and principles of VAT;
11	fill out a tax return and perform elementary VAT calculations;
12	evaluate the objectives of the public sector and its budgets, fiscal policy (including taxation), fill out a tax return, apply the principles of VAT in different situations, apply VAT concepts related to VAT returns, and complete input, output and VAT control accounts.

Source: Summarised from the National Curriculum Statement, Department of Education (2002:30,31&45) & (2003:22,23,30&31).

Learners from Grade 4 to 12 are being exposed to the concept of taxation at school. From Table 4 it appears that Grade 4 to 9 learners should have a basic understanding of taxes. A problem exists from Grade 10 to 12 as not all these learners will be exposed to the above learning outcomes. This is due to the fact that from Grade 10, learners can select the subjects that they are going to study up to Grade 12. Only those learners who select Accounting and Economics will receive further knowledge about taxes. Another problem is that the learning outcomes for Grade 10 to 12 places emphasis mostly on how to account for VAT in a business's accounting records and hardly on any other aspects of taxation.

The weaknesses of teaching tax at schools are that teachers in South Africa have not received "...proper training on the content of the curriculum, ...", wrong terminology is being used, unjust statements are being made, learners are not being taught the general rules, the relevance of certain concepts not being taught (Oberholzer & Nel, 2006:117). This could result in incorrect perceptions about taxation.

Perceptions of fairness and the seriousness of tax evasion appear to be affected by the exposure to tax education. Tax education will satisfy the needs of the public about how the taxes are calculated and used by the government. A recommendation came from the study made by Oberholzer and Stack (2009:738) that SARS should communicate and educate the taxpayers and potential taxpayers comprehensively. Kirchler *et al.* (2008:220) states

that: “education and support of taxpayers are more promising than control and unreasonable severity in persuading taxpayers to comply.” Therefore education is seen as an essential method to increase tax compliance. Loo *et al.* (2009:200) stated that tax knowledge was the best determinant of taxpayers’ compliance behaviour.

## **2.7 CONCLUSION**

From the above it is apparent that tax compliance has many facets and that a person’s perceptions play an important role in his/her tax compliancy. Education is one of the factors which can influence both tax compliance and a person’s perceptions. As a result of this, a study into the perceptions of students who are currently studying a tax module will be made. These perceptions will then be compared to the perceptions that students who are not studying a tax module have.

The theoretical basis that was used to evaluate the perceptions of students about taxation can be summarised as follows: perceived understanding of taxes, perceived fairness of the tax system, perceived usage of the tax revenue, factors which influence both tax compliance and perceptions of taxation.

## CHAPTER 3 - RESEARCH DESIGN AND METHODS

### 3.1 INTRODUCTION

The purpose of this chapter is to explain and justify the research design and methods used in this study. The research objective of this study was to obtain, analyse and compare the perceptions on taxation of students who are studying a tax module to students who are not studying a tax module at university. The research design and methods assisted in achieving this objective by providing qualitative data about students' perceptions concerning different aspects of taxation.

The chapter sets out the research paradigm, a description of the inquiry strategy and research design used, how the sample was selected and how the data was collected and analysed. A discussion on how the quality and rigour of the research design was assessed and demonstrated and the ethical procedures that were followed ends off the chapter.

### 3.2 RESEARCH PARADIGM

A paradigm is defined as a "... set of interrelated assumptions about the social world which provides a philosophical and conceptual framework for the organized study of that world" (Filstead in Ponterotto, 2005:127). A research paradigm is therefore the set of beliefs that the researcher has about the world of research, which he then uses when undertaking research. It is the belief about the nature, purpose and methods of the specific research being undertaken (University of Pretoria, 2010c:8).

A research paradigm is influenced by the ontology, epistemology and axiology assumptions that the researcher has about the study being undertaken.

### **3.2.1 The main ontological, epistemological and axiological assumptions of the research paradigm that guided this study**

Ontology refers to the philosophical assumptions or beliefs about the nature of reality. It addresses the following question: “What is the form and nature of reality, and what can be known about that reality?” (Ponterotto, 2005:130). A predominantly relativist position is taken in this study as it is believed that “... there exist multiple, constructed realities ...”, instead of “... a single true reality. Reality ... is subjective and influenced by the context of the situation, namely the individual’s experience and perceptions, the social environment, and the interaction between the individual and the researcher” (Ponterotto, 2005:130). Saunders, Lewis and Thornhill. (2007:108) refer to this position as a subjectivism view, as this view holds that “... social phenomena are created from the perceptions and consequent actions of social actors. ... [It] is a continual process in that through the process of social interaction these social phenomena are in a constant state of revision”. The perceptions of the students are expected to be diverse and influenced by many factors, such as the student’s past experiences, social environment that the student is surrounded by and the education that the student is receiving. These perceptions are also expected to change over time.

Epistemology refers to the philosophical assumptions or beliefs about the nature of knowledge and how it can be acquired. Ponterotto (2005:131) also states that it concerns “... the relationship between the ‘knower’ (the research participant) and the ‘would-be knower’ (the researcher)”. The epistemology for this study falls between a postpositivists and constructivists-interpretivists approach. The postpositivists acknowledge that the “... researcher may have some influence on that being researched, but objectivity and researcher-subject independence remain important guidelines for the research process” (Ponterotto, 2005:131). The postpositivists approach is accepted as it limits the interaction between researcher and participant so not to influence the participant or the researcher. But as a relativistic or subjective approach is most suitable for this study, as discussed above, the constructivists-interpretivists approach also needs to be incorporated into the epistemology. Constructivists-interpretivists believe in “... a transactional and subjectivist stance that maintains that reality is socially constructed, and therefore, the dynamic interaction between researcher and participant is central to capturing and describing the

'lived experience' (*Erlebnis*) of the participant" (Ponterotto, 2005:131). When creating the data collection device, the social interaction will need to be considered to ensure a descriptive study. There may also be a "social interaction" at the time that the data is analysed. It must be noted that even though the study can be replicated the results will not necessarily be the same as it is assumed that the students' perceptions are in a constant state of revision.

Axiology is concerned with "... the role of researcher values in the scientific process" (Ponterotto, 2005:131). The researcher should remain free of bias and emotionally detached when drawing up the data collection instrument and analyzing the data, so as to obtain the true perceptions of the participants. A survey in the form of a questionnaire is seen as a standardized and systematic investigative method and should eliminate or control the influence that the researcher might have on the participants (Ponterotto, 2005:131). A postpositivists approach will be followed here, which acknowledges at the end of the study that not all research values and bias can be eliminated and that the type and order of the questions on the survey may still influence the participants slightly (Ponterotto, 2005:132). This study only reports the perceptions of the students without any pre-conceived ideas or expectations (Oberholzer, 2005:251).

### **3.2.2 The research philosophy that guided this study**

As a result of the above ontological, epistemological and axiological assumptions chosen for the study a mix of a postpositivists and constructivists-interpretivists approach was followed.

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

The inquiry strategy or research approach that was used to solve the research problem was a combination of survey research and comparative study. "Survey research involves acquiring information about one or more groups of people – perhaps about their characteristics, opinions, attitudes, or previous experiences – by asking them questions and tabulating their answers. The ultimate goal is to learn about a large population by surveying a sample of that population; ..." (Leedy & Ormrod, 2005:183). Saunders *et al.*

(2007:612) explain surveys as: “Research strategy that involves the structured collection of data from a sizeable population.” This type of research allows for inclusion of many socio-economic, demographic and attitudinal variables to allow for multivariate analyses (Cummings *et al.*, 2006:4). Comparative studies are described by Mouton (2001:154) as studies focusing “... on similarities and (especially) differences between groups of units of analysis”.

The reason for selecting this approach was that surveys will allow the perceptions of students to be collected, described and explored. From the surveys a comparative study will allow for the comparison of the perceptions of students who have tax as a university subject to perceptions of students who have not had tax as a subject at the university. This approach will therefore help meet the research objective set.

The research design that was applied to this study had the following general characteristics: It is an empirical study as new data was collected. It is basic (pure/fundamental) research as pure research is defined by Saunders *et al.* (2007:592) as: “Research undertaken purely to understand processes and their outcomes, predominantly in universities as a result of an academic agenda, for which the key consumer is the academic community.” This study is aimed at understanding what perceptions students have about taxation and does not try to solve the problems connected to incorrect perceptions that students have about taxation. It is an exploratory study as this type of research is defined by Saunders *et al.* (2007:598) as: “Research that aims to seek new insights into phenomena, to ask questions, and to assess the phenomena in a new light.” Perceptions on taxation have previously been studied in South Africa but not using students as the unit of analysis. Therefore students’ perceptions were explored to obtain new insight on this phenomenon. The aim of the study was not to generalise the results to the whole population.

The study was cross-sectional which is defined by Saunders *et al.* (2007:595) as: “The study of a particular phenomenon (or phenomena) at a particular time, i.e. a ‘snapshot’.” A survey was conducted once on the students and not at different stages on the same students, as the study focused on the perceptions that the students currently have on taxation while studying at university. An *ex post facto* design was followed. The pre-

existing independent variable, namely students who have selected tax as an elective module versus students who have not selected tax as an elective module, was investigated and the extent to which this independent variable may affect the dependent variable of interest, namely the perceptions that these students have, was studied. Primary, qualitative data was collected by means of a survey. Primary data is defined by Saunders *et al.* (2007:607) as: “Data collected specifically for the research project being undertaken.”

### **3.4 SAMPLING**

The target population and the sample were determined as follows:

#### **3.4.1 Target population defined**

The target population for the study was second year, university students studying a specific BCom degree at the University of Pretoria during the 2010 academic year. The reason for selecting BCom students was that these students have the option of studying a tax module. Students from other faculties were not considered as their perceptions on taxation may be influenced by other variables other than the inclusion of a tax module in their degree. Another variable that may affect students’ perceptions may be the diverse subjects that are taken in the first and second year. To ensure that the students have almost identical background knowledge, it was important to select a BCom degree where the subjects are the same for all the students (Eriksen & Fallan, 1996:390) in their first and second year, with the only exception being the tax module, if possible. In order to select this population a BCom degree which has tax as an elective, which some but not all the students are taking needed to be selected. Second year students were studied since a tax module is only offered as an elective in the second year (University of Pretoria, 2010a:32).

#### **3.4.2 Units of analysis and sources of data**

The units of analysis are students studying a BCom degree who are currently been exposed to a tax module at university and students studying a BCom degree who have not been exposed to a tax module at university.

The sampling units consisted of each individual student from the selected BCom degree.

### 3.4.3 Sample method used

Non-probability sampling was used as this study did not require that the characteristics of the population be estimated statistically from the sample (Saunders *et al.*, 2007:207). This study only explored the perceptions of individuals in the two units of analysis and made comparisons and did not generalise the sample's results to all students studying for a BCom degree. Purposive sampling was then chosen as this allowed judgement to be used when selecting the BCom degree that was included in the sample (Saunders *et al.*, 2007:230). By carefully selecting a specific BCom degree, the requirement that some students should have been exposed to a tax module and others not, was met.

The limitation of purposive sampling was that it is not "... considered to be statistically representative of the total population" (Saunders, *et al.*, 2007:230). This, however, has no influence on this study as the nature of the study is exploratory and not to generalize the results.

Currently, in 2010, there are 2 215 students studying BCom degrees in their second year (List of student numbers obtained from Mrs Alet Carstens, Head of Faculty Administration of the Faculty of Economic and Management Sciences). Some BCom degrees require tax as either a core or elective module and others do not require tax as a module at all (University of Pretoria, 2010a:34-61). Table 5 indicates which BCom degrees have tax as either a core or elective module:

**Table 5: BCom degrees that include a tax core or elective module**

BCom	Tax code	Elective or core
Accounting Sciences	BEL 200 & 300	Core
Business Management	BEL 220	Elective
Communication Management	BEL 220	Elective
Financial Management Sciences	BEL 220	Core
Human Resource Management	BEL 220	Core
Informatics	BEL 220	Elective
Internal Auditing	BEL 220	Core

(Table 5 continued on next page)

(Table 5 continued)

<b>BCom</b>	<b>Tax code</b>	<b>Elective or core</b>
Investment Management	BEL 220	Core
Law	BEL 220	Elective
Marketing Management	BEL 220	Elective
Own Choice	BEL 220	Elective
Tourism Management	BEL 220	Elective
Option in tax	BEL 213,223,310,320	Core

Source: Summarised from University of Pretoria (2010a:34-61).

To obtain the sample, a list of all the students who are studying BEL 220 was obtained from the University of Pretoria. The following fields were requested to be included on the list: student number and BCom degree that student is registered for in 2010. There were 795 students registered for BEL 220 in 2010. By sorting the list into the different BCom degrees it was determined which BCom degrees, which have tax as an elective model, are the most represented in the BEL 220 module. BCom Business Management had 28 students and BCom Law had 64 students. It was decided to use only BCom Law as after a list of all these students was extracted, it was established that half of the students took tax as an elective subject and the other half did not.

#### **3.4.4 Size of sample**

The sample size was dependant on the results of the sampling method described above. All the second year students who are registered for BCom Law were included in the sample. The sample size was therefore 131. This is an appropriate size, as a sample size of at least 30, is seen as the rule of thumb according to Stutely (in Saunders *et al.*, 2007:211).

### **3.5 DATA COLLECTION**

A survey method using a questionnaire was used in the data collection stage of the research.

### 3.5.1 Survey method

A structured questionnaire was used to collect the data. A structured questionnaire includes a set of questions that needs to be answered in a pre-determined order (Saunders *et al.*, 2007:354-355).

The advantage of this method is that it allows data to be collected efficiently from a large sample. The disadvantage is that there is only one opportunity to obtain responses from the participants and responses will be limited to the type of questions included in the questionnaire (Saunders *et al.*, 2007:355). Also the students may guess at the answers if they have insufficient knowledge or are not interested in completing the questionnaire truthfully (Saunders *et al.*, 2007:359).

The questionnaire was a self-administered questionnaire which was completed by the second year BCom Law students, after class.

A decision had to be made about whether the questionnaire would be completed on the internet or on a hard copy document. The advantage of internet questionnaires is that it is inexpensive to create in comparison to the hard-copy document and that the data is already captured in electronic form. The likelihood of distortion of the respondents' answers is low as there is less likelihood that the students will complete the questionnaire by consulting each other as they would if they had the hard-copy document. Internet questionnaires have the advantage that the students will most likely follow the sequence of the questions if the screen views do not allow for going back. With hard-copy questionnaires the student may find answers to questions in later questions and therefore go back to complete answers. The disadvantage of internet questionnaires is that students may not have easy access to a computer, or may delete the e-mail which contains the link to the questionnaire. A hard-copy document handed out after class was therefore decided on to ensure a good response rate and to eliminate the problem of computer access (Saunders *et al.*, 2007:358).

The tax module is only offered in the second semester. It was decided that the students should at least have a month's exposure to the tax module and have at least written a

semester test on the subject before the survey was completed. A longer exposure period would have been recommended but due to the time constraint to complete the study a six week exposure had to suffice. Therefore the questionnaires were distributed on 31 August and 2 September 2010 to the English and Afrikaans classes, respectively. Due to the response rate been determined by the student's class attendance, as the questionnaire was handed out after class, it was decided that no follow-up questionnaires would be handed out if the initial response rate was acceptable per research practice.

### **3.5.2 Questionnaire design and measures**

The questionnaires were designed after an extensive literature review was done. Some of the questions are based on previous studies done in South Africa about taxpayers' perceptions, so replication will be found. The study of Oberholzer (2005, 2007&2008) is mostly used. Replication allows for reliability to be assessed (Saunders *et al.*, 2007:359).

The questionnaire consisted of 15 main questions, the first six covering the biographical profile of the participants. The biographical profile collected data on gender, age, race, home language, degree currently enrolled for and elective modules taken this year. The remaining nine questions were aimed at determining:

- whether the student perceived to have a basic understanding about certain listed taxes and whether this perception agreed with the knowledge they had;
- whether or not they perceived paying tax as being fair;
- the students' perception about how tax revenue should be used and is used in South Africa;
- how the students perceived income should be distributed in the country;
- whether certain listed circumstances would influence the students willingness to reflect income and thereby be taxed (tax compliance assessment); and
- sundry matters that were noted in literature that influenced perceptions on taxation.

The questionnaire mostly included closed questions, with only two open-ended questions. Category type questions were mostly used for the closed questions as the students were requested to give only one answer, per variable being examined. The open-ended

questions allowed for exploring the participants perceptions more fully (Saunders *et al.*, 2007:324). Categorical data in the form of descriptive data was collected by the students listing how taxes should be used.

Table 6 lists the questions and the reason for inclusion in the questionnaire.

**Table 6: Questions and reasons for inclusion in questionnaire**

No.	Question	Reason for inclusion
1.	Gender	To determine whether there was a good spread of gender in the sample.
2.	Age	To establish if students are mostly of the same age and that differences in perception are not due to large differences in age.
3.	Race	To determine the diversity of cultures included in the sample.
4.	Home Language	To determine the diversity of languages included in the sample.
5.	Degree enrolled for	To ensure that only BCom Law students are included in the sample.
6.	Elective subjects	Establish whether the tax module was taken as an elective.
7.	Which taxes the respondents had a basic understanding of. (Adapted from Oberholzer, 2007).	Test if the 2 groups of students have different basic understandings of listed taxes. Also compare to question 8 (taxes charged on listed items). Does their perception of basic understanding agree with knowledge they show in question 8?
8.	What types of taxes are charged on a given list of items?	Test if the 2 groups have different knowledge about which taxes are connected to which items. Also tests if students' perception of their basic understanding about certain taxes as per question 7 is correct.
9.	Perception of fairness of tax system (Adapted from Oberholzer, 2008).	Compare the 2 groups to see if higher fairness valuation with increased tax knowledge.
10.	List how the government <u>should use</u> the tax revenue (Oberholzer, 2005).	Compare to the National Budget and determine if there are differences. Compare whether there are differences between the 2 groups of students perception about where the taxes should be used. Misperceptions may be noted.
11.	Where government uses tax revenue (Adapted from Oberholzer, 2005).	Compare perceptions of the 2 groups of students and compare to National Budget.
12.	How income earned by citizens should be distributed (Adapted from Oberholzer, 2008).	Compare perceptions of the 2 groups of students.
13.	Circumstances that may influence the student to avoid tax (Adapted from Oberholzer, 2008).	Compare the 2 groups.

(Table 6 continued on next page)

(Table 6 continued)

No.	Question	Reason for inclusion
14.	Sundry questions that may affect perceptions of students.	Compare the 2 groups.
15.	Any other comments that students have about taxes in South Africa.	Qualitative data that may support reasons for above data.

### 3.5.3 Pre-testing

The questionnaire was pre-tested by four academic colleagues and two students, one of which had tax as a subject. The data from these questionnaires was not included in the actual research data. The wording of the questions, the language, type of questions and question order was checked. The time that it took to complete the questionnaire was also noted. All problems were sorted out with the help of the supervisor and statistician.

## 3.6 DATA ANALYSIS

The data was recorded and analysed as follows:

### 3.6.1 Recording and storing the data that is collected

The data from the questionnaires was recorded on Microsoft Excel 2003 and SAS Version Nine statistical package. A data matrix was used to record each questionnaire's answers in coded form. Each row represented a questionnaire and the columns represented the variables tested in each question in the survey. A copy of the electronic data will be stored on a disk for future reference and the hard copies of the questionnaire will be scanned and also saved on disk.

### 3.6.2 Verifying and evaluating the accuracy and completeness of the data collected

The recorded data was rechecked against the questionnaires to ensure accuracy and completeness. Each questionnaire had a unique identifier which was also recorded on the data matrix. The maximum and minimum code (or illegitimate code) for any variable was

tested. Missing answers in the matrix was checked against questionnaires to see if the question was answered or not. Illogical relationships were checked (Saunders *et al.*, 2007:419).

### **3.6.3 Approaches, methods and techniques used to prepare the data for analysis, to code, summarise and further analyse the data**

Where open-ended questions were used, the replies were analysed by content or themes. Each new theme was given a new code. The replies were then allocated to different categories. Reoccurring themes were used to determine the different categories.

For the closed questions, numbers were allocated to the different categories to allow for the descriptive data to be quantifiable (Leedy & Ormrod, 2005:245).

Basic statistical methods were used as this is an exploratory, descriptive study which does not require complex statistics.

For the nine questions on the perceptions and knowledge about tax the following analysis was done:

- The mode (frequency) for each question was calculated. Comparisons were made between the two units of analysis for each question.
- The Fisher's Exact Test was used to find significant differences between the two units of analysis for the following questions: Students perceived basic understanding of taxes; where students think taxes are being used and the circumstances that would affect the students' willingness to reflect income.

The data was analysed using inductive logic. Inductive logic refers to drawing conclusions from data collected and not testing theories with collected data (Leedy & Ormrod, 2005:32).

### **3.7 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN**

#### **3.7.1 Sources of bias or error influencing the research findings**

A type of “interviewer bias” may occur when designing the questions as the researcher may subconsciously ask questions which reflect his/her beliefs and frame of reference (Saunders *et al.*, 2007:318). To lessen this bias, questions were based on previous studies and pre-testing was done on other researchers and students.

Response bias may occur as the participants give answers which they think that the researcher is looking for (Saunders *et al.*, 2007:318). To ensure that the students answer the questions truthfully, the questionnaires are anonymous (Eriksen & Fallan, 1996:391). Students were also told on the consent form (refer Annexure B) that it is an anonymous survey and it is stated at the beginning of the questionnaire (refer Annexure A) that there are no right or wrong answers.

The questionnaire may be affected by non-response bias (Loo *et al.*, 2009:202) either due to the students not being in class or the lack of interest in participating in the survey. To lessen this bias, the questionnaire was made as short as possible so that the students would not get discouraged about the amount of questions. The nature of the survey was explained to the students as well as the importance to the researcher. The survey could have been emailed to the students to encourage the students to respond to the survey even if they were not in class, but this was decided against due to sufficient responses obtained.

Errors may have resulted if the participants misread or misinterpreted the questions and then gave incorrect answers. To lessen this type of error, the questions were carefully formulated in clear unambiguous English. The different taxes were also given in Afrikaans to facilitate translation for the Afrikaans students. The questionnaire was pre-tested to check the clarity of the questions.

Another error that may have occurred is that the participants pick any answers in the rating scale and checklists as they were not committed to answer the questionnaire honestly. To lessen this type of error, the consent form (refer Annexure B) stated the importance of the study and that participation is voluntary.

### **3.7.2 Criteria and techniques used to provide evidence for the quality, credibility and rigour in this study**

Saunders *et al.* (2007:364) states: “A valid questionnaire will enable accurate data to be collected, and one that is reliable will mean that these data are collected consistently.”

As structured questionnaires were used, there should be standardisation which should improve reliability (Saunders *et al.*, 2007:318). Internal consistency will also improve the reliability (Saunders *et al.*, 2007:367). An attempt was made to include certain questions which had correlating questions to ensure that the responses were consistent. It must be noted that internal consistency was not achieved as the wording to the questions proved to change the nature of the question and therefore eliminated the correlating nature of the question.

Content validity “refers to the extent to which ... the measurement questions in the questionnaire, provides adequate coverage of the investigative questions” (Saunders *et al.*, 2007:366). Construct validity refers to the extent to which the questions in the questionnaire actually measure the presence of those constructs that the researcher intended them to measure (Saunders *et al.*, 2007:367). Both of these validity requirements were met by basing the questions on previous studies and also pre-testing the questionnaire with other researchers to ensure that only essential and useful questions were included and that no essential or useful questions were missing.

## **3.8 RESEARCH ETHICS**

As students from the University of Pretoria were used in the study the Faculty of Economic and Management Sciences’ form “Application for Ethical Clearance” was completed and handed to the Department of Taxation’s Research Ethics Committee with the research

proposal. Permission from the Dean of the Economic and Management Sciences faculty, the Head of Department of Mercantile Law and the lecturer involved in one of the core modules for the second year BCom Law students was obtained, to use the selected students in the study.

The questionnaire was pre-tested to ensure that no questions were harmful to the students, or left them feeling embarrassed.

An informed consent form per the University of Pretoria's guidelines was handed to each student together with the questionnaire. This form gives a brief description of the research objective and informs the students of their rights to participation and protection. The students were requested to sign this document before proceeding to complete the questionnaire. All students were over the age of 18 years and therefore the consent of their parents was not required.

The questionnaire did not ask for the student numbers or student names and therefore all questionnaires were anonymous. The list of students who were included in the population will be kept confidential. The data was captured by the author only and the questionnaires will be locked away safely to ensure confidentiality.

The questionnaire was handed out at the end of a selected class and students were asked to complete it and return the completed documents to the researcher.

Throughout this research document, any statements or ideas obtained from literature or any other source included an in-text reference and were added to the list of references at the end of this document. A Declaration Regarding Plagiarism was also signed by the researcher and accompanies the research report that declares that no plagiarism was committed while writing up the research report.

The author was committed to provide honest and bias free research.

### **3.9 CONCLUSION**

After a detailed study of all the available research designs and methods, a survey research design was decided on. Pre-tested questionnaires were handed out to the second year BCom Law students after one of their classes. The questionnaires were captured on Excel 2003 and the qualitative data was analysed using frequency analysis to determine the perceptions that the students have on taxation. Thereafter comparisons between the two units of analysis, namely those BCom Law students taking tax as an elective and those BCom Law students not taking tax as an elective subject, was made to determine if there are differences in perceptions between the two groups.

## CHAPTER 4 - RESULTS

### 4.1 INTRODUCTION

The objective of this study was to determine the perceptions that students have about taxation in South Africa and to compare the perceptions of students who have tax as an elective module to students who do not have tax as an elective module. The analysis was done bearing in mind that this is an exploratory, descriptive study.

The sample consisted of 131 BCom Law students who were in their second year of studies. The reason for this sample was that 64 of these students were taking taxation as an elective subject. Questionnaires were handed out at the end of one of the Law classes and all the BCom students were asked to complete them. A total of 60 responses were received from both the English and the Afrikaans classes, as indicated in Table 7. This amounts to a 45,80% response rate and it was therefore decided not to do any further follow up.

**Table 7: Tax elective versus No tax elective for the two classes**

Classes	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>
Afrikaans	9	50,00	9	50,00
English	17	40,48	25	59,52
<b>Total</b>	<b>26</b>		<b>34</b>	

a = percentage per class

### 4.2 DATA ANALYSIS

#### 4.2.1 Demographics

The demographics of the sample were as follows:

The respondents consisted of 60% females and 40% males. More males and females, who did not take tax as an elective subject responded, as seen in Table 8.

**Table 8: Gender of respondents**

Gender	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>
Male	11	18,33	13	21,67
Female	15	25,00	21	35,00
<b>Total</b>	<b>26</b>	<b>43,33</b>	<b>34</b>	<b>56,67</b>

a = percentage of total respondents

Second year BCom Law students can take the following elective subjects: Business Management, Economics, Financial Management, Financial Accounting and Taxation. A student who selects taxation as a subject is also required to take Financial Accounting in his/her second year (University of Pretoria, 2010a:55). 43,33% of the respondents took taxation as an elective subject and this percentage is seen to be acceptable in comparison with the sample selected.

The respondents' ages ranged between 19 and 24 years with 53,33% of the students being 20 years of age as seen in Table 9. Second year students are assumed to be 19 to 21 years of age. The responses are therefore assumed not be significantly influenced by the maturity of the student as 84,99% of the sample fell in the 19 to 21 year old range.

**Table 9: Average age of the respondents**

Age	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>
19	6	10,00	3	5,00
20	13	21,66	19	31,67
21	5	8,33	5	8,33
22	1	1,67	2	3,33
23	1	1,67	3	5,00
24	-	-	1	1,67
Unspecified	-	-	1	1,67
<b>Total</b>	<b>26</b>	<b>43,33</b>	<b>34</b>	<b>56,67</b>

a = percentage of total respondents

The respondents consisted of the following races: 68,33% Whites, 25% Blacks, 3,33% Indians, 1,67% Asians and 1,67% Coloureds which have been divided into the two units of analysis per Table 10. The race distribution in this response group is not in line with the demographics of the population but as the results of this study is not going to be

generalized to the rest of the population it is acceptable. 48,78% of the white student respondents but only 33,33% of the black student respondents took tax as an elective subject in the current year.

**Table 10: Race of respondents**

Race	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>
White	20	33,33	21	35,00
Black	5	8,33	10	16,66
Indian	1	1,67	1	1,67
Coloured	-	-	1	1,67
Asian	-	-	1	1,67
<b>Total</b>	<b>26</b>	<b>43,33</b>	<b>34</b>	<b>56,67</b>

a = percentage of total respondents

The questionnaire was in English with only the different tax types also given in Afrikaans. There were 41,67% Afrikaans respondents, 40,00% English respondents and 15,00% respondents indicating that their home language is one of the nine African languages officially recognized in South Africa. Only 3,33% of the respondents indicated that they had another home language.

#### **4.2.2 Perceptions**

Analysis of perceptions about taxation can be made from the following survey questions:

##### **Basic understanding versus knowledge**

The respondents were asked to indicate which of the following taxes they had a basic understanding of, using a “yes/no” response. A “basic understanding” could be seen as a subjective concept with a respondent indicating (perceiving) having a basic understanding but not knowing more than the definition of that tax. Therefore, the respondents then had to indicate what types of taxes were charged on 11 listed items per Table 12. It is interesting to note that the students who do not have tax as an elective module nearly had the same perceived basic understanding as the students with the tax elective for income

tax, VAT and excise duties and a slightly better perceived understanding of Airport tax and Environmental levy, as can be seen in Table 11.

**Table 11: Respondents basic understanding of specific taxes**

Tax types	Tax elective		No tax elective	
	$n^a$	% <sup>b</sup>	$n^a$	% <sup>b</sup>
Income tax	26	100,00	33	97,06
Value Added Tax	25	96,15	32	94,12
Excise duties	11	42,31	12	35,29
Airport tax	12	46,15	18	52,94
Environmental levy	3	11,54	6	17,65
Fisher's Exact Test	No significant differences between the two groups were indicated for any of the above variables.			

a = number of respondents indicating that they have a basic understanding of the specific tax

b = percentage of respondents per unit of analysis indicating that they have a basic understanding of the specific tax

As discussed in the literature review, all scholars were supposed to be exposed to income tax and VAT between grade 4 and 12 of their schooling career. All BCom students are also exposed to VAT in their first year of university through the Financial Accounting 111 module as this is a compulsory module for all BCom students (University of Pretoria, 2010a:34-61). In this module the students are taught the basics of VAT and how to account for VAT in the financial records of a business (University of Pretoria, 2010b:5-1). This can account for the reason that all the respondents perceive to have a basic understanding of income tax and VAT.

Excise duties are briefly discussed in chapter 1 and 8 of "*Belasting van individue vereenvoudig*" (de Hart, Basson & Klue, 2009:7,180). This is the textbook used in the elective tax course. At the time of the survey the students taking this elective module had not gone through chapter 8. Airport tax and environmental levy are not discussed in this textbook. The basic understanding that some of the respondents have on excise duties, airport tax and environmental levy is assumed to be due to these respondents having either paid these taxes in the past (past experience) or from other sources like the budget speech.

The respondents were asked to indicate what types of taxes are charged on 11 listed items. It was permitted to select more than one tax for each item. Table 12 indicates the results of the selection for the two units of analysis.

**Table 12: Taxes charged on items, as selected per unit of analysis**

Items	None % <sup>a</sup>	IT % <sup>a</sup>	VAT % <sup>a</sup>	ED % <sup>a</sup>	AT % <sup>a</sup>	EL % <sup>a</sup>	No response % <sup>a</sup>
<b>Cigarettes / other tobacco items</b>							
- Tax elective	3,85 (n = 1)	-	50,00 <sup>b</sup> (n = 13)	61,54 <sup>b</sup> (n = 16)	-	3,85 (n = 1)	3,85 (n = 1)
- No tax elective	-	8,82 (n = 3)	76,47 <sup>b</sup> (n = 26)	38,24 <sup>b</sup> (n = 13)	2,94 (n = 1)	11,76 (n = 4)	-
<b>Alcohol</b>							
- Tax elective	3,85 (n = 1)	-	50,00 <sup>b</sup> (n = 13)	65,38 <sup>b</sup> (n = 17)	-	3,85 (n = 1)	3,85 (n = 1)
- No tax elective	-	8,82 (n = 3)	70,59 <sup>b</sup> (n = 24)	41,18 <sup>b</sup> (n = 14)	2,94 (n = 1)	5,88 (n = 2)	2,94 (n = 1)
<b>Take-away foods / fast foods</b>							
- Tax elective	-	-	92,31 <sup>b</sup> (n = 24)	-	-	-	7,69 (n = 2)
- No tax elective	2,94 (n = 1)	2,94 (n = 1)	97,06 <sup>b</sup> (n = 33)	2,94 (n = 1)	-	2,94 (n = 1)	-
<b>Clothes</b>							
- Tax elective	3,85 (n = 1)	-	88,46 <sup>b</sup> (n = 23)	-	-	-	7,69 (n = 2)
- No tax elective	2,94 (n = 1)	8,82 (n = 3)	85,29 <sup>b</sup> (n = 29)	8,82 (n = 3)	-	5,88 (n = 2)	-
<b>Petrol</b>							
- Tax elective	7,69 (n = 2)	3,85 (n = 1)	34,62 (n = 9)	3,85 <sup>b</sup> (n = 1)	-	42,31 (n = 11)	19,23 (n = 5)
- No tax elective	14,71 (n = 5)	2,94 (n = 1)	35,29 (n = 12)	5,88 <sup>b</sup> (n = 2)	-	50,00 (n = 17)	5,88 (n = 2)
<b>Plastic bags purchased at till-point / pay-point</b>							
- Tax elective	7,69 (n = 2)	-	30,77 <sup>b</sup> (n = 8)	3,85 (n = 1)	-	42,31 <sup>b</sup> (n = 11)	23,08 (n = 6)
- No tax elective	5,88 (n = 2)	2,94 (n = 1)	38,24 <sup>b</sup> (n = 13)	-	-	50,00 <sup>b</sup> (n = 17)	17,65 (n = 6)
<b>International airplane ticket</b>							
- Tax elective	-	-	11,54 (n = 3)	7,69 (n = 2)	88,46 <sup>b</sup> (n = 23)	19,23 (n = 5)	7,69 (n = 2)
- No tax elective	-	5,88 (n = 2)	26,47 (n = 9)	5,88 (n = 2)	88,24 <sup>b</sup> (n = 30)	5,88 (n = 2)	2,94 (n = 1)

(Table 12 continued on next page)

(Table 12 continued)

Items	None % <sup>a</sup>	IT % <sup>a</sup>	VAT % <sup>a</sup>	ED % <sup>a</sup>	AT % <sup>a</sup>	EL % <sup>a</sup>	No response % <sup>a</sup>
Domestic airplane ticket							
- Tax elective	-	-	15,38 <sup>b</sup> (n = 4)	-	92,31 <sup>b</sup> (n = 24)	19,23 (n = 5)	7,69 (n = 2)
- No tax elective	-	5,88 (n = 2)	44,12 <sup>b</sup> (n = 15)	-	79,41 <sup>b</sup> (n = 27)	5,88 (n = 2)	2,94 (n = 1)
Salaries							
- Tax elective	-	92,31 <sup>b</sup> (n = 24)	3,85 (n = 1)	-	-	-	7,69 (n = 2)
- No tax elective	11,76 (n = 4)	82,35 <sup>b</sup> (n = 28)	11,76 (n = 4)	2,94 (n = 1)	-	-	-
Prizes and gambling winnings							
- Tax elective	50,00 <sup>b</sup> (n = 13)	26,92 (n = 7)	3,85 (n = 1)	11,54 (n = 3)	-	-	11,54 (n = 3)
- No tax elective	32,35 <sup>b</sup> (n = 11)	23,53 (n = 8)	8,82 (n = 3)	26,47 (n = 9)	2,94 (n = 1)	-	8,82 (n = 3)
Private sale of car							
- Tax elective	23,08 <sup>b</sup> (n = 6)	46,15 (n = 12)	11,54 (n = 3)	3,85 (n = 1)	-	-	15,38 (n = 4)
- No tax elective	29,41 <sup>b</sup> (n = 10)	23,53 (n = 8)	41,18 (n = 14)	5,88 (n = 2)	-	2,94 (n = 1)	5,88 (n = 2)

IT = income tax

VAT = value added tax

ED = excise duty

AT = airport taxes

EL = environmental levy

a = percentage determined by dividing the number of respondents who selected a specific tax compared to total respondents per unit of analysis.

b = actual tax which is charged on each item.

The items selected were based on what the students may have acquired at some point in time or may have some knowledge about.

Although both units of analysis indicated that they had a basic understanding on income tax, it is can be seen from Table 12 that not all respondents perceived that income tax is only charged on salaries (de Hart *et al.*, 2009:13). Students taking the tax elective subject had a more correct perception about the type of tax charged on salaries. Prizes, gambling winnings and private sale of a car are not taxed in South Africa (de Hart *et al.*, 2009:130-131). There appears to be a misperception about the taxability of these items for income tax purposes, and this misperception is not limited to those students who are not taking the

tax elective. However, it may be viewed that knowing about the non-taxability of prizes, winnings and private sale of a car goes beyond having a basic understanding of income tax.

Both units of analysis also indicated that they had a basic understanding of VAT. Cigarettes, alcohol, take-away foods, clothes, plastic bags and domestic airplane tickets all carry VAT (de Hart *et al.*, 2009:166). From Table 12 it can be seen that students not taking the tax elective had an overall more correct perception about VAT been charged on these items but their perception does not align with their perceived understanding of VAT. This is very surprising as it would be expected that the students taking the tax elective would be more aware of VAT being charged on these items. The perception of these students also did not align with their perceived understanding of VAT. It must be noted that VAT had not been dealt with in the tax course at the time that the survey was completed. It can again be stated that knowing about which items carry VAT may go beyond having a basic understanding of VAT, but students should have been taught at school or Financial Accounting 111 that VAT is levied on the supply of goods and services by a vendor in the course of its business. It is assumed that all these students should have known that cigarettes, alcohol, take-away foods and clothes, at least, carry VAT.

For excise duties the respondents' perceived understanding appears to be in line with their knowledge about this type of tax as can be concluded from Table 12. Cigarettes, alcohol and petrol carry excise duties (de Hart *et al.*, 2009:180). Neither groups of students really perceived that there is excise duties on petrol.

For airport tax, the respondents' perceived understanding and knowledge do not correlate but it is most probably as a result of the students selecting this tax as it matches the description of the item to which it relates and not because they know more than what they perceive to understand.

Lastly, the environmental levy which is charged on plastic bags purchased at the till-point of a shop is not a widely known tax (National Treasury & SARS, 2008:9). Even though the respondents have most likely purchased plastic bags when they purchased groceries, they

are most likely unaware that this tax is added to the cost of the plastic bag. Again the perceived understanding and knowledge do not correlate.

One of the reasons that may contribute to the respondents' misperceptions about which taxes are charged on the 11 listed items, is that they may have not purchased the above items, received a salary or won a prize and therefore not encountered the above taxes in the 'real world'. Another reason would be that the students lack the basic knowledge of the different taxes.

### **Fairness of tax**

The respondents were then asked if they thought paying tax was fair. In total 85% of the respondents believed that paying tax was "mostly fair". This result gives some indication that there is some unhappiness about taxation but not enough to see paying tax as being unfair.

**Table 13: Fairness of paying tax**

Fairness rating	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>
Fair	4	15,38	2	5,88
Mostly fair	22	84,62	29	85,29
Never fair	-	-	3	8,82
<b>Total</b>	<b>26</b>	<b>100,00</b>	<b>34</b>	<b>100,00</b>

a = percentage of respondents per unit of analysis

The students who are taking the tax elective appear to have a slightly better overall perception about the fairness of paying tax, as indicated in Table 13. This may be due to having some knowledge about where the tax is being used as can be seen in Table 15 and also how tax is calculated.

## How tax revenue should be used and is used

The respondents were requested by means of an open-ended question to list how they think the South African government should use the tax revenue collected and thereafter where they think the taxes are being used.

Table 14 lists the responses in categories determined by the nature of funding area most often listed by the respondents.

**Table 14: Funding areas where tax revenue can be used as suggested by respondents**

Suggested funding areas	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>
Roads, transport and infrastructure	23	22,55	21	18,59
Education	15	14,71	24	21,24
Health care	15	14,71	13	11,50
Housing and electricity	12	11,76	9	7,96
Increasing work, business and skill development	7	6,86	7	6,20
Helping the poor	6	5,88	14	12,39
Improving communities	5	4,91	8	7,08
Social welfare	5	4,90	6	5,31
Investing, maintaining reserves, discharging debt and helping with foreign debt	4	3,92	3	2,65
Law enforcement	3	2,94	3	2,65
Salaries of public workers	3	2,94	2	1,77
Environment	3	2,94	2	1,77
Defence	1	0,98	1	0,88
<b>Total</b>	<b>102</b>	<b>100,00</b>	<b>113</b>	<b>100,00</b>

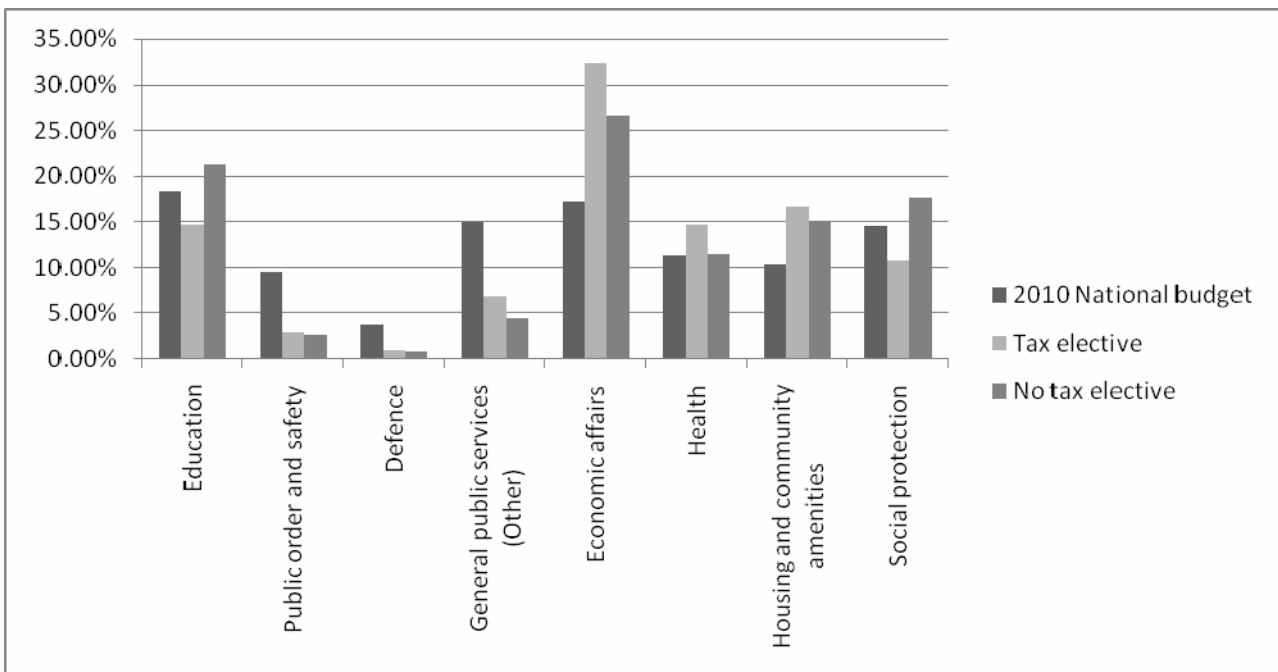
a = percentages calculated by dividing the number of times the specific funding area was listed by the total number of funding areas listed by each unit of analysis.

The three funding areas most often listed by both units of analysis are infrastructure, education and health care, as can be noted on Table 14. Housing and electricity and helping the poor were also listed often by the two groups of students. The difference in the percentages, between the two groups, for these last two funding areas may be due to how the student described the area. In other words, the student may have listed “helping the poor” but that may have meant helping the poor with housing and electricity or visa versa.

The two largest differences noted between the two groups is education and helping the poor, which differs by 6,53% and 6,51% respectively. Students not taking the tax elective listed these two items more often than the other group.

If the 2010 National Budget is compared to the information in Table 14, differences in spending priorities between the respondents and this budget become apparent as can be seen in Figure 1.

**Figure 1: 2010 National Budgeted funding areas compared to suggested spending areas according to two units of analysis**



The respondents perceived that tax revenue should be used more for economic affairs; namely, roads, transport and infrastructure, than what is assigned according to the budget. This could be assumed to be due to the respondents being currently reminded of all the highway upgrades and the Gautrain that is currently being built. Though not as large of a difference is the perception that more tax revenue should be used on housing and community amenities by the respondents. There are many informal settlements in South Africa where families are living in tin shacks without sanitation and electricity (Richards, O’Leary & Mutsonziwa, 2007:375-376). It is assumed that the respondents are reminded about this every time they drive past informal settlements which are near many cities and towns.

Another large difference is that of general public services which the respondents did not perceive to be so important but which the government has assigned 15,03% of its National Budget to. There is also a difference for public order and safety between the government's National Budget and the respondents suggested spending areas. It is assumed that the respondents may perceive spending tax revenue on prisons and courts as a waste of money (Pietersen, 2010).

All these differences between the National Budget and the respondents' suggested funding areas could be one of the reasons that paying tax is perceived to be only "mostly fair" by the respondents.

The respondents were required to indicate using "yes/no" responses whether the government uses tax revenue in the following areas, per Table 15:

**Table 15: Areas where tax revenue is used according to respondents**

Possible funding areas	Tax elective		No tax elective		Difference %
	<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>	
Salaries of the president and members of parliament	25	96,15	28	82,35	13,80
Government pensions	25	96,15	23	67,65	28,50
Building roads and transport infrastructure	24	92,31	28	82,35	9,96
Education	23	92,00 <sup>b</sup>	24	70,59	21,41
Police	23	88,46	27	79,41	9,05
Courts of law	23	88,46	20	58,82	29,64
National defence force	21	84,00 <sup>b</sup>	25	75,76 <sup>b</sup>	8,24
Prisons	21	80,77	26	76,47	4,30
State hospitals / health services	20	76,92	23	69,70 <sup>b</sup>	7,22
Housing for the poor	19	73,08	22	64,71	8,37
HIV/AIDS treatments	18	72,00 <sup>b</sup>	22	64,71	7,29
Personal expenditure of members of parliament	18	69,23	28	82,35	-13,12
Child grants to underprivileged mothers	17	65,38	20	58,82	6,56
General economic, commercial and labour affairs	17	65,38	15	45,45 <sup>b</sup>	19,93
Financially aiding neighbouring countries	16	61,54	19	57,58 <sup>b</sup>	3,96
Community halls, parks	14	53,85	18	52,94	0,91
Money for unemployed citizens	13	50,00	14	41,18	8,82
Free water and electricity to the underprivileged	12	46,15	19	55,88	-9,73

(Table 15 continued on next page)

(Table 15 continued)

Possible funding areas		Tax elective		No tax elective		Difference
		<i>n</i>	% <sup>a</sup>	<i>n</i>	% <sup>a</sup>	%
Money to persons with disabilities		12	46,15	16	47,06	-0,91
Welfare organizations		11	42,31	16	48,48 <sup>b</sup>	-6,17
Food for the poor		5	19,23	12	35,29	-16,06
Holidays for the underprivileged		-	-	1	2,94	-2,94
Fisher's Test	Exact	Significant differences between the two groups found for Courts of law (Two sided PR<=P 0,0194) and Government pensions (Two sided PR<=P 0,0080)				

a = percentage calculated by dividing number of affirmative answers to number of respondents per unit of analysis

b = one non-response

Government officials' personal expenditure, food for the poor and holidays for the underprivileged are not official spending areas according to the National Budget. 69,23% of the students who have tax as an elective and 82,35% of the students who do not have tax as an elective perceived that tax revenue is being used to fund government officials' personal expenditure. This is assumed to be most likely due to government officials constantly making the news about using taxpayers' money to fund personal expenditure (see list of additional comments made by respondents to support this statement). Though not as high, both groups of students perceived that tax revenue is used to fund feeding schemes for the poor. Therefore, there appears to be some misperception about where tax revenue is being used.

It must be noted that even though money for unemployed citizens is an official spending area, under social security fund benefits, there may be a misperception amongst the students in this area. Not all unemployed citizens receive money from the government and those who do receive money only do so if they previously contributed to the Unemployment Insurance Fund. This fund receives its funding from citizens (and their employers) while they are employed as well as from tax revenues. Payments to these employees are made while they are temporarily unemployed, for a limited period of time (National Treasury, 2010:106-107). 50,00% of the students who have tax as an elective and 41,18% of the students who do not have tax as an elective perceived that tax revenue is being used to provide money to unemployed citizens.

Overall it appears that students who have tax as an elective have a more correct perception about where the government uses its taxes in comparison to the students

without tax as an elective. Only free water and electricity for the underprivileged; disability grants and welfare organizations received lower percentages from these students compared to the students without the tax elective. Large differences (more than 10%) between the two groups are noted for salaries of the president and members of parliament; government pensions; education; courts of law; and general economic, commercial and labour affairs.

All the official funding areas listed should have received 100% selection. But the objective is to investigate what the respondents perceived and the areas that have lower selections could be either that they perceive that more tax revenue should be used there or that they perceive that no tax revenue is used in that area and therefore a negative response was given. It could also be possible that some of the students misread the question and selected areas where they believed that the tax revenue should be used. This should not have been the case as the previous question in the survey covered that aspect and it was hoped that the student would see this question as being different from the previous question.

Table 16 compares the respondents' perceptions of where tax revenue is used to the government's National Budgeted funding areas.

**Table 16: Comparison of respondents' perception of where tax revenue is used to government's budgeted funding areas**

Spending priorities	Tax elective	No tax elective	Budget
	% <sup>a</sup>	% <sup>a</sup>	% <sup>b</sup>
Education	92,00	70,59	18,33
Public order and safety	85,90	71,57	9,50
Defence	84,00	75,76	3,75
Other (General public services)	78,85	70,15	15,03
Economic affairs	78,85	64,18	17,18
Health	74,51	67,16	11,33
Social protection	62,50	55,56	14,53
Housing and community amenities	57,69	57,84	10,35

a = percentages calculated on the number of funding areas selected per spending priority divided by the number of responses per unit of analysis for that spending priority.

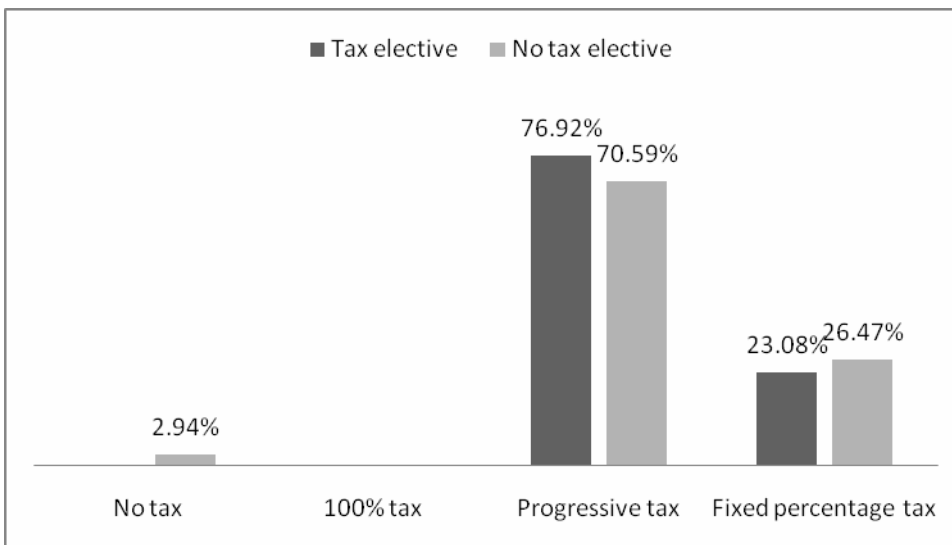
b = percentage calculated on the Rands allocated to funding area by government divided by total National Budget

It can be seen again that even though large percentages of the national budget is allocated to specific spending areas, the respondents from both groups did not perceive that tax revenue was being used in those spending areas.

### Income distribution

The respondents were asked about how income earned by citizens should be distributed in the country. They were given the following choices: Everybody should keep all the income that they earn (no tax); all income earned should go to the government who will then distribute it between all the citizens (100% tax); only a certain percentage, based on different tax brackets, of the income earned should go to the government who will then use it for the benefit of all the citizens (progressive tax); and only a fixed percentage of the income earned should go to the government who will then use it for the benefit of all the citizens (fixed percentage). Figure 2 shows the results of this question.

**Figure 2: Method of income distribution according to respondents**



It appears that both groups of students mostly agree with the method that the South African government is using to tax its citizens, namely the progressive method. No respondent was in favour of 100% tax and only 1 respondent who is not taking the tax elective believed that there should be no tax and that everybody should keep all their income.

Of the respondents who indicated that a fixed percentage of income should go to the government, the percentage that they indicated ranged from 5% to 10% for students who are not taking the tax elective and 10% to 30% for students who are taking the tax elective. No means or standard deviations are given as a few students who indicated the fixed percentage did not indicate the percentage that they thought tax should be levied at.

### **Circumstances affecting tax compliance attitude**

The respondents were given the following scenario where they had to assume that they earned rental income and interest income. They then had to assume that they were deciding whether they were going to reflect this income on their tax returns and thereby be taxed on these amounts. The students then had to indicate how a list of statements as can be seen in Table 17 would influence their decision concerning reflecting this income. The respondents were given the following options: reflect income; consider not reflecting income; and will not reflect income. The reason that rental income and interest income were used in the scenario and not salaries is that these two types of incomes are not taxed before they land up in the taxpayers' hands. On the other hand, salaries are taxed via SITE and PAYE and the employer deducts the taxes before the salary is received by the taxpayer (de Hart *et al.*, 2009:14-15). Therefore the taxpayer does not really have an option about paying tax on salaries but could avoid paying taxes on rental income and interest income.

**Table 17: Statements which may possibly influence future tax compliance**

Statements	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>N</i>	% <sup>a</sup>
A large proportion of taxes is used by the government for meaningless purposes				
- Reflect income	3	12,00	4	12,50
- Consider not reflecting income	4	16,00	10	31,25
- Will not reflect income	18	72,00	18	56,25
Income tax rate is too high				
- Reflect income	6	24,00	7	21,88
- Consider not reflecting income	15	60,00	15	46,88
- Will not reflect income	4	16,00	10	31,25

(Table 17 continued on next page)

(Table 17 continued)

Statements	Tax elective		No tax elective	
	<i>n</i>	% <sup>a</sup>	<i>N</i>	% <sup>a</sup>
I do not understand why taxes are paid				
- Reflect income	7	28,00	13	40,63
- Consider not reflecting income	10	40,00	11	34,38
- Will not reflect income	8	32,00	8	25,00
The tax system is unfair				
- Reflect income	8	32,00	10	30,30
- Consider not reflecting income	5	20,00	8	24,24
- Will not reflect income	12	48,00	15	45,45
Benefits received from the government are far less than the amount of tax paid				
- Reflect income	10	40,00	11	34,38
- Consider not reflecting income	4	16,00	11	34,38
- Will not reflect income	11	44,00	10	31,25
Other people get away with not paying tax				
- Reflect income	12	48,00	14	43,75
- Consider not reflecting income	8	32,00	5	15,63
- Will not reflect income	5	20,00	13	40,63
The tax calculation is very complicated				
- Reflect income	14	56,00	20	60,61
- Consider not reflecting income	7	28,00	6	18,18
- Will not reflect income	4	16,00	7	21,21
Income tax rates are not the same for everybody				
- Reflect income	12	48,00	19	61,29
- Consider not reflecting income	11	44,00	12	38,71
- Will not reflect income	2	8,00	-	-
Government does not provide enough information about how they use taxpayers' money				
- Reflect income	7	28,00	7	21,88
- Consider not reflecting income	11	44,00	15	46,88
- Will not reflect income	7	28,00	10	31,25
Disagree with how the government is running the country				
- Reflect income	7	28,00	14	42,42
- Consider not reflecting income	9	36,00	13	39,39
- Will not reflect income	9	36,00	6	18,18
<b>Averages of all statements</b>				
- <b>Reflect income</b>		<b>34,40</b>		<b>36,96</b>
- <b>Consider not reflecting income</b>		<b>33,60</b>		<b>32,99</b>
- <b>Will not reflect income</b>		<b>32,00</b>		<b>30,05</b>
Fisher's Exact Test	No significant differences between the two groups were indicated for any of the above variables.			

a = percentage of responses per unit of analysis per statement

The reason for this question was to determine if the different statements would influence the tax compliance attitude that the respondents may have at this stage of their lives. It is assumed that these respondents have probably not completed a tax return and therefore their tax compliance cannot be assessed 100% accurately but it is likely that these respondents already have perceptions based on the above statements. It was noted in the literature review that these statements can influenced tax compliance.

The results of the option to “reflect income” were compared to both “will not reflect income” and “considering not reflecting income” as the last two options both reflect a negative attitude. For the students with the tax elective there is a low tendency (less than 35,00% average) to reflect income for all statements. The statements “the tax calculation is very complicated”, “income tax rates are not the same for everybody” and “other people get away with not paying tax” had the highest percentages for reflecting income but still less than 60,00%. For the students without the tax elective there was also a low tendency (less than 37,00% average) to reflect income. The statements “income tax rates not the same for everybody” and “the tax calculation is very complicated” had the highest percentages for reflecting income but also just over 60,00% only. Large differences (more than 10%), were noted between the two groups regarding reflecting the income when basing the decision on the following statements: “I do not understand why taxes are paid”, “income tax rates are not the same for everybody” and “disagree with how the government is running the country”. No trend was noted as to which group had the better overall tax compliant attitude as the averages for the three choices were nearly evenly spread.

### **Sundry perception questions**

The respondents were finally asked a few sundry questions with “yes/no/unsure” responses. These questions as indicated in Table 18 come from the literature review and may help with explanation of previous questions results.

**Table 18: Sundry questions**

Sundry questions	Tax elective			No tax elective		
	Yes	No	Unsure	Yes	No	Unsure
	% <sup>a</sup>	% <sup>a</sup>	% <sup>a</sup>	% <sup>a</sup>	% <sup>a</sup>	% <sup>a</sup>
Did you hear or read about the 2010 National Budget which was announced in February 2010?	73,08 (n = 19)	26,92 (n = 7)	-	64,71 (n = 22)	29,41 (n = 10)	5,88 (n = 2)
Do you know that you can contribute to the government's budget process by sending suggestions to the government via Facebook?	11,54 (n = 3)	88,46 (n = 23)	-	5,88 (n = 2)	94,12 (n = 32)	-
Do you think that the government overspends on its budget?	57,69 (n = 15)	15,38 (n = 4)	26,92 (n = 7)	73,53 (n = 25)	5,88 (n = 2)	20,59 (n = 7)
Are there penalties charged if taxes are not paid?	100,00 (n = 26)	-	-	85,29 (n = 29)	8,82 (n = 3)	5,88 (n = 2)
Do you think that the South African Revenue Services can be trusted to do its work correctly and honestly?	61,54 (n = 16)	26,92 (n = 7)	11,54 (n = 3)	41,18 (n = 14)	29,41 (n = 10)	29,41 (n = 10)
Do you think that the South African Revenue Services can detect if a person tries to evade tax?	69,23 (n = 18)	23,08 (n = 6)	7,69 (n = 2)	70,59 (n = 24)	8,82 (n = 3)	20,59 (n = 7)
Do you think you receive any benefits from the government at the moment?	53,85 (n = 14)	34,62 (n = 9)	11,54 (n = 3)	35,29 (n = 12)	50,00 (n = 17)	14,71 (n = 5)
Do you think that every student at university should register for at least one tax module for degree purposes?	57,69 (n = 15)	34,62 (n = 9)	7,69 (n = 2)	58,82 (n = 20)	32,35 (n = 11)	8,82 (n = 3)
Would you like to obtain more information on taxation while studying at the university?	76,92 (n = 20)	11,54 (n = 3)	11,54 (n = 3)	70,59 (n = 24)	20,59 (n = 7)	8,82 (n = 3)

a = percentage of responses per unit of analysis

The medium to high response rate as to whether the respondents heard the 2010 National Budget could explain why both units of analysis were able to mostly select the correct spending areas where tax is used per Table 15. Also a greater percentage of students who are taking the tax elective heard the budget speech in comparison with those students that are not taking the tax elective and this agrees with the overall results found in the question about where tax revenue is used per Table 15.

The medium to high response rate as to whether government overspends on its budget can explain why there appears to be an overall negative sentiment (as per Table 17) to reflecting income and as to how the tax revenue is being used (see list of additional comments made by respondents below), as overspending normally means mismanagement of funds. Students not taking the tax elective perceive that the government overspends on its budget more than the students taking the tax elective (15,84% response rate difference), yet overall these students appear to be slightly less inclined to avoid tax as per Table 17.

The students with the tax elective are more aware that there are penalties charged on taxes not paid (14,71% response rate difference) and this could explain why this group had a higher percentage of respondents who indicated that they would reflect their income even though other people get away with not paying tax as per Table 17.

The students who take the tax elective appear to trust SARS to do its work correctly and honestly more than their counterparts (20,36% response rate difference). This should promote an attitude of tax compliance and better perception about paying taxes.

Both groups appear to perceive that SARS can detect tax evasion to a high extent. Those students who do not perceive the possibility of detection most likely will have an overall less tax compliant attitude.

Even though the respondents indicated that tax revenue should be used for education as per Table 14 and is used for education as per Table 15, only 53,85% of the students who have tax as an elective and 35,29% of the students without the tax elective perceived that they receive any benefits from the government at the moment (18,56% response rate difference). All university students are indirectly receiving a subsidy to study at universities from the government (Gouws & Wolmarans, 2002:87). If the list of where government is spending tax revenues is examined it would be found that there are many areas that the respondents are currently receiving benefits from the government.

Even though 76,92% of the students with the tax elective and 70,59% of the students without the tax elective indicated that they would like to obtain more information on tax at

university only 57,69% and 58,82% respectively felt that every student at university should register for at least one tax module for degree purposes.

### **Additional comments made by respondents**

The following additional comments, made by the respondents, were noted on the questionnaire and indicate that there is a negative sentiment as to how the government is using the taxpayers' money:

#### **How tax revenue should be used: Tax elective students**

- “Definitely not for spa visits of government officials.”
- “But not corruption or for private gains. To the bettering for all South Africans.”
- “I think the government’s budget is more or less correct. But I do think government officials should get a smaller salary.”
- “I think you should only pay for the services you use.”
- “The government should prioritise which sectors require funding. From that, they should then apportion the taxes they have received appropriately.”
- “Not huge salaries for gov. officials and minimum for teachers and nurses (who are more important).”
- “They should not use it to benefit government, should use it for improving the standard of living in SA so we can all have a better life that is more equal for all of us not just rich vs poor.”

#### **How tax revenue should be used: Non-tax elective students**

- “Not to have parties and to buy new cars. Just for the specific and important needs of the people.”
- “Spend the taxes more wisely and eradicate corruption.”
- “I believe they should simply use it wisely as there is too much corruption and our taxes end up sending them overseas etc.”
- “Maybe some of it can be used to insert control measures for the expenditure of tax revenues.”

- “Actually spending the apportioned budget for what it was drafted to do. Personal and private expenses should not be included.”

#### Other additional comments: Tax elective students

- “Should be applied for better purposes.”
- “SA tax can be spent in a better and more efficient way, than what it is currently spent on.”
- “The high rates of taxes paid by high earning individuals is far underutilized for services being offered to them. It’s the Robin Hood effect, steal from the rich to give to the poor.”
- “The reason the government has a budget deficit is not because we pay too little tax, it is because the tax that we do pay is misdirected at avenues that do not necessarily need it. Our tax system is good, but is poorly enforced.”
- “Tax is important because the more you know the less you will pay at the end of the day. It [is] like law those who know the rules the most can profit while SARS profits on the ignorance of South Africans.”
- “Government official salaries should not be too high; should be public; they should not be able to afford luxurious cars and holidays as they work for the government: as do teachers who earn minimal salaries.”

#### Other additional comments: Non-tax elective students

- “Budget speech should be more in clear point form structure. Budget must be in plain English for everyone to understand. Budget speech should be read in the evening for everyone to participate or twice that day or a summary thereof.”
- “There should be a greater tax on trade unions. Some of that could be used to supplement unemployment grants or education programmes.”
- “Our tax system works but the government is corrupt and so the use of the taxes are for the government officials and not for the citizens.”
- “The tax system is fine but the money gathered is not used for the correct purposes.”

### 4.3 CONCLUSION

Perceptions are how a person views the world and is a cognitive process. Perceptions about taxation of students who are taking the tax elective were compared to students who are not taking the tax elective. Differences and similarities were noted.

The first two questions looked to see whether the respondents perceived to have a basic understanding about certain taxes and whether their perceptions were correct. The correctness of their perceptions was tested by giving the students a list of items and asking them to indicate which taxes are charged on these items. Students' (with the tax elective) perceptions about their basic understanding of income tax was in line with their knowledge, which was not the case with students without the tax elective. Both groups of students' perceptions about their basic understanding of VAT did not align with their knowledge, even though students without the tax elective had a better overall knowledge about which items carried VAT. For excise duties both groups' perceived understanding appears to be in line with their knowledge about this type of tax, with the students who are taking the tax elective having a higher understanding of excise duties than the other students. For airport taxes and environmental levy, the students' perceived basic understanding and knowledge of the taxes do not agree.

The fairness about paying taxes was investigated and it was found that both groups perceived paying tax as being mostly fair.

Both groups of respondents listed infrastructure, education, health care, helping the poor, housing and electricity the most often when asked how the government should use tax revenue. These are assumed to be the most important areas to the respondents.

When the National Budget is compared to areas which the two units of analysis suggested tax revenue should be used for, it was found that there were some differences which may contribute to the respondents perceiving paying tax as mostly fair but not 100% fair. Differences were noted for general public services and public order and safety where more money was assigned by the government but less emphasis was placed on those areas by the respondents. Economic affairs, housing and community amenities received higher

emphasis from the respondents than the money assigned to them by the government. It was also noted that students without the tax elective placed more emphasis on education and helping the poor as possible funding areas than the other group.

From the results of the survey it appears that students who have tax as an elective have a more correct perception about where the government uses its taxes in comparison to the students without tax as an elective. But it was noted that both groups of students perceived that the government uses tax revenue to fund the personal expenditure of its officials and to feed the poor.

Both groups of students appear to mostly agree with the method that the South African government is using to tax its citizens, namely the progressive method.

The students' tax compliant attitudes were tested to determine if specific statements would influence the students to not reflect income on their tax return. Overall it appears that both groups were negatively influenced by the statements and that there was a low tendency (less than 40%) to reflect income. No conclusion could be drawn about which group had a more tax compliant attitude.

Finally from the additional comments that the students provided it can be noted that there is a strong negative feeling about how the taxes are being spent and a strong perception that there is corruption in the ranks of the government.

## **CHAPTER 5 - CONCLUSION**

### **5.1 INTRODUCTION**

This chapter covers the conclusion of the study. The research problem that was being examined was to evaluate the difference between students' perceptions about taxation, comparing students who are taking a tax module to students not taking a tax module. BCom Law students, who were in their second year of studies were examined. It was noted in previous studies that increased tax knowledge improves attitudes towards tax compliance.

### **5.2 SUMMARY OF FINDINGS**

This study examined the perceptions that students have about their basic understanding of a few select taxes, their perceptions about the fairness of paying taxes, their perception about where tax revenue should be used and where they think it is being used. The study also examined the students' perceptions about how the income which is being earned by the citizens of the country should be distributed, in other words whether there should be taxes which will allow for the benefits of employment to be distributed for the benefit of all citizens in the country. The study examined whether certain statements would influence the students' tax compliance attitude. This attitude may be based on the perceptions that the students have concerning the statements provided. Lastly the study examined some other areas which were noted in the literature which affects a person's perceptions about taxation, for instance the trustworthiness of SARS, penalties and the risk of detection.

It was found that there were very few significant differences between the students who have tax as an elective subject and those students who do not have tax as an elective subject in relation to their perceptions on taxation. What was noted was that even though the respondents perceived that paying taxes was mostly fair, there are negative feelings amongst the respondents about how the government is using the tax revenues. It was also noted that there is a negative tax compliant attitude for both groups of students as a result of the statements provided to them. The importance of obtaining information about taxation

was noted by a high percentage of both groups even though only half the students thought that all students should study a tax module at university. It was also noted that the respondents were not fully aware of all the areas where the government does use the tax revenue.

One of the problems encountered by the research was that due to time constraints the survey went out after the students who were taking the tax module only had six weeks of exposure to the tax module. It would have been preferable if the students had at least half a year's exposure. The reason why the third year BCom students were not used in the study was that by the time that the survey was ready these students would not have been exposed to the tax module for over 10 months. The researcher was worried that if the students were not exposed to the tax module at the time of the survey going out, they may have forgotten the importance and the value of the module.

Another problem that was encountered was the use of a questionnaire. Firstly, even though the questionnaire had been piloted, there were still concerns about the respondents misinterpreting the questions. Also even though the completion of the survey was voluntary, there may have been students who did not give their true opinion but just rushed through the questionnaire to complete it. The questionnaire targeted the students who were in the class the day that the questionnaire was handed out and due to a low class attendance only a medium response rate was obtained.

### **5.3 CONCLUSIONS**

The study concerned obtaining and comparing the perceptions that students have on taxation. This was achieved as the perceptions about many aspects of taxation were uncovered in the survey. What may not have been achieved was to determine if increased tax knowledge improved the perceptions that the students had. As mentioned above, a longer exposure period to the tax module may have changed the results obtained.

## **5.4 SUMMARY OF CONTRIBUTIONS**

The significance of the study is that even before the students become taxpayers, they have perceptions about how tax revenue should be used and is used. They also have perceptions on the fairness of tax and how circumstances around them may affect their tax compliancy.

The results obtained in this study may be used by universities, SARS and the government to improve the perceptions that students have on taxation and thereby improve the future tax compliancy of students. Improving the perceptions may occur through more detailed information been provided to the students about why taxes are paid, what they are used for and the importance of paying these taxes. Perceptions will also improve if the government can show that they are using the tax money correctly and have eliminated corruption in the government. Lastly, perceptions will improve if SARS can improve its image about being a governmental institution which can be trusted to do its work correctly, honestly and efficiently.

## **5.5 SUGGESTIONS FOR FURTHER RESEARCH**

Further research could be done on students' perceptions, by comparing students who are studying for the degree in taxation to students studying a degree without any tax module. Research can be done on students at the beginning of the tax module and then again at the end of the tax module to determine if their perceptions have changed due to increased tax knowledge.

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# **APPENDIX A**

## **- Data collection instrument-**



**A comparative study of South African students' perceptions of taxation**

For office use

Respondent number	V1				
		1	2	3	4

Dear respondent

Thank you for your willingness to complete this survey. The purpose of the survey is to determine your perceptions on South African tax. The survey should not take more than 15 minutes to complete. This is an anonymous and confidential survey. You cannot be identified and the answers you provide will be used for research purposes only.

**Please answer all the questions.** There are no right or wrong answers. We are interested in understanding your perceptions on South African tax. Please indicate your answer with a cross (X).

For office use

1) Gender:		<table border="1"> <tr> <td>Male</td> <td>1</td> </tr> <tr> <td>Female</td> <td>2</td> </tr> </table>	Male	1	Female	2	V2	<input type="checkbox"/>														
Male	1																					
Female	2																					
2) Age:		<table border="1"> <tr> <td>18</td> <td>19</td> <td>20</td> <td>21</td> <td>22</td> <td>23</td> <td>24</td> <td>25</td> <td>If other age, please specify: _____</td> </tr> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> <td>7</td> <td>8</td> <td></td> </tr> </table>	18	19	20	21	22	23	24	25	If other age, please specify: _____	1	2	3	4	5	6	7	8		V3	<input type="checkbox"/>
18	19		20	21	22	23	24	25	If other age, please specify: _____													
1	2	3	4	5	6	7	8															
3) Race:		<table border="1"> <tr> <td>Asian</td> <td>1</td> </tr> <tr> <td>Black</td> <td>2</td> </tr> <tr> <td>Coloured</td> <td>3</td> </tr> <tr> <td>Indian</td> <td>4</td> </tr> <tr> <td>White</td> <td>5</td> </tr> </table>	Asian	1	Black	2	Coloured	3	Indian	4	White	5	V4	<input type="checkbox"/>								
Asian	1																					
Black	2																					
Coloured	3																					
Indian	4																					
White	5																					
4) Home language:		<table border="1"> <tr> <td>Afrikaans</td> <td>1</td> </tr> <tr> <td>English</td> <td>2</td> </tr> <tr> <td>Other</td> <td>3</td> </tr> <tr> <td>If other, please specify: _____</td> <td></td> </tr> </table>	Afrikaans	1	English	2	Other	3	If other, please specify: _____		V5	<input type="checkbox"/>										
Afrikaans	1																					
English	2																					
Other	3																					
If other, please specify: _____																						
5) Degree currently enrolled for :		<table border="1"> <tr> <td>BCom Law</td> <td>1</td> </tr> <tr> <td>If other, please specify: _____</td> <td>2</td> </tr> </table>	BCom Law	1	If other, please specify: _____	2	V6	<input type="checkbox"/>														
BCom Law	1																					
If other, please specify: _____	2																					



6) Indicate which elective modules you have taken this year:

OBS (Business Management)	1
EKN (Economics)	2
FBS (Financial Management)	3
FRK (Financial Accounting)	4
BEL (Taxation)	5
None of the above	6

V7

V8

V9

7) Which of the following taxes do you have a basic understanding of?

	Yes	No
Income Tax ( <i>Inkomstebelasting</i> )	1	2
Value Added Tax ( <i>Belasting op Toegevoegde waarde</i> )	1	2
Excise duties ( <i>Aksynsbelasting</i> )	1	2
Airport taxes ( <i>Lughawebelasting</i> )	1	2
Environmental levy ( <i>Omgewingsbelasting</i> )	1	2

V10

V11

V12

V13

V14

8) What type(s) of taxes are charged on the following items? More than one tax may be selected per item.

IT= Income Tax, VAT = Value Added Tax, ED= Excise duties, AT = Airport Taxes, EL = Environmental levy

	None	IT	VAT	ED	AT	EL
Cigarettes / other tobacco items	1	2	3	4	5	6
Alcohol	1	2	3	4	5	6
Take-away foods / fast foods	1	2	3	4	5	6
Clothes	1	2	3	4	5	6
Petrol	1	2	3	4	5	6
Plastic bags purchased at till-point / pay-point	1	2	3	4	5	6
International airplane ticket	1	2	3	4	5	6
Domestic airplane ticket	1	2	3	4	5	6
Salaries	1	2	3	4	5	6
Prizes and gambling winnings	1	2	3	4	5	6
Private sale of car	1	2	3	4	5	6

V15

V16

V17

V18

V19

V20

V21

V22

V23

V24

V25

9) Do you think that paying tax is fair?

Yes, it is always fair	1
Yes, it is mostly fair	2
No, its never fair	3

V26



10) List how you think the South African government should use the tax revenue (money collected from taxes paid) collected from individuals and businesses in South Africa.


V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>
V27	<input type="checkbox"/>

11) According to you, where is tax revenue being used in South Africa?

	Yes	No
Education	1	2
Salaries of the president and members of parliament	1	2
Personal expenditure of members of parliament	1	2
State hospitals / health services	1	2
HIV/AIDS treatments	1	2
Food for the poor	1	2
Holidays for the underprivileged	1	2
Police	1	2
Courts of law	1	2
Prisons	1	2
General economic, commercial and labour affairs	1	2
Financially aiding neighbouring countries	1	2
Building roads and transport infrastructure	1	2
Child grants to underprivileged mothers	1	2
Money for unemployed citizens	1	2
Government pensions	1	2
Free water and electricity to the underprivileged	1	2
National defence force	1	2
Housing for the poor	1	2
Community halls, parks	1	2
Money to persons with disabilities	1	2
Welfare organizations	1	2

V28	<input type="checkbox"/>
V29	<input type="checkbox"/>
V30	<input type="checkbox"/>
V31	<input type="checkbox"/>
V32	<input type="checkbox"/>
V33	<input type="checkbox"/>
V34	<input type="checkbox"/>
V35	<input type="checkbox"/>
V36	<input type="checkbox"/>
V37	<input type="checkbox"/>
V38	<input type="checkbox"/>
V39	<input type="checkbox"/>
V40	<input type="checkbox"/>
V41	<input type="checkbox"/>
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V44	<input type="checkbox"/>
V45	<input type="checkbox"/>
V46	<input type="checkbox"/>
V47	<input type="checkbox"/>
V48	<input type="checkbox"/>
V49	<input type="checkbox"/>



12) According to you, how should income earned by citizens be distributed in the country?

Everybody should keep all the income that they earn	1
All income earned should go to the government who will then distribute it between all the citizens equally	2
Only a certain percentage, <u>based on different tax brackets</u> , of the income earned should go to the government who will then use it for the benefit of all the citizens	3
Only a <u>fixed percentage</u> of the income earned should go to the government who will then use it for the benefit of all the citizens	4
Specify what the fixed percentage should be, if last option chosen.	%

V50

V51

13) Assume that you have earned rental income and interest income. You are deciding whether you are going to show this income on your tax return and thereby be taxed on these amounts. Indicate how the following statements will influence your decision concerning reflecting this income on your tax return.

1. Reflect income;
2. Consider not reflecting income;
3. Will not reflect income.

A large proportion of taxes is used by the government for meaningless purposes	1	2	3
Income tax rate is too high	1	2	3
I do not understand why taxes are paid	1	2	3
The tax system is unfair	1	2	3
Benefits received from the government are far less than the amount of tax paid	1	2	3
Other people get away with not paying tax	1	2	3
The tax calculation is very complicated	1	2	3
Income tax rates are not the same for everybody	1	2	3
Government does not provide enough information about how they use taxpayers' money	1	2	3
Disagree with how the government is running the country	1	2	3

V52

V53

V54

V55

V56

V57

V58

V59

V60

V61



14) Please answer the following questions?

	Yes	No	Unsure
Did you hear or read about the 2010 National Budget which was announced in February 2010?	1	2	3
Do you know that you can contribute to the government's budget process by sending suggestions to the government via Facebook?	1	2	3
Do you think that the government overspends on its budget?	1	2	3
Are penalties charged if taxes are not paid?	1	2	3
Do you think that the South African Revenue Services can be trusted to do its work correctly and honestly?	1	2	3
Do you think that the South African Revenue Services can detect if a person tries to evade tax?	1	2	3
Do you think you receive any benefits from the government at the moment?	1	2	3
Do you think that every student at university should register for at least one tax module for degree purposes?	1	2	3
Would you like to obtain more information on taxation while studying at the university?	1	2	3

V62

V63

V64

V65

V66

V67

V68

V69

V70

15) List any other comments you have about taxes in South Africa.


**Thank you for completing the survey.  
We appreciate your assistance.**



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



## Informed consent for participation in an academic research study

### Department of Taxation

#### A COMPARATIVE STUDY OF SOUTH AFRICAN STUDENTS' PERCEPTIONS OF TAXATION

Research conducted by:

Ms. J. Friedrichs (95051572)  
Contact number: 012 420 4543

Dear Respondent

You are invited to participate in an academic research study conducted by Juliana Friedrichs, a Masters student from the Department of Taxation at the University of Pretoria.

The purpose of the study is to compare the perceptions about taxation of students who are currently studying tax as a subject at university to students who are not studying tax as a subject.

Please note the following:

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

Please sign the form to indicate that:

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

\_\_\_\_\_  
**Respondent's signature**

\_\_\_\_\_  
**Date**