

**TAX AND SOCIAL MEDIA: TAX COLLECTION MECHANISMS FOR INCOME  
GENERATED VIA SOCIAL MEDIA**

by

Bridget Masaukane Mogola

Student Number: 22940643

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Supervisor:

Mrs Juanita Dos Santos-Venter

Dr Karen Stark

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## ABBREVIATIONS AND ACRONYMS

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

BCE	Before Common Era
BEPS	Base Erosion and Profit Shifting
BIR	Bureau of Internal Revenue
CIT	Corporate Income Tax
CNY	Chinese Yuan Renminbi
COVID-19	Coronavirus
CSSN	Computer-Supported Social Network
DTC	Davis Tax Committee
EC	European Commission
EU	European Union
GBP	Great British Pound
G20	The Group of Twenty
HMT	Her Majesty's Treasury
ITA	Income Tax Act No. 58 of 1962
KPMG	Klynveld Peat Marwick Goerdeler
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay-As-You-Earn
PHP	Philippine Peso
PIT	Personal Income Tax
PWC	PriceWaterhouse Coopers
RDM	Research Data Management
RMC	Revenue Memorandum Circular
SA	South Africa
SARS	South African Revenue Service
SONA	State of the Nation Address
TAA	Tax Administration Act 28 of 2011
UK	United Kingdom
US	United States
USD	United States Dollar
VAT	Value-Added Tax

VAT Act	Value-Added Tax Act 58 of 1991
VDP	Voluntary Disclosure Programme
WHT	Withholding Tax
WWW	World Wide Worx
ZAR	South African Rand

# CHAPTER 1: INTRODUCTION

## 1.1 BACKGROUND AND RATIONALE FOR THE STUDY

Social media ranks as one of the most important internet applications, as the number of social media platforms and active users is growing exponentially (Aichner, Grünfelder, Maurer & Jegeni, 2021). Social media platforms are no longer solely used by individuals but also by companies to gain a competitive advantage in marketing and sales (Aichner *et al.*, 2021; Schivinski, Brzozowska-Woś, Stansbury, Satel, Montag & Pontes, 2020).

Instagram, YouTube, Twitter, Facebook, and LinkedIn are a few of the popular social media platforms currently booming on the internet (Schivinski *et al.*, 2020). The digital economy, to which social media is a primary contributor, refers to an economy that is based on digital computing technologies; it is often perceived as conducting business through markets based on the internet (Bukht & Heeks, 2017:4; Oponng-Tawiah, 2020:10).

The Coronavirus (Covid-19) pandemic, lockdown restrictions, and work-from-home mandates significantly increased social media usage and reliance (Prihatiningtias & Karo, 2021:138; Siddhartha & Michal, 2017). A direct result of this increased usage is that social media content creators have seen an intensified demand for their work, which inevitably led to a rise in their income - some of which earned millions from posting content online (Dizon, Lo & Yatco, 2020).

At age seven (in 2018), a child vlogger, Ryan Kaji of Ryan's World reached over 19 million viewers on YouTube. In 2020, with approximately 41.7 million subscribers and estimated pre-tax earnings of USD 29.5 million (United States Dollar) (ZAR [South African Rand] 492.1 million<sup>1</sup>), Ryan Kaji was considered the highest-paid YouTube star in the world (Berg & Brown, 2020; De Veirman, Hudders & Nelson, 2019:1).

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<sup>1</sup> All currency conversions in this dissertation were based on an average exchange rate as explained and provided in Appendix A

Given that income earned by social media content creators can be substantial, Dizon *et al.* (2020) argue that laws and regulations do not expressly cover the earnings from online activities. This issue leaves tax authorities with a system that is open to abuse and tax evasion.

An example of a social media content creator evading taxes is Chinese live streamer, Viya, who was fined CNY 1.34 billion (Chinese Yuan Renminbi) (ZAR 3.29 billion) in back taxes, late fees, and fines after concealing the personal income she earned from advertising goods on behalf of retailers (Liu, 2021; Shen, 2021; Yu & Baptista, 2021). According to these popular media sources, this incident prompted the Chinese tax authorities to clamp down on the e-commerce sector and implement more stringent rules on celebrities and live streamers earning income in this manner.

Cases of tax evasion amongst social media influencers are becoming more frequent. Swedish tax authorities fined millionaire YouTube gamer PewDiePie GBP 9 000 (Great British Pound) (ZAR 179 996) for excluding profits he earned from his production company from his 2013 tax return. In 2021, PewDiePie came under scrutiny again when he reportedly planned to migrate the operations of his company based in the United Kingdom (UK), PewDie UK Ltd, to Cyprus. This was considered to be a mechanism to evade taxes as the corporate tax rate in Cyprus is 12.5% compared to 19% in the UK (Jain, 2021; Rafly, 2021; Stokel-Walker, 2021).

Similar to Cyprus, Andorra has also noted an influx of French and Spanish YouTubers and eGamers since 2017. Andorra has traditionally been seen as a tax haven since the corporate tax and the maximum personal income tax (PIT) rate is 10%, and there is neither inheritance nor a real estate tax (Fonrouge, 2021). In contrast, the PIT rate can go up to a maximum of 45% in France and 47% in Spain (PriceWaterhouse Coopers [PWC], 2022). Although lower tax rates are more attractive, YouTubers and the Andorran Economy Minister argued that it is only one of many other benefits (Andorra Solutions, 2021; Fonrouge, 2021).

The Spanish tax authorities reacted to the migration of certain celebrities by announcing that they would use software programs and detailed data analysis to track wealthy individuals who have relocated to reduce or evade taxes (Pelaez-Fernandez, 2021). The list of celebrities who emigrated included Spain's most popular gamers and YouTubers, such as aLexBY11, Willyrex, Vegetta, The Grefg, Lolito, El Rubius and Staxx (Dunham, 2021; Wilkinson, 2021). As is evident from the aforementioned, tax evasion is becoming an ever-increasing problem.

Tax authorities of other countries have also had to re-look at mechanisms on how to deal with potential tax evasion in the same way Spain did. In the Philippines, the Bureau of Internal Revenue (BIR) issued a Revenue Memorandum Circular (RMC) (2021) which was aimed at reminding people to pay the correct taxes on income earned from using social media platforms like Facebook, Instagram, Twitter, YouTube, and TikTok (Villanueva, 2021). After the RMC was issued, several media outlets reported that the BIR also offered a PHP 1 million (Philippine Peso) (ZAR 299 256) reward to anyone who reports a social media influencer that may not be paying taxes (Abrea, 2021; Cordero, 2021; Fernandez, 2021).

However, it should be noted that intentional tax evasion is not the only reason why social media content creators do not declare their income to tax authorities. An exploratory study in Indonesia investigated the tax compliance of millennial influencers. The study found that taxpayers need to be educated about tax compliance and insufficient understanding of taxation was noted as the main reason for non-compliance (Prihatiningtias & Karo, 2021:137). Whether intentional or not, the issue of non-compliance needs to be addressed.

To address the changes in the digital economy and to curb non-compliance, countries need to adapt at a rapid pace (Victorova, Pokrovskaja & Yevstigneev, 2020). However, current research (Geringer, 2021; Haslehner, Kofler, Pantazatou & Rust, 2019; Victorova *et al.*, 2020) shows that taxation within the digital economy is not yet used as a sufficient mechanism, and is often undermined, within a given country.

South Africa (SA), like any other country, strives toward greater tax revenue collection. Non-compliance by taxpayers is one possible explanation for low revenue levels. To strive toward greater tax revenue, the SA government has instituted a variety of enforcement measures, which inter alia includes reprieves (amnesties and voluntary disclosure programmes [VDP]) to taxpayers who voluntarily disclose their previously undisclosed income (Dare, Jansen & du Plessis, 2018:1).

As a further mechanism, the South African Revenue Service (SARS) has turned to social media in order to curb tax evasion. In a recent case before the North Gauteng High Court, SARS obtained a preservation order against an individual and his companies as a result of images posted on social media of certain luxury vehicles; images which prompted SARS to refer the tax affairs of the individual and his companies to the Illicit Tax Unit (Commissioner for SARS v Hamiltonn Holdings [Pty] Ltd and Others).

The increased use and demand of social media have no doubt provided people with opportunities to earn some form of income, thereby improving the livelihood of many. Equally, the use and demand of social media have opened up revenue collection opportunities via taxes and tax authorities, such as SARS, need to investigate appropriate collection mechanisms to collect these taxes.

## **1.2 RESEARCH PROBLEM**

Social media platforms are now no longer only being used to communicate; there has also been a rise in users and content creators using such platforms to promote and conduct their businesses without paying taxes. However, many tax authorities are finding it difficult to regulate the digital economy, as some businesses intentionally evade taxes by hiding their income (Zhang, Nan, Huang & Lui, 2020).

This study is part of a broader research project that aims to delve deeper into the connection between taxation and social media, explore the challenges, opportunities, tax implications of social media earnings and determine if SA citizens are aware of the potential tax liabilities arising from the digital economy. The focus of this study is to explore possible tax collection

mechanisms that SARS could consider concerning income earned via social media platforms/content.

### **1.3 RESEARCH QUESTION**

The research question for the main research project is drafted as *What are the SA tax implications associated with income generation from social media platforms?*

For purposes of this study, the research question is narrowed down to: *Should SARS consider implementing specific tax collection mechanisms on income generated via social media?*

### **1.4 RESEARCH OBJECTIVES**

The research objectives for this study can be summarised as follows:

- To determine if taxes arising from income earned via social media platforms are at risk of not being properly paid over to SARS; and
- To explore possible mechanisms that SARS could adopt to safeguard the collection of taxes on income generated via social media.

Further research objectives that will be explored as part of the research project are as follows:

- To evaluate the perceptions of individuals regarding when activities from social media content creators will be regarded as a trade and the different deductions available; and
- To evaluate the perceptions of individuals regarding whether income earned by social media content creators should be included in gross income.

### **1.5 STRUCTURE OF THE MINI-DISSERTATION**

A brief description of the proposed chapter outline of this mini-dissertation is described in the sub-sections below.

### **1.5.1 Chapter 1: Introduction**

In this chapter, the topic was introduced, and a broad overview of the areas of concern was provided. Furthermore, the research question and relevant research objectives were stated and the chapters of this study were outlined.

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

Chapter 2 provides an overview of the tax system, and how taxes are levied within the digital economy - both internationally and locally. In addition, an overview of the different mechanisms to collect taxes is provided.

### **1.5.3 Chapter 3: Research design and methodology**

Chapter 3 is centred around the research design and methodology of the study. Initially, the chapter delves deeper into the chosen strategy to address the research question, also known as the research design. This chapter provides a detailed discussion of the research methods used, as well as the data collection and analysis process.

### **1.5.4 Chapter 4: Data analysis and presentation of results**

In this chapter, various sources, including survey results, are analysed to determine whether taxpayers are aware of the tax implications concerning income earned from social media. The chapter further explores the possible mechanism SARS could adopt to safeguard the collection of taxes on income generated via social media.

### **1.5.5 Chapter 5: Conclusion**

This is the last chapter in which a conclusion is drawn on whether there is a risk that taxes arising from social media would not be correctly paid. Additionally, the chapter assesses whether specific tax collection mechanisms should be adopted for income generated from social media platforms.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 INTRODUCTION**

The role of government is to provide social and economic security to its citizens. To fulfil its role, the government is required to generate revenue (Slaughter, 2017). This revenue is generated primarily from taxes together with local and foreign borrowings (Corporate Finance Institute, 2022). As in many countries, in SA, taxes (particularly, income taxes) are the main source of revenue for the government (SARS, Not dated). Due to the reliance of governments on tax revenue, an effective tax system is of great importance.

In his State of the Nation Address (SONA) in February 2020, President Cyril Ramaphosa indicated that in order to stabilise public finance, it is important that the government makes efforts to reduce its costs, effectively prioritise resources and improve the efficiency of the tax systems (SONA, 2020).

### **2.2 TAX SYSTEM**

Central to a tax system is the raising of revenue to fund government expenditure (Igbokwe, 2013). As a result, countries around the world continuously adapt their tax systems to improve their overall performances in accordance with changing international tax policies and practices (Ndofula, 2014:1).

According to Wessels (2020), a tax system has the following fundamental components or parts:

- The legislator or policy maker;
- Taxpayers;
- The tax authority or tax administration; and
- Third parties, such as banks, employers, and platforms in the sharing economy.

In addition to the above fundamental components making up a tax system, Wessels (2020) further notes that a tax system is an open system that incorporates other sub-systems,

namely political, economic, and legal sub-systems. Consequently, this subjects the tax system to environmental influences, thus making it inherently complex. These complexities require the government to ensure that when adjusting a tax system, the long-term fiscal soundness of tax policies is guaranteed and the implementation by the tax administrators will result in the tax revenue generated being paid into the government purse (Magai, 2015).

The effectiveness of tax systems relies, inter alia, on high levels of voluntary compliance (The Organisation for Economic Co-operation and Development [OECD], 2021:5). One of the mechanisms utilised by SARS to encourage voluntary compliance in the interest of enhanced tax compliance, good management of the tax system and the best use of SARS resources is the VDP. The VDP aims to encourage taxpayers to regularise their tax affairs voluntarily and to avoid the imposition of administrative and understatement penalties (SARS, 2021a).

According to Magai (2015), the success of a tax system is dependent upon simplified and clear tax laws, certainty and clarity pertaining to the amount of tax payable together with the form and manner of payment of that tax. Simplified and clear tax laws together with comprehensive tax education will promote voluntary compliance, which will result in maximised revenue collection for national growth and development.

Therefore, the impact that the digital economy has had on the tax system (and its requirements) needs to be explored from a SA perspective in relation to global developments.

## **2.3 THE IMPACT OF THE DIGITAL ECONOMY ON THE TAX SYSTEM**

The digital economy has led to the average taxpayer now having access to other income streams, where most transactions are virtual. Even though these transactions take place in the digital economy, they might still have a taxation effect on taxpayers, and they need the necessary taxation knowledge to be able to account for these transactions on their tax returns (Bornman & Wassermann, 2018:3).

In another study, Bornman and Wassermann (2020) suggested that the level of tax knowledge or awareness of individual taxpayers poses certain risks to the individual's voluntary tax compliance. These risks include individuals regarding income earned from social media platforms as private and thus not subject to tax or individual's level of knowledge and understanding of the nature of the income generated and how it should be disclosed or reported.

These risks increase the 'tax gap', which is defined as the difference between the actual amount of taxes paid or collected and what taxpayers owe (George, 2019). It is, therefore, important for the tax authority of a country to consider ways in which the collection of taxes on such revenue is safeguarded.

However, before delving into mechanisms to collect taxes, it is important to first understand the digital tax landscape in which social media content creators operate, both globally as well as in SA.

## **2.4 GLOBAL APPROACHES TO TAXING THE DIGITAL ECONOMY**

On 21 March 2018, the European Commission (EC) published a Council Directive, which detailed a proposed mechanism which would ensure the improvement of the present corporate tax rules concerning the taxation of the digital economy. This proposal referred to digital service taxes as a solution to the challenges of taxing the digital economy (EC, 2018:1). Furthermore, Geringer (2021); Jalan, Rao and Ravishankar (2021) and Horak (2020) note that the European Union (EU) has proposed unilateral tax measures that, at a high level, can be categorised as digital service taxes and digital advertising taxes.

Moreover, Geringer (2021) explains that revenues derived through the provision of social media platforms, search engines, and online marketplaces would be taxed under digital services taxes. In this regard, income earned from online advertising, subscription fees or

sales of data fall under the ambit of provision of social media platforms, as proposed by the EU's unilateral tax measures.

France, a member state of the EU, has implemented tax policies that resemble these unilateral tax measures, in an attempt to combat the gap between taxes and their increasing digital economies (Geringer, 2021; Horak, 2020; Jalan *et al.*, 2021). Digital service taxes were enacted as law in France on 24 July 2019. Resultantly, multinational companies are taxed at a rate of 3% on turnover earned over EUR 750 million (Euro) worldwide and EUR 25 million from their France-based users for digital services (Légifrance, 2019).

In the UK, the government has emphasised that they are committed to taking part in addressing the challenges of taxing the digital economy by implementing a digital service tax similar to the EU's proposal until alternative global tax mechanisms are in place and deemed satisfactory (Her Majesty's Treasury [HMT], 2020a:92). In the 2018 Budget, Her Majesty's Treasury (HMT) placed their focus on large UK multinational entities by implementing a tax of 2% on revenue derived from digital services (HMT, 2018:41).

Furthermore, as explained in the UK's 2020 Budget, these multinational entities would be liable for the digital service tax when the worldwide digital service revenue of the multinational group exceeds GBP 500 million (ZAR 9.99 billion) and the UK digital service revenue of the group exceeds GBP 25 million (ZAR 499.8 million). From the perspective of the UK Finance Bill, digital service activities relate to providing users access to social media services, online markets or internet search engines (HMT, 2020b:96; Makibela, 2020:16-21).

Certain African countries have also taken steps in adapting to the digital tax landscape by proposing similar digital service taxes. For example, Kenya introduced a digital service tax of 1.5%, effective from 1 January 2021, for specific services provided through the digital marketplace (Jalan *et al.*, 2021). Zimbabwe implemented a digital service tax at a rate of 5% on revenue derived through online platforms (Jalan *et al.*, 2021). Other African countries, such as Benin, Zambia and Uganda, have further proceeded to place social media taxes on

their users for merely having access to social media platforms (Kasadha, Alli, Basuuta & Mpoza, 2019:1-2).

Notably documented tax evasion (as noted in Section 1.1) occurred in China, Sweden, and Spain, where legislation around taxing the digital economy was found to be lacking. The Klynveld Peat Marwick Goerdeler (KPMG) LLP (2020:27) reported that Sweden, in conjunction with Finland and Denmark, released a joint statement indicating that they would wait for a global solution regarding taxation of the digital economy.

The KPMG LLP (2020:23) further reported that the Chinese government had implemented Value-Added Tax (VAT) on e-commerce transactions but was still going to perform studies to determine if a digital service tax should be implemented. The government viewed the implementation of VAT on e-commerce as a progressive step toward tax reform and indicated that the next steps would include, amongst others, improvement of its tax registration system, continued participation in the International Taxation Forum, and adoption of unilateral measures (Terada-Hagiwara, Gonzales & Wang, 2019:1).

Spain implemented a digital service tax of 3% on digital intermediation services, digital advertising services, and the sale of user data generated through a digital interface (KPMG LLP, 2020:13). However, this was merely a short-term solution to mediate the under-taxation of digital platforms until the OECD reaches consensus on multilateral tax reform (Lampreave, 2020:1).

The above highlights international tax concerns surrounding the digital economy. Thus, it must be determined what SA has done to address this problem.

## **2.5 SA'S APPROACH TO TAXING THE DIGITAL ECONOMY IN LIGHT OF INTERNATIONAL DEVELOPMENTS**

SA is working together with 140 other countries in the OECD/The Group of Twenty (G20) Inclusive Framework on Base Erosion and Profit Shifting (BEPS). Although SA is not a

member of the OECD, in 2004, it was awarded observer status (Olivier & Honiball, 2011). Despite not being a member, SA is a major powerhouse in Africa, with large investments in other African countries. Therefore, SA must take the lead in the BEPS debates in Africa (Davis Tax Committee [DTC], 2015a:18). SA as a member of the OECD BEPS committee, champions the cause of other African countries (Oguttu, 2016a:20).

In the context of the digital economy, the OECD issued a 15-point Action Plan, of which Action 1 is addressing the tax challenges in the digital economy. According to the OECD (2015:97-117), one of the biggest challenges facing policymakers is the ability of a business to have a significant presence and not be liable for tax within a specific jurisdiction. The digital infrastructure allows businesses to perform significant activities such as sales, marketing, and customer support, remotely. This, in turn, allows such businesses to operate across multiple jurisdictions and makes it difficult to determine which country ultimately has taxing rights.

The OECD (2015:97-117) Action 1 report also noted possible options to address tax challenges of the digital economy, including:

- Developing a nexus based on the concept of significant economic presence;
- Determining the income attributable to the significant economic presence;
- Introducing a withholding tax (WHT) on digital transactions; and
- Introducing an equalisation levy.

In the 2013 Budget Speech, former Finance Minister Nhlanhla Nene announced that “A tax review will be initiated this year to assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development, and fiscal sustainability, amongst other things” (Gordan, 2013:21). Following this, the Davis Tax Committee (DTC) was formed to perform these functions, and from an international perspective, it also has the role of addressing concerns raised by the OECD (DTC, 2015a:1).

According to the DTC (2015b), the areas of concern regarding tax in the digital economy that were noted by the OECD were discussed, and specific recommendations were

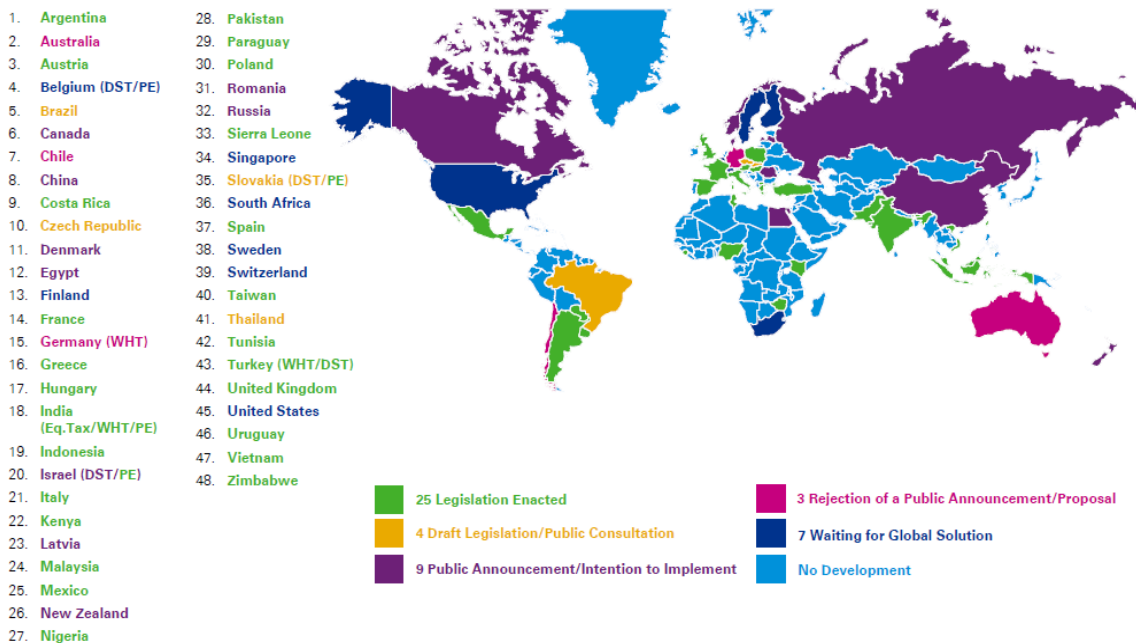
suggested for both direct and indirect taxes for SA to be in line with the OECD. These recommendations in respect of direct taxes included, but are not limited to:

- Expand the source rules in section 9 of the ITA to include the supply of digital goods and services derived from a source in SA;
- New source rules for non-residents who supply goods or services via e-commerce to SA customers;
- Isolate and focus on foreign multinationals with a view of getting them to submit tax returns;
- Enact rules that require non-residents to submit returns regardless of whether they have a permanent establishment in SA; and
- Introduce a self-assessment system for non-residents (DTC, 2015b:3).

Evidently, some countries have taken strides to tax income earned on digital or electronic platforms in the form of digital service tax or WHT. However, by 2021, SA was one of seven countries that were yet to implement or propose any legislation to tax such income, as depicted in Figure 1 below (KPMG LLP, 2020:5).

## Direct taxes

### Direct Taxes (e.g., DST/WHT/Digital PE)



**Figure 1: Taxation of the digitised economy - Direct taxes (last updated in January 2021)**

(Source: KPMG LLP, 2020)

The KPMG report showed SA as ‘Waiting for Global Solution’ and noted that in June 2020, the National Treasury informed Parliament that SA has opted to wait for multilateral consensus and solutions regarding tax challenges that may arise from digitalisation in SA (KPMG LLP, 2020:46).

Figure 2 below shows that SA has enacted legislation with regards to indirect taxes, including the introduction of ‘electronic services’ into section 1 of the VAT Act (SA, 1991) (hereafter the ‘VAT Act’) and the accompanying rules relating to the VAT treatment thereof (KPMG LLP, 2020:64). This legislature is in line with recommendations made in respect of indirect taxes, namely (DTC, 2015b:7):

- Place of supply rules should be introduced;
- ‘Telecommunication services’ should be defined;
- Guidelines should accompany regulations and should be updated regularly to ensure they are up-to-date with technological changes; and
- Provide clarity as to whether ‘electronic services’ include the supply of online advertising.

#### Indirect taxes (e.g. VAT, GST)

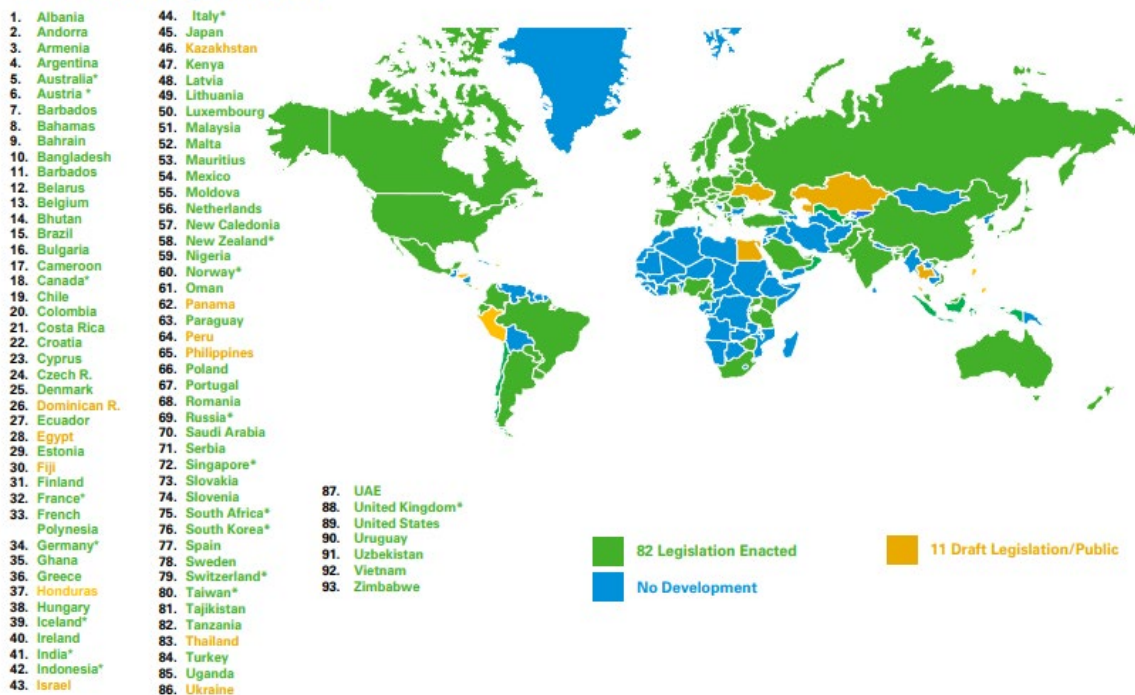


Figure 2: Taxation of the digitised economy - Indirect taxes (last updated in January 2021)

(Source: KPMG LLP, 2020)

SA was one of the leading countries to introduce VAT on the supply of electronic services, and many countries have followed suit (Horak, 2020). However, there have been no further developments in changing and enacting legislation around taxing digital or electronic services through direct tax. As noted above, one of the recommendations for indirect taxes was that ‘telecommunication services’ should be defined. KPMG LLP (2020:109) states that the introduction of the definition of “telecommunications” has only been noted in draft regulations and has not yet been enacted.

Horak (2020) suggests that SA should consider following the example of the EU and African countries utilising alternative avenues to collect taxes derived from the digital economy. Unfortunately, as is apparent from the KPMG report, such avenues are yet to be explored and regulations arising from such explorations are yet to be enacted.

Now that the tax regulations within the digital economy have been evaluated within a SA context, it can be determined if SA tax laws make sufficient provisions to tax income from social media, as well as which collection mechanism is most appropriate. The following sections delve deeper into the concepts of social media and general tax revenue collection from a global perspective. Thereafter, a thorough investigation of collection mechanisms from a SA perspective is presented.

## **2.6 BACKGROUND ON SOCIAL MEDIA**

The term social media was introduced in 1994 when commercial internet platforms were newly developed and launched. This term (social media) is generally used to cover the broad category of online platforms that include social networking, blogs, video sharing, social gaming and photo sharing (Aichner *et al.*, 2021).

According to Aichner *et al.* (2021:218), from 1994, the term social media was given several different meanings by researchers, with the first formal definition introduced in 1996 as “the use of computer-supported social networks [CSSNs]”. They further note that the varying

definitions were largely influenced by the mixed perceptions and understanding of what social media entailed and what it represented.

In 2010, Olanrewaju, Hossain, Whiteside and Mercieca (2020) defined the term social media as “a group of internet-based applications that build on the ideological and technological foundation of Web 2.0 and allow the creation and exchange of user-generated content”. In 2019, the term social media was defined by Appel, Grewal, Hadi and Stephen (2019) as “the collection of software-based digital technologies usually presented as applications and websites that provide users with digital environment in which they can send and receive digital content or information over some type of online social network”. These definitions support Aichner *et al.*'s (2021) notion that the term social media is an umbrella term used in grouping different online platforms.

Taking the practicality of social media into consideration, Appel *et al.* (2019) note its definition must regard social media not merely as digital media and its technologies but also as a digital place in which people spend significant parts of their lives. They also argue that since social media encompasses everything from content to behaviours, people, organisations and/or institutions and information that interacts in an interconnected, networked digital environment, a broader definition must be given.

Accordingly, Aichner *et al.* (2021), performed a systematic literature review analysing the definition assigned to the term social media between 1994 and 2019, intending to identify the major differences and commonalities. The analysis revealed that in all the definitions, the underlying common component is that social media is an enabler for human interaction and a means to connect with other users. This could be attributed to the fact that this is exactly what the majority of social media users indicated as the main or one of the reasons they use social media.

As noted in the background of this study, movement restrictions (lockdowns) implemented by governments around the world to curb the spread of the Covid-19 pandemic forced people to physically stay away from each other; thus, social media became a tool that people

used to stay connected while being physically apart. Ornico, in conjunction with World Wide Worx (WWW) (2021) conducted a study on the SA social media landscape. According to their findings, the number of people using the internet grew worldwide by 7.3% in 2021 resulting in a total number of 4.66 billion internet users. Additionally, the number of people using social media grew by 13% (490 million users) resulting in a total number of 4.2 billion social media users (Ornico & WWW, 2021).

From a SA perspective, the study further showed that the number of internet users grew by 4.5% representing an increase of 1.7 million to a total number of 38.2 million internet users in January 2021. Similarly, social media users also grew by 14% - an increase of 3 million users, resulting in a total number of 25 million social media users (BusinessTech, 2021; Ornico & WWW, 2021).

The Ornico and WWW (2021) study further revealed that the pandemic fast-tracked digital transformation since more SA citizens became accustomed to using digital channels to buy goods and services. This was evident from the increase in e-commerce sales by 66% in 2021. Clearly, the digital economy is indeed growing at a fast pace.

## **2.7 TAX REVENUE COLLECTION**

As the largest source of revenue for governments, taxes have an essential role in enabling governments to fulfil their drive for national economic development. Therefore, for governments, the collection of sufficient revenue enables the expansion of long-term policies and programs as well as faster and enhanced execution (World Bank, Not dated).

Although the government may be entitled to impose taxes through the enactment of legislation, due to the tax gap, the government may not always be able to collect the taxes that are due (Olivier & Honiball, 2011). To ensure success in the collection of taxes, Magai (2015) noted that the administration of taxes should be made simple, economical, and convenient for tax administrators to enforce legislation and for the taxpayer to comply.

Based on the study conducted by Arif and Rawat (2018), the ability of a government to collect tax revenue is dependent upon the economic structure, tax management capabilities of the government, political system, and the quality of data. The study further notes that in addition to the factors mentioned, corruption and the poor quality of governance equally impact the collection of tax revenues, especially in developing countries.

### **2.7.1 Tax collection in ancient civilization**

In ancient Mesopotamia, households were required to pay taxes to the authorities in the form of livestock (for example cows or sheep) or labour service by men that entailed harvesting the government's barley fields, digging the silt out of canals or military service. Traders were required to pay taxes in the form of duty fees, tolls and other forms of taxes in respect of goods transported from one region to another. These taxes were payable to the authorities throughout the year. To avoid some of the taxes imposed, merchants usually resorted to smuggling the transported goods (Almanac, 2002; Zanten, 2016).

Almanac (2002) notes that in the first dynasty of Egypt's Old Kingdom (3000-2800 BCE), taxes were collected at least annually by the pharaoh during a royal tour. Furthermore, the taxes were in a form of levies on cattle, grain, and various kinds of human labour. It is also noted that ad hoc taxes were also imposed whenever additional revenue was required by the pharaoh to fund, for example, military campaigns.

During the ancient Roman Empire, the taxes imposed and collected differed from province to province. The governors of each province appointed private individuals to collect taxes on their behalf (Almanac, 2002; Dayan, 2017). The appointment of the private individuals was in terms of an agency relationship with the government/governors. The agency relationship provided for different terms such as the sharing of tax collected at fixed proportions between the private individual collector and the government (this was referred to as the sharing contract) or upfront payment of a negotiated amount, calculated on the value of the tax base by the private individual collector to the government; alternatively, the government paid the private individual collector a specified fixed wage for his labour (Zanten,

2016). To this end, the taxes collected by the private individuals were usually over and above the official rate and they kept the difference for themselves (Almanac, 2002; Dayan, 2017).

## **2.7.2 Tax collection in modern civilisation**

In modern civilization, taxes are collected by government-owned agencies and not private individuals, as was done in some of the ancient periods. Furthermore, taxes are determined based on the monetary value of the benefit and payable in money instead of goods or services (Britannica, Not dated).

Furthermore, taxes are currently collected through two basic means, namely assessment (both self-assessment or assessment generated by tax authority) followed by payment and through the deduction of tax at source (Olivier & Honiball, 2011). These two methods of tax collection are discussed below.

### ***2.7.2.1 Tax collection by way of an assessment***

There are two methods for the collection of taxes by assessment, namely administrative assessment and self-assessment. Administrative assessment is the traditional method adopted by most governments for assessing income tax. This method places the onus of determining the amount of tax payable on the tax administration or authorities through the examination of tax returns and financial statements. After the determination of the tax payable, the taxpayer is notified of the liability, usually by way of a notice of assessment and is then required to make payment (Okello, 2014; Terrefe, 2016). According to Okello (2014), the administrative assessment system as a form of tax collection mechanism is costly to administer and results in low levels of tax revenue collection due to the limited focus on high revenue risk. Furthermore, they note that the examination by the tax administration is usually found to be ineffective due to resource constraints.

On the other hand, the self-assessment method of collection places the responsibility for the determination and reporting of the amount of tax payable to the taxpayer without the involvement of a tax official (Okello, 2014; Prasetyarini, Rusmana & Putri, 2019). The

amount of tax due is generally paid at the point of reporting. Based on the assumption that all information reported by the taxpayer is correct, the tax administrations or authorities would accept the tax returns as submitted. The self-assessment tax collection method is considered to be an effective way of promoting voluntary tax compliance, reducing tax administration or authorities' burden of assessing tax returns. Furthermore, the self-assessment method increases tax collection efficiency through the reduction of tax collection costs (Okello, 2014; Terrefe, 2016).

The first implementation of the self-assessment tax system was in 1910 by Canada and the United States (US). This was followed by Japan in 1947 and adopted by other countries such as Sri Lanka (1972), Pakistan (1979), Bangladesh (1981), Indonesia (1984), Australia (1986-87), Ireland (1988), New Zealand (1988) and the UK in 1996-97 (Okello, 2014; Terrefe, 2016). The African countries that have also implemented the self-assessment tax system include Botswana, Ghana, Lesotho, Kenya, Malawi, and Nigeria, to name a few (Okello, 2014).

As noted above, the collection of taxes by way of self-assessment is largely dependent upon the taxpayer's voluntary compliance. To this end, Deyganto (2018) notes that several factors have an impact on the taxpayer's voluntary compliance and such factors include the taxpayer's demographics, tax knowledge and awareness, perceptions about the tax system, the simplicity of taxation and economic aspects such as the perception of government spending.

The self-assessment method of collection is applied by many countries in respect of VAT. This is because the general VAT systems and procedures were built around self-assessment and thus it is only feasible as a self-assessed tax (Okello, 2014). Terrefe (2016) also notes that although the self-assessment tax collection method is favourable, it is largely dependent on the following conditions which are deemed to be essential for its success:

- Tax knowledge of the taxpayers with clear and simple tax laws;
- Good service to taxpayers – hence, the tax administrations or authorities must be service-oriented toward taxpayers;

- Simple filing and payment procedures such as tax forms must be simple, with clear instructions on how to complete them;
- Effective collection enforcement such as prompt detection of taxpayers failing to file tax returns and/or pay the tax due and taking swift measures to improve tax compliance;
- Selective risk-based audit;
- Fairly applied interest and penalties; and
- Fair and timely dispute resolution.

### ***2.7.2.2 Tax collection through the deduction of the tax at the source***

The method of collecting taxes by deduction of tax at the source entails a process in which the person making a payment deducts income tax from the amount paid and accounts for it to the tax administration or authorities, such as WHT (Oguttu, 2014). In essence, the WHT is collected through the appointment of an agent who is obliged to withhold and pay a certain percentage of tax from the amount to be paid over to the tax administration or authority (Olivier & Honiball, 2011). This method is also regarded as an advance payment of the tax that is deducted on specific payments.

Similar to the self-assessment method of collection, tax withholding is considered to be an effective tool in the collection of taxes as it encourages voluntary compliance, results in the reduction of collection costs and provides a steady flow of revenue for the government throughout the tax year. Furthermore, it is also an effective mechanism for the timely payment of tax revenue, since it is generally paid to the revenue authority at the point when payment is made to the taxpayer (BIR, Not dated).

Tax withholding has also been adopted by tax administration or authorities as a mechanism to collect revenue from persons who are residents of other countries (herein referred to as non-residents). This is a result of the difficulties encountered by tax administrations or authorities in collecting income tax on the income earned by non-residents from in-country sources (Oguttu, 2014; Olivier & Honiball, 2011).

### **2.7.3 Tax collection in SA**

SARS is the SA tax collecting authority that was formed in terms of the South African Revenue Service Act (SA, 1997) (hereafter the 'SARS Act'). In terms of the SARS Act, SARS must ensure that tax revenue is collected effectively and efficiently through optimal compliance with tax legislation (National Treasury & SARS, 2022).

Although the Covid-19 pandemic sparked the increase in social media and the digital economy at large, the government relief packages aimed at addressing the economic impact of Covid-19 have resulted in a substantial increase in government debt while tax revenue collections declined (BusinessTech, 2022). To this end, SARS has developed key strategies which it intends to implement over the coming years. One of the strategies includes identifying new revenue opportunities and increasing revenue collection (BusinessTech, 2022; SARS, 2022d;).

Based on the 2021 Tax Statistics report published by SARS and the National Treasury, the tax revenue collected in respect of the financial year ending 31 March 2021 amounted to R1 249.7 billion. The largest contributors to the tax revenue include PIT, accounting for circa 39.1%, followed by VAT at 26.5% and Corporate Income Tax (CIT) at 16.4% (National Treasury & SARS, 2022).

#### **2.7.3.1 Collection of PIT**

PIT is normal income tax levied on individuals' and trusts' taxable income in relation to a specific year of assessment. As noted above, it is the largest source of tax revenue. For PIT, progressive marginal tax rates are applied based on the income amount and the maximum marginal tax rate is 45%. For the 2020 tax year, salaries, wages and other remuneration amounted to 76.3% of the taxable income. In terms of the 2021 Tax Statistics report, the PIT was collected through four different methods:

- Employees' tax, also known as Pay-As-You-Earn (PAYE): This is normal income tax that is deducted by an employer from the remuneration paid or payable to an employee. By its nature, it is tax deducted at source as a form of WHT;

- Provisional tax payment: Provisional tax is not a separate tax from normal income tax, but rather a method through which the payment of tax liability is spread over the relevant year of assessment. This applies to the assessment method of collection and is considered to be a way in which individual taxpayers pay their income tax liability in advance;
- Assessed tax which is paid on final assessment: This applies the assessment method as individual taxpayers submit their return for the tax year and SARS assesses the submission and issues the notice of assessment against which the taxpayer is required to make payment; and
- WHT on disposal of immovable property by a non-resident: This applies when a person (resident or non-resident) (herein referred to as the purchaser) purchases an immovable property situated in SA from a non-resident. To this end, the purchaser is required to withhold an amount of tax from the amount payable to the non-resident. (Oguttu, 2014).

### **2.7.3.2 Collection of VAT**

VAT is an indirect tax levied on the value added in the production of goods and services during different stages and is the most used indirect tax system in the world (Schneider, 2000). SA operates a destination-based VAT tax system in terms of which VAT is only payable on goods and services consumed in SA, including imported goods and services (National Treasury & SARS, 2022). In terms of the VAT legislation, a person that carries on an enterprise is required to register as a VAT vendor and then charge VAT on goods and services supplied. The method of charging, collecting, and paying VAT to SARS is a self-assessment system, as the vendors determine their VAT liability or refund (National Treasury & SARS, 2022).

### **2.7.3.3 Collection of CIT**

CIT is a normal income tax levied on the taxable income of companies as well as close corporations. This tax is collected through the assessment method of collection via the provisional tax payments system. As discussed in Section 2.7.3.1, the provisional tax payment system requires taxpayers to provide for their final tax liability through the payment of tax liability over the year of assessment (National Treasury & SARS, 2022).

### **2.7.3.4 Other collection mechanisms**

Currently, SA levies the following WHTs to preserve the tax base and ensure the collection of taxes (Oguttu, 2014):

- Dividends WHT: A tax imposed on a shareholder who is a beneficial owner in respect of a dividend paid by any company, excluding headquarter companies;
- WHT on foreign entertainers and sportspersons: A final tax on the payment of any amount by a resident to a non-resident entertainer or sportsperson for an activity that the entertainer or sportsperson performed in SA;
- WHT on royalties: A final tax on the payment of an amount of any royalty to or for the benefit of any non-resident provided that such amount is deemed to be received by or accrued to that non-resident from a SA source; and
- WHT on interest: A final tax on the payment of an amount of interest to or for the benefit of any non-resident provided that such amount is deemed to be received by or accrued to that non-resident from a SA source.

## **2.8 CONCLUSION**

Since taxes are the primary contributor to the SA government's revenue required for the fulfilment of the government's responsibilities towards its citizens, SARS is under enormous pressure to collect more revenue. The rapid advancement of the digital economy provides an opportunity for the expansion of the tax base as more people earn income through social media platforms. This, therefore, makes the digital economy an area in which SARS can consider employing its new revenue opportunity strategy and increasing tax collection.

In considering the appropriate method to collect the taxes, such as assessment by the tax authority (which places the onus on determining the amount of tax payable on the tax authority and is costly to administer), self-assessment or WHT (which is largely dependent on the voluntary compliance of the taxpayer since the taxpayer determines the amount of taxable payable), regard must be had for the capabilities of the government in managing the tax and structure of the economy, particularly the digital economy). Therefore, the purpose of this study is to explore potential methods that can be employed to collect taxes arising

from income earned from social media platforms and thus generate more revenue for the government.

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

### **3.1 INTRODUCTION**

Chapter 2 outlined the global trends concerning the taxing of the digital economy and the fact that SA does not currently have a specific taxing mechanism for transactions within the digital economy except for VAT. Furthermore, the different tax collection methodologies were discussed, highlighting the strengths and weaknesses of each.

The objective of this study is to evaluate whether taxes arising from income earned via social media platforms are at risk of not being properly paid to SARS, as well as to explore possible mechanisms that could be adopted by SARS in order to safeguard the collection of these taxes. This chapter explains the research design and methodology employed in addressing the research question and objectives outlined in Chapter 1.

### **3.2 RESEARCH DESIGN**

The purpose of a research design is to outline the processes adopted by a researcher in addressing the research objectives (McCombes, 2021). Pidduck (2019:205) notes that historically, the traditional forms of research methodologies applied in legal research have been the basis of research in the field of taxation.

The traditional forms of research methods include i) qualitative research, which is a form of research undertaken by the researcher to gain an in-depth understanding of the research problem, and ii) quantitative research, which is concerned with the analysis of numerical data which the researcher uses to establish patterns and averages (McCombes, 2021). The approach taken for purposes of this study constitutes a quantitative research methodology.

As the aim of this study is to evaluate the perceptions of individuals regarding the possible mechanisms that SARS could adopt to collect tax on social media earnings, the survey research methods (consisting of descriptive and exploratory research) were considered. Atmowardoyo (2018:197) describes a descriptive research method as a research method that “is used to describe the existing phenomena as accurately as possible”. Whereas the

explorative research method per definition is concerned with the investigation of research questions which have not been comprehensively researched (George, 2022).

Although tax research has been conducted in the past, it did not specifically focus on income earned by taxpayers in the social media arena. Furthermore, it has not yet been considered whether specific tax collection mechanisms should be implemented for income generated through social media. As a result, exploratory and descriptive research methodologies will be applied in addressing the research objectives.

### **3.3 DATA COLLECTED**

The data collected consists of survey data, documents in the form of scholarly articles from academic journals in relevant disciplines; media reports on the topic; legislation such as the Income Tax Act (SA, 1962) (hereafter the 'ITA'), the Tax Administration Act (SA, 2011) (hereafter the 'TAA') and the VAT Act, publications by SARS, professional bodies and firms in the Accounting and Tax environment. This data is divided into two categories.

The first is primary data, which refers to data collected by the researcher (Gupta, 2021). This study will consist of the data from the questionnaire. Research questionnaires are considered one of the most popular methods (Young, 2015) to collect data and consist of a set of questions that a group of people are required to answer (Subudhi & Mishra, 2019:53). The second category is secondary data, which refers to the data already available (Gupta, 2021). This study will consist of data from academic journals, scholarly articles, media reports and other publications.

Firstly, as part of the literature review, secondary data was accessed using online databases as well as other sources. An analysis was conducted to identify the legislative implications and general revenue collection mechanisms. Overall, the data analysis was guided by the research question and objectives which were explained in Sections 1.3 and 1.4.

The study further used an online survey as a data collection technique for the collection of primary data. The collection instrument used was a questionnaire (refer to Appendix B) which, according to Saunders, Lewis and Thornhill (2016:166), is ideal for descriptive and exploratory studies as it allows the collection of large amounts of data economically.

The data from the questionnaire were collected utilising a cross-sectional study. A cross-sectional study constitutes the collection of data at a single point in time from several individuals (Subudhi & Mishra, 2019:39; Thomas, 2021). The collection of first-hand data from responses to the online questionnaire was at a single point in time when the online questionnaire was distributed, and the respondents completed the questionnaire.

### **3.4 DATA ANALYSIS**

The data analysis was guided by the research question and objectives, as explained in Sections 1.3 and 1.4. The analysis approaches applied in analysing the primary and secondary data are discussed below.

#### **3.4.1 Primary data analysis**

As noted above, primary data consist of the responses received from the online survey. The survey data, such as responses received, were extracted into the Statistical Package for the Social Sciences program for analysis. Based on the design of the questionnaire (discussed in detail in Section 3.5 below), respondents were not obliged to answer every question, as a result, the data was analysed based on the number of respondents that answered a particular question.

For purposes of this study, responses to 14 close-ended questions (Q2, Q3, Q4, Q5, Q8, Q9, Q10, Q11, Q12, Q13, Q16, Q17, Q18 and Q19) and four open-ended questions (Q16\_2, Q17\_4, Q18\_3 and Q19\_4) of the questionnaire were considered. The closed-ended questions were analysed quantitatively by taking the number of responses to each option as a percentage of the total number of respondents who answered the question.

To analyse the open-ended questions, the deductive and inductive data analysis approaches were considered. According to a study conducted by Saylor Academy (2012), the deductive approach refers to an approach to research whereby the researcher first establishes a theory and then collects data from which the established theories are tested. The inductive approach refers to an approach to research whereby the researcher starts by collecting data that is relevant to the research topic, then assesses the data collected to identify patterns from which a theory is formed. As this study is explorative, the inductive approach was considered appropriate and was used to analyse the open-ended questions.

### **3.4.2 Secondary data analysis**

The analysis of the secondary data included an analysis of the legislation, academic and journal articles, professional bodies and firms in the Accounting and Tax environment's publications, as well as general commentary on social media to obtain relevant tax principles about taxation - including the payment and collection of taxes. These principles were then applied to determine the amount of taxes payable in respect of income earned from social media alongside the collection mechanisms employable.

## **3.5 QUESTIONNAIRE DESIGN**

This section aims to justify the questions posed and make the necessary links to the respective objectives as listed in Section 1.4. The questionnaire is a self-completion online questionnaire that constituted open- and closed-ended questions.

A self-completion questionnaire is a questionnaire that is completed by the respondent in the absence of the researcher. This form of questionnaire is considered to be convenient for the respondent as it need not be completed immediately and reduces research bias, as the researcher does not have direct contact with the respondents (Formplus, 2022).

Furthermore, the administration of online self-completion questionnaires is considered to be easy and faster, as the researcher can reach respondents in other geographical places without travelling and equally distribute to several people simultaneously (Wright, 2017).

Since the population for this study consisted of social media users, using the online self-completion questionnaire that was posted on social media platforms was a convenient way of reaching the target population for this study.

The online self-completion questionnaire for this study was created using a web-based survey tool named Qualtrics. According to Arago Consulting (2022), Qualtrics has extensive benefits and enhanced capabilities, which include:

- Secure data collection and processing;
- Flexibility to customise questions based on the response;
- Features such as skip logic, display logic, advanced branching, and advanced piping, amongst others;
- Population/audience can be reached through any channel including email, mobile phone and social media platforms;
- Does not allow submission from respondents unless all the necessary questions are answered, which ensures that the data collected is complete;
- User-friendly for both the researcher and the respondents;
- Inexpensive;
- Allows for the easy download of responses, results, and reports; and
- Allows for integration of reports with other applications such as Microsoft Excel, Microsoft Word and Adobe.

### **3.5.1 The questionnaire**

The questionnaire was designed by five researchers conducting a research project on social media. As each researcher had a different research objective, not all questions included in the questionnaire specifically relate to this study.

The questionnaire was formulated to include a combination of open- and closed-ended questions that addressed the main research project objectives. The open-ended questions allowed the respondents to express their views, thereby providing a level of insight into their perceptions.

As mentioned, this study is part of a research project on social media and taxes; consequently, a single questionnaire consisting of a total of 28 questions (including sub-questions) was distributed for the main research project (see Appendix B). However, only 18 questions (open- and closed-ended questions) included in the questionnaire were relevant to this study’s objectives and are discussed in Table 2 below.

**Table 2: Survey questions relevant to the study**

Questions	Research objective and reason for the question
<p><b><u>Questions 2, 3 and 4:</u></b></p> <p>These questions relate to the demographics of the respondent</p>	<p>These questions do not address the research objectives. However, they are included to gain an understanding of the demographics of the population sampled and to determine the social media platforms most frequently used based on such demographics.</p> <p>The survey was structured to automatically end where a respondent:</p> <ul style="list-style-type: none"> <li>• Was younger than 18;</li> <li>• Was not an SA resident; and</li> <li>• Did not have or use any social media platforms.</li> </ul> <p>The reason for the exclusion is that for respondents younger than 18, an adult’s consent would have been required. Further, the study is concerned with taxation in SA and SA-resident content creators and influencers. The taxation of non-residents fell beyond the scope of this study. Lastly, the target population is social media users and thus the view of a respondent that is not a social media user was excluded from the study.</p>
<p><b><u>Question 5:</u></b></p> <p>What type of social media user are you?</p>	<p>This question is relevant to addressing the research objectives for this study.</p> <p>The purpose of the question was to establish which of the respondents were content creators or influencers and ultimately confirm if they receive benefits which may trigger taxes.</p>

<p><b><u>Question 8:</u></b></p> <p>Do you receive any form of benefits for your content when you promote services, products or brands on your social media platform (like sponsorships, merchandise, products and cash)?</p>	<p>This question is relevant to addressing the research objectives for this study.</p> <p>The purpose of the question was to obtain an understanding of the nature of income/benefits earned on social media to determine whether it constitutes gross income and thus is subject to income tax.</p>
<p><b><u>Question 9:</u></b></p> <p>From which of the following four platforms do you earn benefits? Select more than one option if applicable.</p>	<p>This question is relevant for purposes of addressing the research objective of exploring possible mechanisms that SARS could adopt to safeguard the collection of taxes on income generated via social media.</p>
<p><b><u>Question 10:</u></b></p> <p>Please estimate the annual value of benefits (cash, goods and/or free services) that you receive from the social media platform(s). Provide a Rand value. (Remember that your identity is completely anonymous)</p> <p><b><u>Question 13</u></b></p> <p>In your opinion, when is an individual liable to pay income tax?</p> <p><b><u>Question 16</u></b></p> <p>Some content creators earn millions from social media. Do you think the cash and/or other benefits that they receive should</p>	<p>These questions are relevant for purposes of addressing the research objective of assessing if taxes arising from income earned via social media platforms are at risk of not being properly paid to SARS.</p> <p>The purpose was therefore to establish if the social media content creators are aware of the tax obligations so far as the income/benefits earned from social media are concerned</p>

<p>be taxed? Provide a reason for your answer</p> <p><b><u>Question 17</u></b></p> <p>What type of income/benefits earned from social media by the content creator do you think should be taxed? If not, provide reasons.</p> <p><b><u>Question 18</u></b></p> <p>If you were to earn benefits (in any form) from social media platforms for content created, how would you declare it to SARS?</p>	
<p><b><u>Question 11</u></b></p> <p>Are you registered for Income Tax with SARS?</p> <p><b><u>Question 12</u></b></p> <p>Why are you not registered for Income Tax?</p>	<p>The purpose of these questions was to establish if the respondents are registered for tax. If not, why not and thereby address the research objective of assessing if taxes arising from income earned via social media platforms are at risk of not being properly paid over to SARS.</p>
<p><b><u>Question 19</u></b></p> <p>On the assumption that benefits received from social media platforms are subject to income tax in SA, how would you recommend the tax be collected?</p>	<p>This question is relevant for purposes of addressing the research objective of exploring possible mechanisms that SARS could adopt to safeguard the collection of taxes on income generated via social media.</p> <p>Since taxpayers form part of the components making up the tax system, the purpose of the question was to establish the method of collection that the social media content creators as the taxpayer would be amenable to.</p>

Although the other questions from the questionnaire form part of the main research project on social and taxation, they are not relevant for this study. Consequently, the respondents' answers to those questions were disregarded as they did not address the specific research objectives of this study.

### **3.5.2 Pilot testing**

Pilot testing is recommended before administering the actual survey to ascertain the effectiveness of the instructions, identify any gaps in the study and check whether the questions are clear and understandable (Fraser, Fahlman, Arscott & Guillot, 2018). Before the distribution of the questionnaire, the research team ran a pilot test of the questionnaire between 26 April to 30 April 2022 to assess that the questions were clear and easy to understand and complete.

The research team distributed the questionnaire to a group of close relatives and friends (herein referred to as the piloting group) who use social media. The piloting group was made up of persons with accounting/commercial backgrounds and some with no accounting/commercial background. The feedback received was discussed by the research team and where necessary, the questions were amended.

### **3.5.3 Population and sampling**

Population is generally defined in the Merriam-Webster Dictionary as “the whole number of people or inhabitants in a country or region”. However, in research, a population refers to a specific group of people or study objects from which study conclusions will be drawn (McCombes, 2021). The population of this study is all SA individuals with a social media account on YouTube, TikTok, Instagram and/or Facebook (being a user and/or content creator). The online questionnaire was distributed via these commonly used social media platforms.

Sampling is defined in the Oxford Dictionary as “the action or process of taking samples of something for analysis”. Since this study is exploratory, the purpose of the sampling was not to obtain a representative sample to extrapolate results to the population with inferential statistics and generalisation.

For purposes of this research project, convenience, snowballing and purposive sampling techniques were adopted. Per definition, convenience sampling involves the selection of respondents because they are readily available and easily accessible to the researcher. This may include using the friends or family of the researcher as it is easier than targeting unknown individuals (McCombes, 2022). In this regard, the questionnaire was distributed on a convenience basis by the research team to respondents via their own personal commonly used social media platforms, as mentioned above. SA individuals who are easily identifiable as social media content creators were the targeted population for this study.

Furthermore, snowball sampling is a non-probability sampling method where currently enrolled research respondents help recruit further respondents' subjects for a study (Simkus, 2022). For purposes of distributing the survey, the respondents were invited to share the link with other parties on behalf of the research team.

Lastly, purposive sampling, which is also referred to as selective or targeted sampling, is a non-probability sampling method that relies on the judgment of the researcher when it comes to selecting the respondents that are to be studied. The main aim of purposive sampling is to focus on specific criteria or characteristics of a population (Rai & Thapa, 2015:5). The survey was distributed directly to people whom the research team knew were social media content creators and influencers. To this end, the sampling meets the definition of purposive or targeted sampling.

### **3.6 TRUSTWORTHINESS AND RELIABILITY OF DATA**

Bruin (2010) states that objects documented in a research report will be seen as being reliable and trustworthy if they can be applied by numerous independent researchers under similar conditions and still yield consistent results. Thus, reliability indicates consistency and replicability over time.

The research consisted partly of an analysis of data available in the public domain. Accordingly, similar results will likely be reached if similar processes are applied by a different researcher. In addition, primary data were collected from a questionnaire (refer to

Appendix B). It is worth noting that one of the disadvantages of an online questionnaire is that respondents may provide inaccurate or dishonest answers (Trustmary, 2022). To mitigate or limit this disadvantage, as part of the introduction and consent for the online questionnaire, respondents were informed that their responses would be anonymous and were encouraged to be honest.

### **3.7 ETHICAL CONSIDERATION**

Before execution of the research, ethical clearance and approval were obtained from the Research Ethics Committee at the University of Pretoria, where the research was conducted. The survey included a cover letter that reassured the respondents that responses to the questions would be treated as strictly confidential, anonymous and voluntary.

### **3.8 RESEARCH DATA MANAGEMENT**

Within any research process, the creation, finding, organisation, storing and preservation of data all correlate to research data management (RDM). The increased concern surrounding data management does not only stem from the flood of data that has emerged from new science and technologies but the questionable integrity of open data and the general movement thereof (Cox & Verbaan, 2018:4-5).

Developing and maintaining a suitable RDM infrastructure was crucial to ensure sufficient data management during this study. Cox and Verbaan (2018:147) further explain that an RDM infrastructure requires support from online data management, secure storage of first-hand research data and controls that govern the access and sharing of the data to those in the research team.

Considerable focus was placed on data ethics during this research. As the legislation, scholarly articles and other publications used are publicly available, no ethical issue arose from using such material. For the data collected through the online questionnaire, permission to collect and use the data was requested beforehand (ethical clearance).

Communication surrounding the protection of the respondents' anonymity was given at the start of the questionnaire. This research is considered to be reliable and rich in nature through the suitable RDM procedure that was applied to the responses from the online questionnaire.

Data was captured in a digital online format on appropriate and secure cloud storing solutions as the respondents completed the questionnaire. Access to this data is limited to the individuals in the research team.

### **3.9 CONCLUSION**

This chapter outlined the research design and methodology that was followed to address the research question and objectives. It also described the methods in which the primary and secondary data were collected and analysed, including the questionnaire design.

Lastly, this chapter concluded with how the researcher maintained quality and research ethics throughout the research process. In the next chapter, the detailed findings from the data collected (applying the research methodologies described in this chapter) are discussed.

## CHAPTER 4: DATA ANALYSIS AND PRESENTATION OF RESULTS

### 4.1 INTRODUCTION

The research design and methodology applied in this study were discussed in the previous chapter. The chapter outlined, inter alia, the methods used to collect the relevant data, questionnaire design and sampling. In this chapter, the findings from the data collected are presented. Firstly, the legislative taxing requirements are discussed to highlight the potential taxes payable on the income earned from social media. This is followed by a discussion of the survey results and the conclusion.

### 4.2 LEGISLATIVE REQUIREMENTS

As noted in Chapter 2, taxes are imposed by governments through the enactment of tax laws. The administration of the taxes in SA rests with SARS. For purposes of this study, only the income tax, VAT and tax administration legislation were considered and discussed below.

#### 4.2.1 Income Tax

SA applies a residence-based system of tax in terms of which SA residents are taxed on income they earned, both locally and abroad (SARS, 2021b). In terms of section 5 of the ITA, any “person” is required to pay income tax on the “taxable income” received by or accruing to the person. Taxable income is defined in section 1(1) of the ITA as:

*The aggregate of:*

- a) *the amount remaining after deducting from the “income” of any person all the amounts allowed under Part I of Chapter II to be deducted from or set off against such income; and*
- b) *all amounts to be included or deemed to be included in the taxable income of any person in terms of this Act.*

Income is defined in section 1(1) of the ITA as “the amount remaining of the “gross income” of any person for any year or period of assessment after deducting therefrom any amounts exempt from normal tax under Part I of Chapter II”.

Furthermore, gross income is defined in section 1(1) of the ITA as follows:

*gross income, in relation to any year or period of assessment, means-*

- i. in the case of any resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such resident; or*
- ii. in the case of any person other than a resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such person from a source within the Republic,*

*during such year or period of assessment, excluding receipts or accruals of a capital nature but including, without in any way limiting the scope of this definition, such amounts (whether of a capital nature or not) so received or accrued as are described hereunder, namely...[own emphasis].*

The gross income definition contains key components, namely an amount, cash or otherwise, received by or accrued to, or in favour of, from anywhere in the case of resident and other than receipts or accruals of a capital nature. These components are generally regarded as the 'gross income criteria' and must be met before an amount can be regarded as gross income of importance (Haupt, 2012; Stiglingh, Koekemoer, Van Zyl, Wilcocks & De Swart, 2016).

In determining a person's taxable income, it must first be established whether such person received or accrued an amount that constitutes gross income or is specifically included in taxable income. Consequently, if it does not constitute gross income or is not specifically included, such income will not be subject to tax.

Since the definition of gross income widely refers to any amount, in cash or otherwise, the benefits received by social media users will likely constitute gross income which must be included in the determination of taxable income. These benefits will be subject to income tax even if they are received from a foreign country unless the foreign country is awarded sole taxing rights in terms of a double taxation agreement between SA and that other country. If amounts are subject to tax in both SA and the foreign country, the social media user may obtain relief under section 6quat of the ITA.

## 4.2.2 VAT

The VAT Act provides that any person that carries on an 'enterprise' is liable to be registered for VAT where the total value of taxable supplies (standard and/or zero-rated supplies) made by that person has exceeded, or if in terms of a written agreement, is likely to exceed R1 million over any 12 months. To assess whether social media content creators or influencers have a VAT registration liability, it must first be determined whether or not the content creators or influencers conduct an 'enterprise.'

The VAT Act defines the term enterprise in section 1(1) to mean inter alia an *“enterprise or activity which is carried on continuously or regularly by a person in or partly in the Republic in the course or furtherance of which goods or services are supplied to another person for a consideration, whether or not for profit”*. To this end, the posting and content creation would constitute 'activity'; thus, the first requirement of the definition of enterprise is satisfied.

The following requirement of the definition of enterprise is that goods or services must be supplied to another person for consideration. The terms 'goods' and 'services' are defined in the VAT Act. In the case of goods, this refers to corporeal movable things, fixed property, any real right in any such thing or fixed property with certain exclusions. In the case of services, this refers to anything that is done or to be done, including the granting, assignment, cession or surrender of any right or the making available of any facility or advantage subject to specific exclusions.

Furthermore, supply is defined in section 1(1) of the VAT Act to include performance in terms of a sale, rental agreement, instalment credit agreement and all other forms of supply, whether voluntary, compulsory or by operation of law, irrespective of where the supply is initiated. In this regard, where a content creator or an influencer develops social media content in terms of an agreement or an exchange, the content creator would have made a supply of services.

The third requirement of the enterprise definition is that a supply of goods or services must be supplied to another person in return for a consideration, which is defined in the VAT Act

as any payment made or to be made whether in money or otherwise in respect of, in response to the supply of any goods or services. To this end, where a content creator or influencer receives payment for the content created and posted on social media, this requirement will be satisfied.

Important to note is that the term 'person' as defined in section 1(1) of the VAT Act includes any public authority, any municipality, any company, anybody of persons (corporate or unincorporated), the estate of any deceased or insolvent person and any trust fund. The reference to 'include' in the definition indicates that, in addition to the ordinary meaning of the term person, for VAT purposes it includes the additional criteria mentioned in the definition. The ordinary meaning of the term person in the Oxford Dictionary means a human being regarded as an individual.

Therefore, where the activities of a social media content creator or influencer are considered to be an enterprise, the content creator or influencer will be required to register for VAT if the income or benefits earned exceed the R1 million threshold within 12 months. Furthermore, in terms of section 7.1(a) of the VAT Act, the supplies made (such as content creation and social media posts) will be subject to VAT at the standard rate of 15% subject to exceptions, exemptions, deductions and adjustments.

#### **4.2.3 Tax administration**

As discussed in Chapter 2, SARS is responsible for the administration of the tax system and collection of tax revenue. To this end, to guarantee that taxes are collected effectively and efficiently, the TAA was enacted in SA to consolidate administration provisions (where possible) of tax Acts into a single legislation, thus improving tax revenue collection.

The general tax collection methods include collection by assessment (administrative and self-assessments) and by deduction of the tax at the source, such as WHT. An assessment is defined in the TAA to mean the determination of the amount of a tax liability or refund, by way of self-assessment by the taxpayer or assessment by SARS.

The term self-assessment is defined in section 1 of the TAA as a determination of the amount of tax payable under a tax Act by a taxpayer and-

- a) "submitting a return which incorporates the determination of the tax; or
- b) if no return is required, make a payment of the tax."

The administration of these assessments is governed in Chapter 8 of the TAA, which provides for the different types of assessments and when such assessments are deemed to be final. Subsequent to the determination of the amount of tax due, a taxpayer (defined in the TAA to include a person who is or may be chargeable to tax) is, in terms of section 162(1) of the TAA, required to make payment of tax by the day and at the place notified by SARS by a public notice or as specified in a tax Act.

However, following the national lockdown due to the Covid-19 pandemic, SARS implemented a process in which it generates assessments automatically based on information obtained from third parties such as employers, banks and medical schemes pertaining to individual taxpayers (SARS, 2022).

### **4.3 SURVEY RESULTS**

As discussed in Chapter 3, the online questionnaire was distributed through various social media platforms that included WhatsApp, Facebook and Twitter. The survey consisted of a total of 28 questions, of which 18 were relevant for this study. The research team received feedback from 206 respondents. The feedback on questions relevant to this study is discussed below.

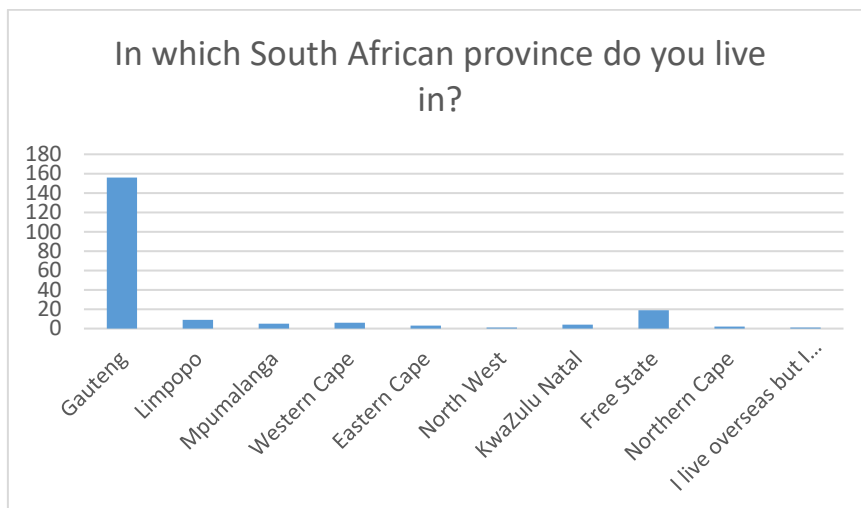
#### **4.3.1 Demographic profile of the respondents**

As noted in Section 3.4.1, respondents below the age of 18 were excluded from the survey on the basis that they are considered to be minors and adult consent would have been required. Table 3 below provides a breakdown of the respondents' age group, and it clearly shows that the majority of the respondents were below the age of 40.

**Table 3: Respondents' demographics**

Age group	Number of respondents	Percentage
18 to 25	82	39.8%
26 to 39	94	45.6%
40 to 54	24	11.7%
55 years and older	6	2.9%
<b>Total</b>	<b>206</b>	<b>100%</b>

The geographical location of the respondents is depicted in Figure 3 below. As evident, all nine SA provinces were represented. Notably, most of the respondents were based in the Gauteng Province.



**Figure 3: Respondents' geographical location**

#### 4.3.2 Social media platforms

For purposes of the research project and survey, the social media platforms were limited to Facebook, Instagram, YouTube and TikTok. According to popular media and the study conducted by Ornico and WWW (2021), these social media platforms are considered to be the most popular. A brief background on these social media platforms is provided.

#### **4.3.2.1 Facebook**

Facebook is an online social media and social networking service with free access. Facebook users are allowed to share pictures, music, videos, and articles, as well as their thoughts and opinions (Hall, 2021). Based on a social media demographic analysis performed by Sprout Social Inc. in 2022, Facebook is one of the longest-standing social media platforms with a total number of 2.91 billion monthly active users worldwide (Barnhart, 2022).

#### **4.3.2.2 Instagram**

Instagram was launched in 2010 and is a free-access visual social media platform that revolves around photo and video content (Holak & McLaughlin, Not dated). Most individuals use Instagram as a self-expression medium while businesses use it as a vital marketing tool with incomparable influence (Ornico & WWW, 2021). Based on a survey done by Sprout Social Inc. in 2022, Instagram had about 2 billion monthly active users worldwide (Barnhart, 2022). Instagram is considered to be perfect for brands with a visual product to photograph and showcase (Ornico & WWW, 2021).

#### **4.3.2.3 TikTok**

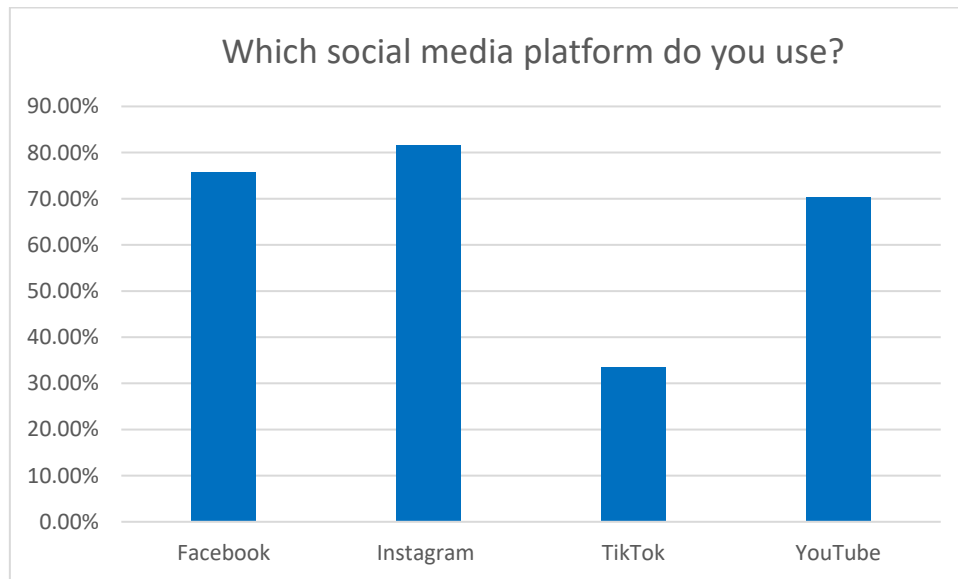
TikTok is a video-sharing social media platform that was launched in 2018. It is generally used as a platform for infotainment (D'Souza, 2022). Based on a survey done by Sprout Social Inc. in 2022, TikTok had about 1 billion monthly active users (Barnhart, 2022).

#### **4.3.2.4 YouTube**

YouTube is a free online video-hosting/sharing social media platform (Techopedia, 2016). It is considered the most popular video-sharing social media platform with about 2+ billion monthly active users by July 2022 (Barnhart, 2022; Ornico & WWW, 2021).

As part of the survey, the respondents were requested to indicate the social media platform they use the most between Facebook, Instagram, TikTok and YouTube with an option to

select more than one of the social media platforms. The results are indicated in Figure 4 below.



**Figure 4: Most used social media platform**

Based on the survey results in Figure 4 above, Instagram is the most used social media platform at 81.6%, representing a total number of 168 of the 206 respondents. Facebook follows at 75%, representing 156 of the 206 respondents, then YouTube with 70%, which represents 145 respondents. TikTok is the least used social media platform with only 31% of the respondents - representing only 69 respondents. In comparison to the other social media platforms, TikTok is fairly new, which might explain its lower popularity compared to other platforms.

#### **4.3.3 Type of social media user**

As is evident from the various definitions of social media discussed in Chapter 2, social media is used inter alia as a means of communication and dissemination of information. This was also confirmed in the study conducted by WWW and Ornico (2021), where people confirmed that they use social media because they consider it to be a cheaper medium of communication and an effective channel for public relations.

However, as noted in the background outlined in Chapter 1, social media platforms are now being used to promote and conduct businesses. To this end, the study conducted by Ornico and WWW (2021) also indicated that businesses and entrepreneurs use social media as they consider it to be a cost-effective means of marketing and building brands and reputations, which in turn result in increased sales. Furthermore, businesses and entrepreneurs use social media to gain insights into their customers' preferences and behaviours which are then used to develop business strategies (Ornico & WWW, 2021).

As part of the questionnaire, the respondents were requested to indicate the type of social media user they consider themselves to be. To this end, the respondents had the following options to choose from:

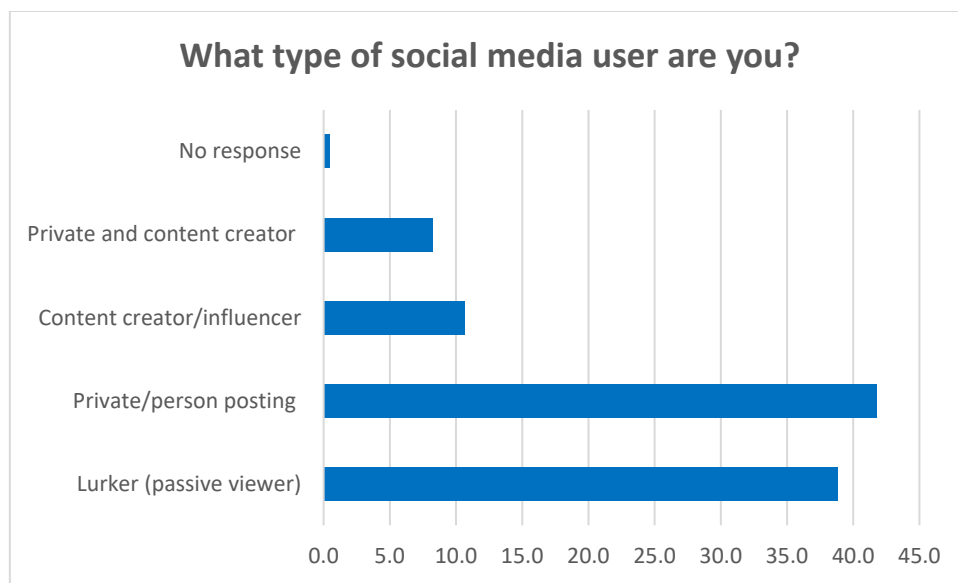
- Lurker (passive user);
- Posting private content for family and friends;
- Posting content to gain followers (content creator/influencer); or
- Posting private content for family and friends AND Posting content to gain followers (content creator/influencer).

For purposes of the survey and this study, the following definitions were given for the following terms:

- *Lurker/passive user*: A person who does not actively participate and interact on social media platforms but only passively observes information (Edelmann, 2013);
- *Content creators*: Although generally used interchangeably with the term influencer, they are not considered to be the same. A content creator is a person that generally creates videos, photos, graphics, informational resources and blog content directed to the needs of their audience. Examples of content created by content creators include how-to guides, tutorials, beautiful photography, and engaging videos. These are distributed across various channels such as Instagram, YouTube, TikTok, their personal website and more. Content creators intend to create engaging content that educates and informs their audience (Patel, Not dated);
- *Influencers*: Social media personalities who influence their followers to do or buy something based on what they post. Examples include fitness Instagrammers who share the protein shakes and athletic wear they prefer and beauty gurus who link each

of their eyeshadow palettes with affiliate codes to get a cut of everything their followers buy. A further example is fashionistas who post something such as *new #ootd* (outfit of the day) photos, tagging each brand included. In essence, influencers are simply sharing how they live their lives, promoting the products and services they use along the way (Patel, Not dated).

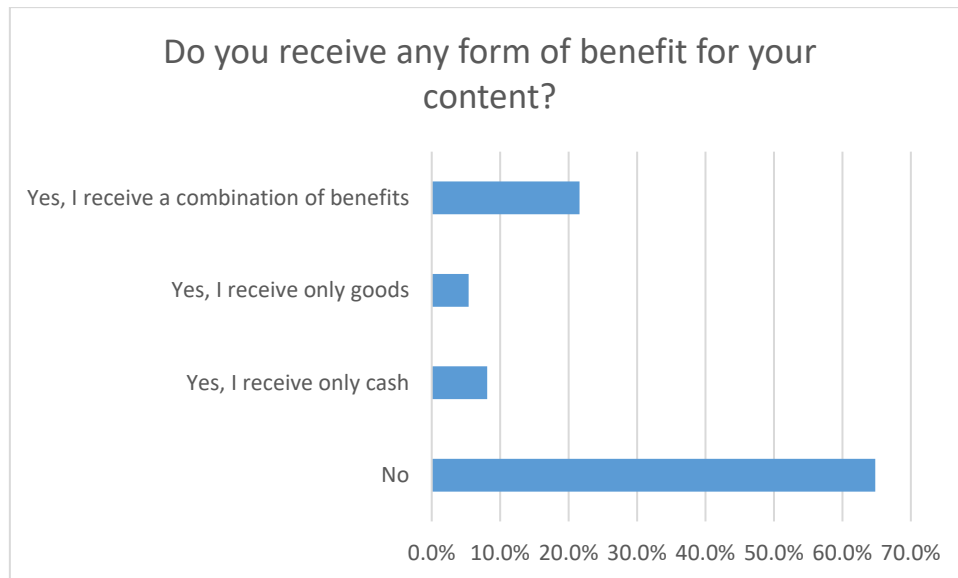
Of the 206 respondents, only one respondent did not indicate the type of social media user they are. Figure 5 below depicts the responses received.



**Figure 5 Social media user-type**

Based on the results in Figure 5 above, 41.7% of the respondents (representing 86 out of 206) indicated that they use social media platforms to post private content for family and friends, and 38.8% of the respondents (representing 80 out of 206) indicated that they are lurkers/passive viewers, 10.7% of the respondents (representing 22 out of 206) indicated that they are content creators and/or influencers and lastly 8.3% of the respondents (representing 17 out of 206) indicated that they use social media platforms for private and personal posting AND content creator and/or influencer. However, as stated, one respondent of the 206 did not indicate the type of social media user they are.

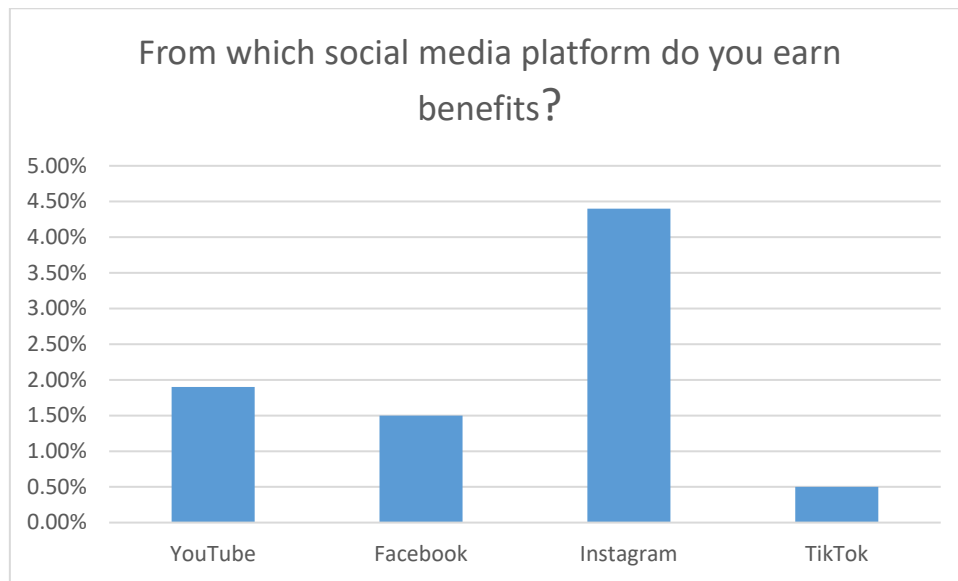
For the respondents that indicated that they use social media platforms as content creators and/or influencers, it was further enquired if they receive any form of benefit for their content. In this regard, only 37 out of the 39 respondents provided responses, and the results are indicated in Figure 6 below.



**Figure 6: Benefits received from social media**

Based on the results indicated in Figure 6 above, 64.9% of the respondents (24 out of the 37) indicated that they do not receive any form of benefit for the content that they post; 21.6% (eight out of the 37) indicated that they receive a combination of both cash and goods for their content; 8.1% (three out of the 37) indicated that they only receive cash and lastly, 5.4% (two out of the 37) indicated that they only receive goods. These results indicate that although some of the respondents may be content creators and/or influencers, not all of them earn an income from their social media activities.

The respondents were further requested to indicate the social media platform from which they earn or receive the benefits. For purposes of this question, the respondents were permitted to select more than one option. Based on Figure 7 below, Instagram is the social media platform from which most benefits are received (4.4%), followed by YouTube (1.9%), Facebook (1.5%) and TikTok (0.5%).



**Figure 7: Social media platform from which benefits are earned**

Lastly, the respondents were requested to indicate the annual value of the benefits received from the social media platforms. In this regard, 11 respondents provided an answer and as per Table 4 below, the majority of the respondents earn an annual amount of less than R50 000. The PIT on R50 000 per the 2022 tax year rates of tax amounts to R9 000. Since the primary rebate for the 2022 tax year amounts to R15 714, in the absence of other income, the majority of the respondents will likely not be liable to pay PIT.

**Table 4: Annual value of benefits received from social media platforms**

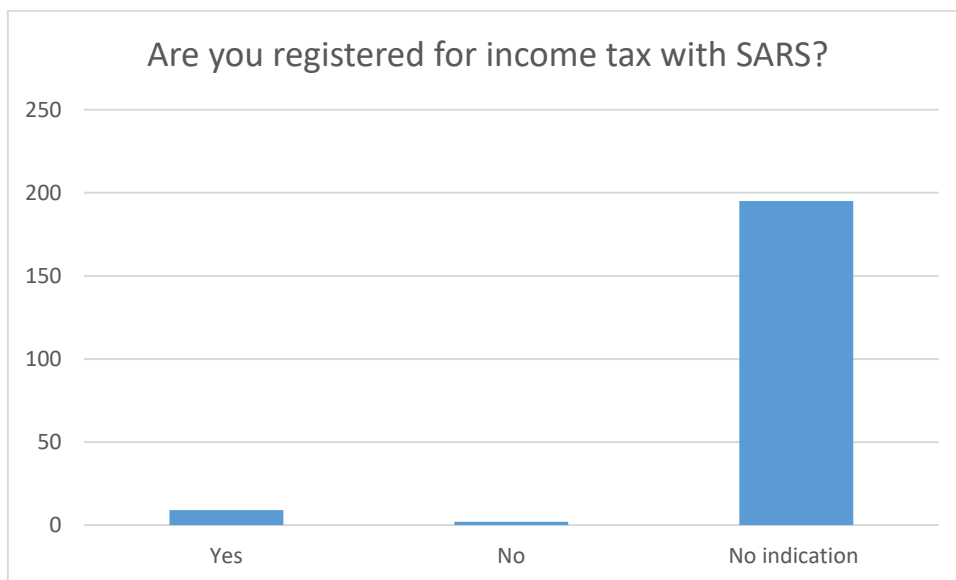
Annual value of benefits received	Number of respondents
R1 100	1
R1 500	1
R2 000	2
R4 000	1
R5 000	1
R6 000	1
R10 000	1

R25 000	1
R30 000	1
R300 000	1
<b>Total</b>	<b>11</b>

#### 4.3.4 Income tax registration status

In terms of section 67(2) of the ITA read with section 22(2) of the TAA, any person that is liable to account for any normal tax or to submit any return is required to register as a taxpayer within 21 business days of so becoming obliged or within the further period as SARS may approve. The respondents were requested to indicate whether they were registered for income tax. As indicated in Figure 8 below, of the 206 respondents that participated in the survey, only 11 responded to this question.

Additionally, of the 11 respondents, two indicated that they are not registered for tax on the basis that they are not liable to be registered.



**Figure 8: Income tax registration**

### 4.3.5 Liability for tax

As mentioned, SA applies a residence-based system of tax which involves the taxing of SA residents on income earned both locally and abroad (SARS, 2021). The income generated by SA residents from social media is subject to income tax in SA irrespective of where the income was earned unless there is a tax treaty applicable in instances where the income is also subject to income tax in another country.

In addition to income tax, SA residents may also be liable for VAT where the income generated exceeds the R1 million VAT registration threshold (Kaitoma Creatives, 2020). For purposes of this study, only the income tax implications are considered.

As noted in Section 4.2.1, the charging section refers to a person and is not prescriptive of inter alia the age of such person nor the amount of income. However, the calculation of the taxable income is subject to deductions and exemptions which may result in the person not being liable for any tax on the income earned. The respondents were requested to indicate (based on their opinion) when a person is liable to pay income tax. Table 5 below sets out the responses.

**Table 5: Liability for tax**

In your opinion, when is an individual liable to pay income tax?	Number of respondents	Percentage
All individuals are liable to pay income tax, regardless of income and age (thus also persons younger than 18 years can be liable).	10	4.9%
Only persons 18 years and older are liable to pay income tax, regardless of the amount of income earned.	8	3.9%
All individuals are liable to pay income tax IF they earn annual income above a certain threshold.	105	51%

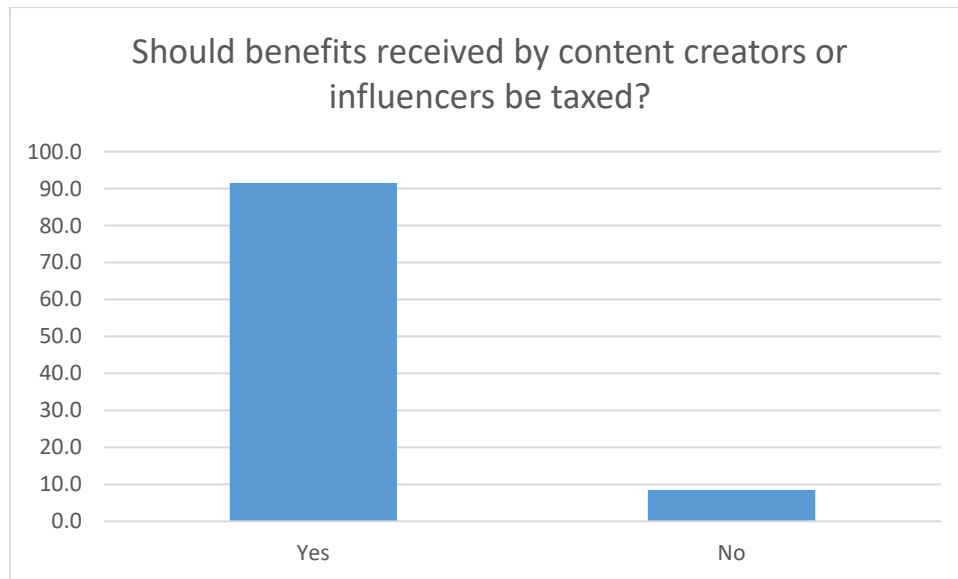
Only persons 18 years and older are liable to pay income tax IF they earn annual income above a certain threshold.	74	35.9%
No indication	9	4.3%
<b>TOTAL</b>	<b>206</b>	<b>100%</b>

Of the 206 respondents, nine respondents did not answer this question. As evident from Table 5, the majority of the respondents (51%) believe that all individuals are liable to pay income tax on the annual income above a certain threshold.

#### **4.3.6 Amounts subject to tax**

As noted in Section 4.2.1 above, in order for an amount to be subject to income tax, such amount must first constitute gross income which (per the definition) is an amount that is in cash or any other form such as goods or services.

The respondents were requested to indicate if the benefits (both cash or other) received by content creators or influencers through social media should be subject to tax and provide reasons. In this regard, only 156 out of the 206 respondents provided an answer. Figure 9 below depicts the response from the 156 respondents.



**Figure 9: Content creators or influencer benefits subject to tax**

As evident from Figure 9 above, the majority of the respondents (91.5%) believe that the benefits received by content creators or influencers should be subject to tax. The responses of the respondents that indicated that the benefits earned by content creators and influencers should not be subject to tax were analysed.

As discussed in Section 3.4.1 (outlining the analysis of open-ended questions), the responses were grouped according to theme and the summary is provided in Table 6 below. In this regard, only 12 respondents provided their opinion.

**Table 6: Themes pertaining to the reasons the benefits earned from social media platforms should not be taxed**

Reasons social media benefits should not be subject to tax	Number of respondents
Income earned from hobby	2
Content creators and influencers use their own resource to earn the income	2
Amount of income earned and uncertain or reliable source	4
Double taxation of the income	1

Corrupt government and enough taxes already collected	1
Formal rules should be implemented first	1
Nature of taxation	1
<b>Total</b>	<b>12</b>

Per Table 6 above, the majority of the respondents (four) are of the view that the social media industry is not regulated and there is no certainty as to how long and how many benefits will be received. As a result, the benefits earned by content creators and influencers should not be subject to tax because the benefits are not from a fixed source and thus not permanent in nature.

The respondents were also requested to indicate (based on their opinion), which benefits should be subject to tax. In this regard, only 167 respondents out of the 206 answered the question, and their responses are indicated in Table 7 below.

**Table 7: Benefits subject to tax**

<b>Amounts subject to tax</b>	<b>Number of respondents</b>	<b>Percentage</b>
Only cash benefits	77	37.4%
Only free services, goods or products received	5	2.4%
All benefits (cash, free services, goods and/or products) received	77	37.4%
None should be taxed. Give a reason for your answer.	8	3.9%
<b>Total</b>	<b>167</b>	<b>81.1</b>

Based on the results, 77 respondents (37.4%) are of the view that only cash benefits received from social media activities must be subject to tax, while an equal number of respondents (such as 77) are of the opinion that all benefits received whether in cash or

goods must be subject to tax. Several (eight respondents, 3.9%) are of the view that none of the benefits earned from social media activities should be taxed and five respondents (2.4%) indicated that only free services, goods and products should be subject to tax. In total, 39 respondents did not provide an answer to this question, representing 18.9%.

The respondent that indicated that none of the benefits should be taxed were requested to provide reasons. In this regard, only seven out of the eight respondents provided reasons and were grouped based on the theme. Table 8 below provides the summary of the grouped reasons.

**Table 8: Reasons social media benefits should not be subject to tax**

<b>Grouped reasons</b>	<b>Number of respondents</b>
Amounts earned are low	2
Double tax	1
Government is corrupt	1
Income inconsistent and vary per content creator	1
Social media content creation not the same as a secure job	1
Social media activity not a business but hobby	1
<b>Total</b>	<b>7</b>

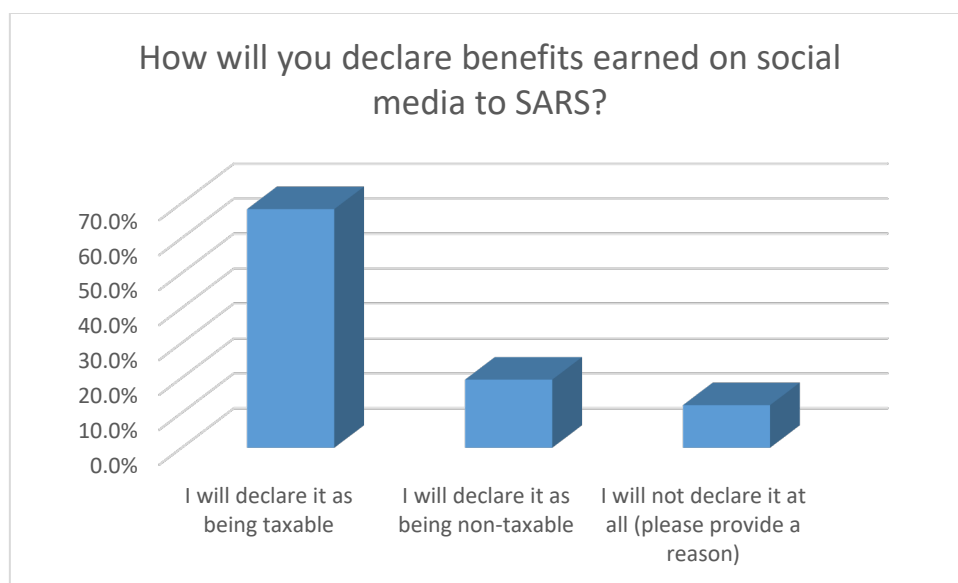
Per Table 8 above, most of the respondents are of the view that because of the low value of the benefits earned from social media, the benefits should not be subject to tax. The rest of the reasons all received one response.

#### **4.3.7 Disclosure to SARS**

The respondents were further requested to indicate they would disclose the income earned or benefits received from social media activities to SARS. They were also asked to indicate

how much income would be disclosed, such as taxable or non-taxable. In this regard, only 164 out of the 206 respondents provided an answer.

As depicted in Figure 10 below, 68.3% (representing 112 out of 164) of the respondents indicated that they would disclose the income or benefits received from social media as taxable. Furthermore, 19.5% (representing 32 out of 164) indicated that they would disclose it as non-taxable and 12.2% (representing 20 out of 164) indicated that they will not declare the income to SARS.



**Figure 10: Disclosure to SARS**

The 12.2% of respondents (20) that indicated that they would not declare their income to SARS were requested to provide reasons for their response. Only 19 out of the 20 respondents provided reasons and they have been grouped based on the themes identified in the responses. Table 9 below provides a summary of the reasons.

**Table 9: Reasons for non-disclosure**

Reasons for non-disclosure	Number of respondents
Not taxable under the ITA	2

Do not trust SARS and government misappropriate the funds	1
If anyone had the opportunity not to declare	2
Income earned from a hobby not subject to tax	2
Not fixed or regular income	3
Amount is immaterial	2
Waiting for clear guidelines from SARS on the tax treatment	2
Only declare if its cash benefit	2
The amount of tax paid is already excessive	2
Private income	1
<b>Total</b>	<b>19</b>

Per Table 9 above, the majority (3 out of the 19) of the respondents' reason for non-disclosure was that the income earned from social media is not fixed income and not regular. All other responses received either one or two responses, respectively.

#### 4.3.8 Tax collection

As discussed in Chapter 2, taxes are generally collected either by assessment or deduction of the tax at the source (WHT). SARS employs both methods of collection for different taxes. It is worth noting at this point that the US government introduced a WHT on income earned by YouTubers and content creators who are not residents of the US. This WHT is calculated on the income payable to the content creator attributable to the US viewers of the content (Centurion, 2021; Phelan, 2021).

Since the respondents are taxpayers and form part of the components that make up the tax system, they were requested to indicate their preferred method of collection of the tax on income earned from social media. Only 167 of the 206 respondents answered this question. The results shown in Table 10 below are thus limited to 167 responses.

**Table 10: Preferred tax collection method**

Recommended collection mechanism	Number of respondents	Percentage
As a WHT (for example YouTube withholds the tax on taxpayer's behalf and pays it over to SARS)	76	45.5%
Via self-declaration (taxpayer declares it to SARS on the income tax return)	37	22.2%
Pre-populated on the income tax return (similar to PAYE and medical aid contributions based on third-party declarations)	51	30.5%
Other, please specify	3	1.8%

Per Table 10 above, 45.5% of the respondents recommended that the tax on income earned on social media should be collected as a WHT, 30.5% recommended that the income should be pre-populated on the income tax return and 22.2% recommended self-declaration . Some respondents indicated other collection methods (1.8%) that were analysed, and the summary is provided in Table 11 below.

**Table 11: Other tax collection methods**

Other suggested methods	Number of respondents
WHT on cash benefits and self-assessment on other forms of benefits	1
No tax should be collected	1
Self-assessment prior to receipt of income	1

Per the above table, common themes could not be established. As noted, one of the three respondents recommended different collection methods for the different forms of benefits received while another suggested that no taxes should be collected in this regard.

Based on the overall feedback received, it is evident that WHT is the preferred method of collection according to the majority of the respondents (45.5%). As discussed in Chapter 2, the WHT mechanism is considered to be an effective tool in the collection of taxes and provides steady cash flow for the government due to the timely payment of tax revenue.

#### **4.4 CONCLUSION**

This chapter provided the general legislative taxing requirements and presented the findings from the survey. As discussed, any person that has taxable income is liable for income tax and in terms of the TAA such person must register for tax. Furthermore, social media content creators or influencers will be obliged to register and account for VAT to the extent that their activities constitute an enterprise and the income earned exceeds the registration threshold.

Based on the findings from the survey, 82% of the respondents did not indicate whether or not they receive any benefits from their activities on social media platforms. However, considering that about 80.6% of the respondents indicated that they are passive viewers or use social media platforms for private posting, it can be argued that 82% do not indicate that taxes arising from income earned from social media are at risk of not being correctly paid over to SARS. However, since the majority of the respondents did not indicate their registration status, it can further be argued that there is a potential risk that some of the respondents may not be declaring their income. Consequently, the taxes in respect of such income may not have been properly paid over to SARS. Furthermore, although there exists PIT on the majority of the income earned or benefits received per annum if it were the only income earned by the respondents it would be reduced to nil. This is because of the application of the primary rebate; additionally, there was at least one respondent that indicated that they earn at least R300 000 which will result in a tax payable. Lastly, the most preferred and recommended by the majority of the respondents is the WHT method. This method is considered one of the most effective tax collection methods.

## **CHAPTER 5: CONCLUSION**

### **5.1 INTRODUCTION**

This study was part of a research project on tax and social media. The research objectives of this study, as noted in Chapter 1, included the evaluation of whether taxes arising from income earned via social media platforms are at risk of not being properly paid to SARS, as well as the exploration of possible mechanisms that could be adopted by SARS in order to safeguard the collection of these taxes.

To ensure that taxes are collected effectively and efficiently, the TAA was enacted in South Africa to consolidate administration provisions (where possible) of tax Acts into a single legislation, thus improving tax revenue collection. In the previous chapter, the results of the primary and secondary data analyses were discussed, and this chapter presents a summary of findings and conclusions in response to the research question and objectives.

### **5.2 RESEARCH OBJECTIVES ACHIEVED**

Social media has grown in popularity globally and no doubt in South Africa. Influencers and content creators are making a living through social media platforms. As noted in the background of this study, internationally, there has been some level of tax evasion so far as income earned through social media is concerned. This study aimed to evaluate whether, from a South African perspective, similar risks of tax evasion existed (such as whether taxes arising from income earned via social media platforms are at risk of not being properly paid to SARS) and provide possible collection mechanisms that could be adopted by SARS.

#### **5.2.1 Risk of taxes not being properly paid over to SARS**

Although 91.5% of the respondents believe that the benefits derived from social media should be subject to tax and have equally indicated that they would make disclosures to SARS of such benefits, it cannot be ignored that 95% of the respondents equally did not indicate whether or not they are registered for income tax. In this regard, it can be argued that there is a potential risk that some of the respondents may not be registered for income

tax and if those have earned an income or received some form of benefits from social media, taxes in respect of such income may not have been properly paid to SARS.

### **5.2.2 Tax collection mechanism**

The main goal of any tax authority is collecting the taxes due in a manner that will sustain confidence in the tax system and its administration (OECD, 2004). As discussed in Chapter 2, tax authorities employ two methods in ensuring the collection of tax revenue. As per the survey findings, the most recommended method of collection by the respondents is the WHT method. This will provide the government with a continuous flow of revenue since the taxes will be payable as and when payment is made to the taxpayer.

### **5.3 LIMITATIONS**

The inherent limitation of the self-completion questionnaire is that the responses provided could be superficial. The questionnaire that was sent out by the research team allowed respondents to submit their responses without answering all the questions (as this was an exploratory research study); thus, it was not the intention of the research team to extrapolate the results from a broader population.

A further limitation is that this study was part of a research project that only focused on the tax implications for South African individual persons who are residents. Non-residents were outside the scope of the overall research project and therefore the tax implications for non-residents were not considered.

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

The following areas are suggested for future research:

- An expanded similar study which includes non-residents and persons younger than 18, as it was evident that there is no age restriction for social media content creators and influencers;

- As noted in this study, not only individuals have hidden income through the conclusion of transactions in the digital economy but companies as well. It is thus recommended that a similar study be performed with the focus on assessing whether taxes arising from social media earned by companies are properly paid over to SARS.
- Given SARS' strategic plan to increase revenue and in line with international developments, it is recommended that a study be conducted to determine whether South Africa can introduce a digital service tax and how such a tax should be collected.

## **5.5 CONCLUSION**

Taxes are a significant contributor to government revenue and safeguarding; therefore, an effective and efficient collection of these taxes is of utmost importance. Currently, for PIT, SARS employs a combination of WHT in the form of employee tax and assessment in collecting the taxes due. Although the self-assessment and tax withholding methods of collection are considered to be effective and cost-saving methods, they significantly rely on the taxpayer's voluntary compliance. Since part of SARS' strategic goal is to increase revenue collection, in view of the rapid growth of the social media industry and the amount of income earned by social media content creators and influencers, SARS should consider implementing a WHT on income earned on social media.

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## **APPENDICES**

## APPENDIX A: AVERAGE EXCHANGE RATES

The ITA requires that amounts denominated in a foreign currency be translated in to Rand by applying the average exchange rate (SARS, 2022). An average exchange rate is defined in section 1(1) of the ITA to mean “*in relation to a year of assessment means the average determined by using the closing spot rates at the end of daily or monthly intervals during that year of assessment which must be consistently applied within that year of assessment*”.

For purposes of calculating the UK pound and US dollar average exchange rates in this study, the average exchange rates for the month of August 2022 as indicated below were used.

**Table 12: SARS average monthly exchange rates**

Month	Australian Dollar	Canadian Dollar	Euro	UK Pound	US Dollar
August 2021	10.7955	11.7397	17.4096	20.4093	14.7890
September 2021	10.6455	11.4813	17.1126	19.9714	14.5323
October 2021	10.9904	11.9363	17.2398	20.3348	14.8587
November 2021	11.3285	12.3470	17.7016	20.8729	15.5126
December 2021	11.3566	12.4022	17.9323	21.1168	15.8695
January 2022	11.1242	12.2773	17.5419	21.0078	15.4912
February 2022	10.8973	11.9597	17.2535	20.6014	15.2134
March 2022	11.0392	11.8314	16.5106	19.7306	14.9786
April 2022	11.0595	11.8574	16.2068	19.3778	14.9538
May 2022	11.2181	12.3789	16.8161	19.7913	15.9011
June 2022	11.0901	12.3216	16.6981	19.4668	15.7713
July 2022	11.5444	13.0171	17.1608	20.1994	16.8427
August 2022	11.6141	12.9221	16.8906	19.9995	16.6845

(Source: SARS Legal Pub-AER-03-Average Exchange Rate Table B)

For purposes of calculating the Chinese yuan and US dollar average exchange rates in this study, the average exchange rates for the month of August 2022 as indicated below were used.

**Table 13: Other average monthly exchange rates**

<b>Month</b>	<b>Chinese Yuan Renminbi (CYN)</b>	<b>Philippine Peso (PHP)</b>
January 2022	2.441702	0.302910
February 2022	2.401133	0.297041
March 2022	2.362103	0.287387
April 2022	2.334300	0.288094
May 2022	2.373889	0.303445
June 2022	2.360521	0.294552
July 2022	2.496157	0.300769
August 2022	2.457058	0.299256

*(Source: x-rates.com)*

## APPENDIX B: QUESTIONNAIRE

### Tax and Social Media Survey 2022

Start of Block: Default Question Block

Q1 Dear Participant

You are invited to participate in the research conducted by Amy Brits, Andries Basson, Bridget Mogola, Jacqueline Francis and Violet Liebenberg (MCom (Taxation) students of the University of Pretoria) under the supervision of Dr Karen Stark and Mrs Juanita Venter.

The research is on the taxation of social media income in South Africa. For this study social media platforms refer to popular platforms but limited to YouTube, Facebook, Instagram and TikTok.

Please note the following:

- This research questionnaire is completely anonymous as your name will not be recorded or appear on the questionnaire.
- Your answers will be treated as strictly confidential and you cannot be identified based on the answers you give.
- Please answer these questions as completely and honestly as possible.
- The results of the study will be used for academic purposes only and may be published in an academic journal.
- Your participation in this study is very important to us, but you may stop at any time without any negative consequences by exiting the questionnaire.

The completion of the questionnaire should not take more than 15 minutes of your time.

- I voluntarily consent to complete the questionnaire (9)
- I do not wish to continue with the questionnaire (10)

*Skip To: End of Block If Q1 = I do not wish to continue with the questionnaire*

Q2 In which South African Province do you live?

- Gauteng (1)
- Limpopo (2)
- Mpumalanga (3)
- Western Cape (4)
- Eastern Cape (5)
- North West (6)
- KwaZulu Natal (7)
- Free State (8)
- Northern Cape (9)
- I live overseas but I am a South African tax resident (10)
- I live overseas and am not a South African tax resident (11)

*Skip To: End of Block If Q2 = I live overseas and am not a South African tax resident*

Q3 Which of these four social media platforms do you use / do you have an account with?

You can select more than one option.

- YouTube (1)
- Facebook (2)
- Instagram (3)
- TikTok (4)
- None of the above (5)

*Skip To: End of Block If Q3 = None of the above*

Q4 In which age-group are you?

- Under 18 (1)
- 18 to 25 (2)
- 26 to 39 (3)
- 40 to 54 (4)
- 55 years and older (5)

*Skip To: End of Block If Q4 = Under 18*

Q5 What type of social media user are you?

- Lurker (passive viewer) (1)
- Posting private content for family and friends (2)
- Posting content with intention to gain followers (content creator/influencer) (3)
- Posting private content for family and friends AND Posting content with intention to gain followers (content creator/influencer) (4)

*Display This Question:*

*If Q5 = Posting content with intention to gain followers (content creator/influencer)*

*Or Q5 = Posting private content for family and friends AND Posting content with intention to gain followers (content creator/influencer)*

Q6 What type of content do you create? For example, funny videos, advice, educational content, etc. Please specify.

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*Display This Question:*

*If Q5 = Posting content with intention to gain followers (content creator/influencer)*

*Or Q5 = Posting private content for family and friends AND Posting content with intention to gain followers (content creator/influencer)*

Q7 Are you individually responsible for creating content on social media or do you work in a team?

- I work on my own (1)
- I am part of a team (2)

*Display This Question:*

*If Q5 = Posting content with intention to gain followers (content creator/influencer)*

*Or Q5 = Posting private content for family and friends AND Posting content with intention to gain followers (content creator/influencer)*

Q8 Do you receive any form of benefits for your content when you promote services, products or brands on your social media platform (like sponsorships, merchandise, products, cash, etc.)?

- No (1)
- Yes, I receive only cash (2)
- Yes, I receive only goods (3)
- Yes, I receive only free services (4)
- Yes, I receive a combination of benefits (5)

*Display This Question:*

*If Q8 = Yes, I receive only cash*

*Or Q8 = Yes, I receive only goods*

*Or Q8 = Yes, I receive only free services*

*Or Q8 = Yes, I receive a combination of benefits*

Q9 From which of the following four platforms do you earn benefits? Select more than one option if applicable.

- YouTube (1)
- Facebook (2)
- Instagram (3)
- TikTok (4)

*Display This Question:*

*If Q8 = Yes, I receive only cash*

*Or Q8 = Yes, I receive only goods*

*Or Q8 = Yes, I receive only free services*

*Or Q8 = Yes, I receive a combination of benefits*

Q10 Please estimate the annual value of benefits (cash, goods and/or free services) that you receive from the social media platform(s)? Provide a Rand value. (Remember that your identity is completely anonymous.)

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*Display This Question:*

*If Q8 = Yes, I receive only cash*

*Or Q8 = Yes, I receive only goods*

*Or Q8 = Yes, I receive only free services*

*Or Q8 = Yes, I receive a combination of benefits*

Q11 Are you registered for Income Tax with SARS?

- Yes (1)
- No (2)

*Display This Question:*

*If Q11 = No*

Q12 Why are you not registered for Income Tax? It is because:

- I am not liable to register (1)
  - I do not know where and how to register (2)
  - I do not have any tax obligations (3)
  - Other reason (Please specify) (4)
-

Q13 In your opinion, when is an individual liable to pay income tax?

- All individuals are liable to pay income tax, regardless of income and age (thus also persons younger than 18 years can be liable). (1)
- Only persons 18 years and older are liable to pay income tax, regardless of the amount of income earned. (2)
- All individuals are liable to pay income tax IF they earn annual income above a certain threshold. (3)
- Only persons 18 years and older are liable to pay income tax, IF they earn annual income above a certain threshold. (4)

Q14 In your opinion, if a person creates content for a social media platform which gets attention from other users, would you regard that as a hobby or a business (assuming the person is not earning any benefits)?

- Hobby (1)
- Business (2)

*Display This Question:*

*If Q14 = Hobby*

Q15 In your opinion, what would be needed for a content creation hobby to be regarded as a business?

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Q16 Some content creators earn millions from social media. Do you think the cash and/or other benefits that they receive should be taxed? Provide a reason for your answer.

- Yes, because (1) \_\_\_\_\_
- No, because (2) \_\_\_\_\_

Q17 What type of income/benefits earned from social media by the content creator do you think should be taxed?

- Only cash benefits (1)
  - Only free services, goods or products received (2)
  - All benefits (cash, free services, goods and/or products) received (3)
  - None should be taxed. Give a reason for your answer. (4)
- 

Q18 If you were to earn benefits (in any form) from social media platforms for content created, how would you declare it to SARS?

- I will declare it as being taxable (1)
  - I will declare it as being non-taxable (2)
  - I will not declare it at all (please provide a reason) (3)
- 

Q19 On the assumption that benefits received from social media platforms are subject to income tax in South Africa, how would you recommend the tax to be collected?

- As a withholding tax (for example YouTube withholds the tax on taxpayer's behalf and pays it over to SARS) (1)
- Via self-declaration (taxpayer declares it to SARS on the income tax return) (2)

- Pre-populated on the income tax return (similar to PAYE and medical aid contributions based on third party declarations) (3)
- Other, please specify (4) \_\_\_\_\_

Q20 Assume you have earned taxable benefits from social media platforms and you have not declared it to SARS. Are you aware of the corrective measures available to rectify the non-compliance?

- Yes (please explain) (1) \_\_\_\_\_
- No (2)

Q21 What type of expenses do you think a social media content creator could have that may qualify for a tax deduction/allowance? List as many as possible.

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End of Block: Default Question Block

Start of Block: Custom end of surveys

*Display This Question:*

*If Q1 = I do not wish to continue with the questionnaire*

Q22 We are sorry that you do not wish to participate in our research, but respect your choice.

*Display This Question:*

*If Q2 = I live overseas and am not a South African tax resident*

Q23 Thank you for your willingness to participate in the survey, but unfortunately the focus of our study is South African tax residents. Please click on the blue arrow to exit the questionnaire.

*Display This Question:*

*If Q3 = None of the above*

Q24 Thank you for your willingness to participate in the survey, but since you are not active on the mentioned social media platforms, you fall outside our survey criteria. Please click on the blue arrow to exit the questionnaire.

*Display This Question:*

*If Q4 = Under 18*

Q25 Thank you for your willingness to participate in the survey, but unfortunately our ethical clearance do not allow us to survey minors. Please click on the blue arrow to exit the questionnaire.

*Display This Question:*

*If Q1 = I voluntary consent to complete the questionnaire*

*And Q2 != I live overseas and am not a South African tax resident*

*And Q4 != Under 18*

Q26 We thank you for your time spent taking this survey. We appreciate it. Please click on the blue arrow to submit your answers.

End of Block: Custom end of surveys