

**SMME TAXPAYERS' VIEW WITH REGARDS TO SARS RELIEF
MEASURES FOR SMMEs**

by

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ABSTRACT

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Small, medium and micro enterprises (SMMEs) have become a crucial part of the South African economy both in terms of overall contribution to the country's gross domestic product (GDP) as well as employment generation. Their sustainability is therefore critical to sustain the growing GDP and job creation.

Although SMMEs contribute significantly to the South African economy, these businesses have a very high failure rate. The taxation burden and the impact of taxation on cash flows have been identified as one of the factors contributing to this failure.

Relief measures, such as progressive tax rates, immediate and accelerated deduction of the cost of an asset, turnover tax and an increased value added tax (VAT) registration threshold have been implemented by SARS in order to address the taxation burden as experienced by SMMEs. This study aimed to establish the taxpayer's view with regards to the relief measures as implemented by SARS. In order to establish this view, respondents were interviewed and the results of these interviews were analysed. This study found that only some of the respondents were aware of the relief measures available to them. The study further found that the available relief measures were not applicable to some of the respondents who were aware of them and, where the relief measure were applicable, the respondents did not always take advantage of them

As a result of the findings of the study, it was recommended that SMMEs should take more control of the cost savings in their businesses. This can be done through making all efforts to learn about the relief measures available to them and weighing the costs to the benefits of taking advantage of these relief measures. It was further recommended for SARS to invest in programmes that will assist SMMEs in becoming more aware of the measures available to provide tax relief to these businesses.

OPSOMMING

BELASTING BETALERS SE SIENING IN VERBAND MET SARS SE VERLIGTINGSMAATSTAWWE VIR SMMEs

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Oor die jare het klein, medium en mikro besighede (SMMEs) 'n deurslaggewende rol begin speel in die Suid Afrikaanse ekonomie, beide in terme van die algehele bydrae tot die land se bruto binnelandse produk (BBP) asook die skep van werksgeleenthede. Juis hieroor is hulle voortbestaan krities vir die konstante groei van die BBP en die skep van werksgeleenthede. Alhoewel SMMEs 'n wesenlike bydrae tot die Suid Afrikaanse ekonomie maak, het hierdie besighede 'n hoë mislukkings-koers. Die belasting las en die impak daarvan op kontantvloei is geïdentifiseer as een van die faktore wat bydrae tot hierdie mislukking.

Verligtingsmaatstawwe, soos progressiewe belasting koerse, onmiddellike en versnelde aftrekkings van die koste van 'n bate, omsetbelasting en 'n verhoging van belasting op toegevoegde waarde se registrasie drumpel is deur SARS geïmplementeer om die las van belasting aan te spreek wat deur SMMEs ervaar word. Hierdie studie se doel is om die belasting betaler se oogpunt in te sien rakende sodanige verligtingsmaatstawwe wat deur SARS geïmplementeer is.

Ten einde die belasting betalers se oogpunt oor die verligtingsmaatstawwe wat deur SARS geïmplementeer is vas te stel, is daar onderhoude gevoer met deelnemers aand die studie en die uitslae daarvan is ge-analiseer. Hierdie studie bevind dat slegs sommige van

die deelnemers bewus is van die verligtingsmaatstawwe wat tot hul beskikking is. Die studie bevind verder dat die verligtingsmaatstawwe wat beskikbaar is nie van toepassing was op van die deelnemers wat daarvan bewus was nie en waar die verligtingsmaatstawwe wel van toepassing is, het die deelnemers nie altyd daarvan gebruik gemaak nie.

As gevolg van die studie se resultate, is SMMEs aangeraai om meer beheer uit te oefen om van die koste besparings gebruik te maak deur pogings aan te wend om meer te leer oor die verligtingsmaatstawwe wat tot hul beskikking is en die kostes van hierdie voordele op te weeg teenoor die voordele van die verligtingsmaatstawwe. Verder is voorgestel dat SARS meer in programme moet belê wat SMMEs sal bewus maak van die maatstawwe wat beskikbaar is om 'n groter belasting verligting te verkry vir hierdie besighede.

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TAXPAYER'S VIEW WITH REGARDS TO SARS RELIEF MEASURES FOR SMMEs

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Small, medium and micro enterprises (SMMEs) have become a crucial part of the South African economy, both in terms of overall contribution to the country's gross domestic product (GDP) as well as employment generation (Moyo, 2005: 1; Small Enterprise Development Agency, 2009:13). Therefore their sustainability is critical to sustain the growing GDP and job creation (Moyo, 2005: 1; Small Enterprise Development Agency, 2009:13).

In a study conducted by the Small Enterprise Development Agency (SEDA) (2009:13), it was found that although statistics vary, it is generally agreeable that by the early 2000s, the contribution of SMMEs to economic growth in South Africa was measured at more than 42% of the GDP. Similarly, the sector's contribution to employment was measured at some 57% of the total labour force. The study further concluded that by the late 2000s, the contribution of SMMEs to the GDP had contracted to nearly one third. The contribution is generally and widely spread between agriculture, mining, retail, construction, catering, accommodation, etc. (Small Enterprise Development Agency, 2009:13). By 2012, small enterprises employing fewer than 50 people had contributed 68% to the overall employment statistics in South Africa (Adcorp, 2012:1).

Although SMMEs contribute significantly to the South African economy, these businesses have a very high failure rate (Adcorp, 2012:1). Previous research dealt with several aspects of the failures of SMMEs and a significant tax burden was identified as one of the factors contributing to this failure (Tlhomola, 2010:9). In 2004, the South African Revenue Services (SARS) undertook to review the administrative and tax compliance concerns of SMMEs. Stemming from this initiative, SARS held extensive workshops and consulted

widely with various stakeholders from the South African government and industry. The result of these workshops was that SARS received valuable inputs from all stakeholders and compiled a list of issues ranging from those that related directly to tax administration and policy to issues arising from other government departments' regulatory practices. As a result, relief measures were put in place by the South African Revenue Services (SARS) to ease the tax compliance burden (National Treasury, 2005:87).

Some of the implemented relief measures identified and discussed by previous researchers are progressive tax rates, immediate and accelerated deduction of the cost of assets, turnover tax and an increased Value Added Tax (VAT) registration threshold (Minnaar, 2010; Van der Merwe, 2010). Although extensive research has been done focusing on, amongst others, the tax burden and its impact on SMMEs failure (Tihomola, 2010), identification and comparison of the relief measures put in place to ease the tax compliance burden with measures available to small businesses in other countries (Aucamp, 2010; Minnaar, 2010; Van der Merwe, 2010), and whether turnover tax as a relief measure is a benefit or a burden (Breedt, 2010), little research has been done on the question of whether taxpayers are aware of the relief measures implemented and if they are, whether they take advantage of them.

It is within this context that the research focuses on the SMMEs sector of the South African economy in order to determine the view of the taxpayers with regards to the tax relief measures implemented by SARS to ease the tax burden.

1.2 PROBLEM STATEMENT

The impact of the tax compliance burden on the sustainability of SMMEs has been extensively researched and these research studies resulted in the implementation of the relief measures aimed at easing the compliance burden for SMMEs (National Treasury, 2005:87).

The available relief measures have also been extensively researched and compared to relief measures available in other countries. However, there is little or no literature that examines the view of the taxpayers with regards to the available relief measures. In other

words, research still needs to be conducted to establish whether or not taxpayers are aware of the relief measures available to them and if they are, whether they are taking advantage of these measures.

1.3 PURPOSE STATEMENT

The main purpose of this study is to determine the taxpayers' view with regards to the tax relief measures put in place to ease the tax burden of SMMEs.

1.4 RESEARCH QUESTIONS

Emanating from the above problem statement, the study is confined to the following research questions:

- Are SMME taxpayers aware of the relief measures available to SMMEs?
- If taxpayers are aware of the relief measures available to them, are these measures applicable to them?
- If the relief measures are applicable to them, are they taking advantage of these measures;?
- If taxpayers are not taking advantage of the relief measures available to them, why are they not taking advantage of these measures?
- What is the view of taxpayers with respect to the sufficiency of relief measures provided by SARS?

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

South Africa has one of the highest levels of unemployment. Accordingly, Statistics South Africa (StatsSA) reported that as at May 2011, the official unemployment levels were estimated at 25% of the economic active population (Statistics South Africa, 2011:vi). With this comes the growing recognition that the small business sector is the most important originator of jobs in South Africa (Adcorp, 2012:2). By March 2012, an estimated 440 000 small businesses had closed in the period going back to 2007 (Adcorp, 2012:1). These small businesses, employing about 50 people or less, were said to be contributing nearly

68% of employment. It is estimated that the revival or sustainability of these businesses can potentially employ over five million people (Adcorp, 2012:2).

With the growing number of small businesses collapsing and closing down, it is imperative to contextualise the pertinent questions around the sustainability of SMMEs. One of the reasons for SMMEs failures is the tax burden faced by the owners of these businesses (Tlhomola, 2010:9). In response to this, SARS implemented certain relief measures. To ensure sustainability, it is important to establish whether or not the relief measures aimed at assisting SMMEs do indeed have the desired impact (National Treasury, 2005:87).

Though significant research on past struggles of the SMMEs has been conducted resulting in the implementation of certain tax relief measures (National Treasury, 2005:87), the subject area of evaluating the views of SMMEs taxpayers with regards to these relief measures has not been extensively researched and explored in the field. To date, no considerable amount of literature material is available that explicitly provides the specific views of small businesses with regards to the available relief measures. The study therefore attempts to provide empirical research output on the taxpayers' views with regards to the available relief measures and further provide possible areas of improvement in the field.

The next chapter provides the delimitations and assumptions of the study where specific areas of focus and assumptions applicable to the study are specified. Further, the key terms used in this study are defined in Chapter 3. In addition to this, Chapter 4 provides a review of the relevant literature. It is further important to deal with the process that the study will follow. As a result, the research methodology adopted for the purpose of this study is highlighted in Chapter 5. Chapter 6 details the research findings, while Chapter 7 details an overall conclusion and any resulting recommendations.

CHAPTER 2

DELIMITATIONS AND ASSUMPTIONS

2.1 DELIMITATIONS

The study has specific delimitations, which restrict the focus and target of the study. The study delimitates its focus to the following structure:

2.1.1 Geographic area

In order to align both time and financial resources at the disposal of the researcher, the study is geographically restricted to the Gauteng province of South Africa. The selected geographical location is chosen for two main reasons. Firstly, the Gauteng province has the largest conglomeration of business activities, providing different varieties of specialist businesses as detailed in the 2012 Guide to Business and Investment in Gauteng (ISSUU, 2012), which is sufficient justification for the proposed research methodology. The study focuses on the specific nature and specialist businesses due to the reasons provided hereunder. Secondly, the physical location is advantageous both in terms of time and cost to conduct the study.

2.1.2 Size of the Business

Small, medium and micro enterprises (SMMEs) in South Africa refer to different types of small businesses as defined in Chapter 3 and are differentiated by the size of their annual turnover, number of employees and gross asset value. In order to provide a coherent and focused approach to the study, the study focuses on micro and very small enterprises whose characteristics are well defined in Chapter 3.

2.1.3 Nature and Sector of Business

The research study is further restricted to specific business sectors and the nature thereof. Because there are multitude business activities in different categories of the business

sectors, the study is restricted to the construction sector of the economy. The construction sector has been selected as it is expected that the trade and construction sectors can create about 485 000 jobs over the three years from 2012 (National Treasury, 2011). The construction sector was also identified by SARS as one of the areas in the South African economy and in the tax system that has significantly lower levels of compliance than other sectors in the economy and as a result has been targeted by the SARS Compliance Programme (SARS, 2012).

Further, the research will only focus on whether taxpayers are aware of the relief measures available to them and if so, whether or not they are taking advantage of them as well as the reason for not taking advantage of them. It will not deal with the views of taxpayers with regards to any other tax matters.

2.2 ASSUMPTIONS

The study assumes that some of the attitudes and views of individual taxpayers will manifest themselves in businesses as SMMEs are largely owned and managed by individuals. This conclusion is based on the fact that the results of the study by Baye (2011) on the attitudes of small business taxpayers and the study by Oberholzer (2007) on the attitudes of individual taxpayers complemented each other. Further, it is assumed that different taxpayers have different attitudes and views towards tax and that these attitudes or views are either negative or positive. This is substantiated by a study by Oberholzer (2007) of the perceptions of taxation, which found that different taxpayers have different perceptions.

2.3 CONCLUSION

This chapter provided the delimitations and assumptions applicable to this study. The next Chapter details definitions of key terms relevant to this study

CHAPTER 3

DEFINITION OF KEY TERMS

This study involves a number of key concepts. These concepts are defined on the basis of legal definitions, books or existing widely accepted literature.

Attitude

For the purpose of this study, an *attitude* is defined as a hypothetical construct that represents an individual's degree of like or dislike for an item and is generally a positive or a negative view of a person or any other attitude object (Baye, 2011:25).

Company

The definition of *company* in terms of Section 1 of the Income Tax Act no 58 of 1962 (Income Tax Act) will be adopted for the purpose of this study. The income Tax Act defines a company to include:

- a) any association, corporation or company (other than a close corporation) incorporated or deemed to be incorporated by or under any law in force or previously in force in the Republic or in any part thereof, or any body corporate formed or established or deemed to be formed or established by or under any such law; or
- b) any association, corporation or company incorporated under the law of any country other than the Republic or any body corporate formed or established under such law; or
- c) any co-operative; or
- d) any association, formed in the Republic to serve a specified purpose, beneficial to the public or a section of the public; or
- e) any portfolio comprised in any investment scheme carried on outside the Republic that is comparable to a portfolio of a collective investment scheme in participation bonds or a portfolio of a collective investment scheme in securities in pursuance of any arrangement in terms of which members of the public, are invited or permitted

to contribute to and hold participatory interests in that portfolio through shares, units or any other form of participatory interest; or

f) a close corporation,

but does not include a foreign partnership;

Compliance costs

This includes the value of time spent on understanding the tax rules and applying them, record-keeping costs, the payments made for the expertise of professional advisors and incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities (Evans in FIAS, 2007:16).

Construction

Construction covers the preparation of sites and the construction of buildings and civil engineering structures, including heavy infrastructure and essential services” (Simon-Meyer, undated:1)

Gross Income

The definition of *gross income* in terms of Section 1 of the Income Tax Act will be adopted for the purpose of this study. Section 1 of the Income Tax Act defines gross income in relation to any year or period of assessment, as the total amount, in cash or otherwise, received by or accrued to or in favour of a resident or, the total amount, in cash or otherwise, received by or accrued to or in favour of a person other than a resident from a source within or deemed to be within the Republic, during such year or period of assessment, excluding receipts or accruals of a capital nature, but including, such amounts (whether of a capital nature or not) so received or accrued as detailed in Para (a) to (n) of the definition of gross income in the Income Tax Act.

Income

The definition of *income* in terms of Section 1 of the Income Tax Act will be adopted for the purpose of this study. Income means 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

Investment income means:

- dividends, royalties, rental on immovable property, annuities or income of a similar nature;
- interest contemplated in Section 24J of the Income Tax Act (other than interest earned by a co-operative bank), amounts contemplated in Section 24K of the Income Tax Act and other income subject to the same treatment as income from money lent; and
- the proceeds derived from investment or trading in financial instruments, marketable securities or immovable property (SARS 2011a:29).

Labour broker

Labour broker is defined in the tax guide for micro businesses as any individual who, for reward, provides a client with other persons to render a service and pays the other persons for rendering the service (SARS, 2011:8).

Personal service provider

A *personal service provider* is defined in the tax guide for micro businesses as a company or trust that has its services rendered to clients by a connected person (usually the owner, relative or beneficiary) and –

- where the services must be performed mainly at the premises of the client, the connected person is controlled or supervised by the client as to the manner in which the services are rendered; or
- where more than 80% of the income of the company or trust is received from any one client during the year of assessment,

except where the company or trust, throughout the year of assessment, employs three or more full-time employees who are on a full-time basis engaged in the business of the company or trust and are not connected persons (SARS, 2011:8).

SMMEs:

For the purpose of this study, the meaning of SMMEs will adopt the definition of small enterprise as defined in the National Small Business Act No 102 of 1996. Small enterprise means a separate and distinct business entity, together with its branches or subsidiaries, if

any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the Schedule (See Table 1) and classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of Table 1. (National Small Business Act, 1996 (Act 102 of 1996))

Table 1 below details the classification small businesses, depending the sector of the economy in which the business operates, number of employees, total turnover as well as total gross asset value.

Table 1: Small business classification

Column 1	Column 2	Column 3	Column 4	Column 5
Sector or sub-sector in accordance with the Standard Industrial Classification	Size of class	The total full-time equivalent of paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium Small Very small Micro	100 50 10 5	R 5 m R 3 m R 0.50 m R 0.20 m	R 5 m R 3 m R 0.50 m R 0.10 m
Mining and Quarrying	Medium Small Very small Micro	200 50 20 5	R 39 m R 10 m R 4 m R 0.20 m	R 23 m R 6 m R 2 m R 0.10 m
Manufacturing	Medium Small Very small Micro	200 50 20 5	R 51 m R 13 m R 5 m R 0.20 m	R 19 m R 5 m R 2 m R 0.10 m
Electricity, Gas and Water	Medium Small Very small Micro	200 50 20 5	R 51 m R 13 m R 5.10 m R 0.20 m	R 19 m R 5 m R 1.90 m R 0.10 m
Construction	Medium Small Very small Micro	200 50 20 5	R 26 m R 6 m R 3 m R 0.20 m	R 5 m R 1 m R 0.50 m R 0.10 m
Retail and Motor Trade and Repair Services	Medium Small Very small Micro	200 50 20 5	R 39 m R 19 m R 4 m R 0.20 m	R 6 m R 3 m R 0.60 m R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium Small Very small Micro	200 50 20 5	R 64 m R 32 m R 6 m R 0.20 m	R 10 m R 5 m R 0.60 m R 0.10 m
Catering, Accommodation and other Trade	Medium Small Very small Micro	200 50 20 5	R 13 m R 6 m R 5.10 m R 0.20 m	R 3 m R 1 m R 1.90 m R 0.10 m
Transport, Storage and Communications	Medium Small Very small Micro	200 50 20 5	R 26 m R 13 m R 3 m R 0.20 m	R 6 m R 3 m R 0.60 m R 0.10 m
Finance and Business Services	Medium Small Very small Micro	200 50 20 5	R 26 m R 13 m R 3 m R 0.20 m	R 5 m R 3 m R 0.50 m R 0.10 m
Community, Social and Personal Services	Medium Small Very small Micro	200 50 20 5	R 13 m R 6 m R 1 m R 0.20 m	R 6 m R 3 m R 0.60 m R 0.10 m

Source: National Small Business Act, 1996 (Act 102 of 1996)

Sustainability

For the purpose of this study, *sustainability* means continued existence into the foreseeable future (Longman, 2009:689).

Taxable income

The definition of *taxable income* in terms of Section 1 of the Income Tax Act will be adopted for the purpose of this study. Taxable Income means the aggregate of, the amount remaining after deducting from the income of any person all the amounts allowed to be deducted from or set off against such income and, all amounts to be included or deemed to be included in the taxable income of any person in terms of the Income Tax Act.

Taxable turnover

Subject to certain specific inclusions and exclusions detailed in the next paragraph, *taxable turnover* of a registered micro business in relation to any year of assessment consists of all amounts, not of a capital nature, received by that registered micro business during that year of assessment from carrying on business activities in the Republic of South Africa, less any amounts refunded to any person by that registered micro business in respect of goods or services supplied by that registered micro business to that person during that year of assessment or any previous year of assessment.

In addition to the above, taxable turnover of a registered micro business includes:

- 50% of all receipts of a capital nature from the disposal of immovable property, mainly used for business purposes, other than trading stock; and
- 50% of all receipts of a capital nature from the disposal of any other asset used mainly for business purposes other than any financial instrument; and
- in the case of a company, investment income other than dividends.

Paragraph 7 of the Sixth Schedule to the Income Tax Act excludes from taxable turnover:

- investment income received by or accrued to a natural person;

- any amount exempt from normal tax in terms of Section 10(1)(y), 10(1)(zA), 10(1)(zG), and 10(1)(zH);
- any amount received by that registered micro business where that amount accrued to it prior to its registration as a micro business and that amount accrued was subject to tax in terms of the Income Tax Act at the time of the accrual, and
- any refund received by that registered micro business from any person in respect of goods or services supplied by that person to that registered micro business (South Africa, 2011).

Taxation

The definition of taxation in terms of Section 1 of the Income Tax Act will be adopted for the purpose of this study. Taxation means any levy, tax leviable under the Income Tax Act or administrative penalty imposed in terms of section 75B of the Income Tax Act.

Taxpayer

The definition of taxpayer in terms of Section 1 of the Income Tax Act will be adopted for the purpose of this study and any reference thereto refers to the small business owner. Taxpayer means any person chargeable with any tax leviable under the Income Tax Act and includes every person required by the same Act to furnish any return.

Table 2 below provides a list of abbreviations used in this document with the meanings specified.

Table 2: Abbreviations used in this document

Abbreviation	Meaning
CGT	Capital Gains Tax
FIAS	Foreign Investment Advisory Services
GDP	Gross domestic product
RSA	Republic of South Africa
SARS	South African Revenue Services
SBC	Small business corporation
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
SMMEs	Small, Medium and Micro Enterprises
StatsSA	Statistics South Africa
STC	Secondary tax on companies
TIPS	Trade and Industrial Policy Strategies
USA	United States of America
VAT	Value added tax

CONCLUSION

This chapter provided the definition of the key terms applicable to this study as well as the meanings of the abbreviations used in this study. The next Chapter details the review of the literature relevant to this study.

CHAPTER 4

LITERATURE REVIEW

The preceding chapters provided the underlying basis as well as the overall boundaries of the study. In order to provide the scholarly basis for the research problem and question, this section provides a review of the existing body of knowledge available on the subject area.

In order to establish common background, the literature review starts with the description of taxation of SMMEs as seen in the context of the South African tax regime. The review then proceeds to look at the burden which results from the subjection of SMMEs to tax. This burden has a direct influence on the attitudes of taxpayers and as a result, the literature review covers these attitudes, specifically the ones that can be addressed by the available tax relief measures. Finally, the literature review covers the tax relief measures available to address the tax burden faced by SMMEs.

4.1 THE ROLE OF SMMES IN THE SOUTH AFRICAN TAX REGIME

The South African Revenue Services stated that income tax is a tax levied in terms of the Income Tax Act, on all taxable income of a taxpayer and is the main source of income for the South African government (SARS, undated). In terms of Section 5(1) of the Income Tax Act, income tax shall be paid annually, for the benefit of the National Revenue Fund, in respect of the **taxable income** received by or accrued to or in favour of any person or any **company** (South Africa, 2011). From this, it is important to provide clarity on the meanings of the terms *taxable income* and *company*.

The terms *taxable income* and *company* are defined in the Income Tax Act. It is evident from these definitions that all associations, corporations or companies, whether small or large, incorporated or deemed to be incorporated by or under any law in force or previously in force in the Republic of South Africa, are liable for tax in terms of the Income Tax Act. SMMEs incorporated in terms of any law in the Republic, are companies as defined in the Income Tax Act and are thus regulated by the Income Tax Act.

A small, medium and micro enterprise is defined in the National Small Business Act, 1996 (Act 102 of 1996) and is further classified in terms of Table 1 as detailed in Chapter 3 of this document. From Table 1, it is clear that SMMEs incorporated in terms of any law in the Republic fall within the scope of the definition of a company as defined in the Income Tax Act and are therefore also subject to the provisions of Section 5(1) of the same Act. Falling into this section brings about certain responsibilities and obligations in the form of compliance requirements. These requirements include registration with the tax authorities, calculation of taxable income, completion and submission of tax returns and actual discharge of the tax liability (South Africa, 2011).

According to the Accountancy SA (2008:8), SMMEs are a large part of South Africa's tax base as for every 10 000 active company taxpayers in the SARS database as of January 2007, only three are large firms. It is evident from the above that although these businesses are small, they are many in numbers and their combined contribution to the taxes collected by SARS is significant.

4.2 TAXATION BURDEN FACED BY SMMEs

In South Africa, there has been evidence of lack of compliance with taxation legislation by small businesses, which led to the introduction of the tax amnesty for small businesses, resulting in the forgiveness of past non-compliance in terms of Section 8 of the Tax Amnesty Act. (South Africa, 2006:12). Before the implementation of tax relief measure aimed at easing the tax burden for small businesses, several studies were conducted in order to establish the tax burden faced by SMMEs and the attitudes of taxpayers towards tax. The results of these studies are detailed below.

Blignaut and Demana (2002:5), in their study on the SMMEs compliance with environmental legislation, argued that the further development of SMMEs is seriously constrained due to various reasons including taxation. Similarly, this argument is found in the study on the regulatory review of small businesses, where areas pertaining to tax impediments and the lack of tax incentive schemes, impact of tax on cash flows,

complexity of tax systems and tax compliance burden for SMMEs, were identified as some of the significant constraints affecting SMMEs(Ntsika in Blignaut & Demana, 2002:5).

According to Mahadea and Pillay (2008: 437), the burden of taxation for small business is largely seen through the often lengthy and costly compliance procedures. These procedures have led to many businesses seeking to avoid taxation and thus resulting in non-compliance and possibly tax evasion. The constraints experienced by small businesses include registration as a taxpayer, costs of compliance, meeting the requisite tax burden, unwanted business profile and the perceived interference by authorities (Govender, 2008:38). Following is a brief discussion of each of the compliance challenges faced by small businesses before taking into account the impact of the implementation of tax relief measures on any of these challenges.

4.2.1 Registration

It is a legal requirement in South Africa that all new businesses must register as taxpayers. Upon registration, the taxpayer in question is then issued with the tax reference number and this is necessary for all future dealings with the Receiver of Revenue both with respect to the filing of the return and the payment of the tax liabilities (SARS, 2011a:8).

Tax practitioners take approximately 2.8 hours to register their clients' small business with a turnover of up to R300 000 for income tax (FIAS, 2007:30). By comparison, this time is almost the same as the time taken to register a business with a turnover of between R6 million and R14 million (FIAS, 2007:30). This has been said to be due to the fact that the same questions are asked in the process of registering as a taxpayer, regardless of the size of the business (FIAS, 2007:30). It is therefore evident that the effort taken by small business owners to register their businesses for tax purposes is more cumbersome than for larger entities based on their size, capacity and turnover. A simplified VAT registration process was introduced in 2008 (SAICA, 2008). However, no such process was introduced for income tax.

4.2.2 Costs of compliance

In order to comply with the regulatory requirements of tax compliance, small businesses are generally confronted with the following costs:

- The costs relating to the value of time spent by business owners, managers and staff, on understanding the rules and applying them;
- record-keeping costs, including, the costs of compiling the necessary receipts and other records and costs incurred in respect of the preparation of tax returns;
- the payments made for the expertise of professional advisors such as consultants, lawyers and accountants; and
- incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities (Evans in FIAS, 2007:16).

Moreover, the costs of compliance may also include other factors such as time cost, stress and other matters relating to the inconveniences of tax liabilities and obligations (Katz Commission in Smulders & Stiglingh, 2007:4). It is also possible that smaller businesses generally lack the required skills and knowledge to comply with the requirements of income tax and this may at times be exacerbated by the constantly changing tax regulations applicable to these smaller businesses. As a result, the costs of compliance are real and burdensome to the small businesses (Coolidge, Ilic & Kisunko, 2009:6).

Previous studies have found that small businesses make extensive use of external professional expertise to help them comply with regulation. Normal income tax functions are amongst the functions which are mainly outsourced by the majority of businesses. This is as a result of the lack of understanding of the relevant tax compliance measures which carries with it a burden which is costly to the small business (FIAS, 2007). Tax costs affect the business both in the short term, in that the costs are seen as directly affecting the income of the business and in the long term, in that such costs may be invested to grow the business over time (Tlhomola, 2010:56). In a survey conducted by Mahadea and Pillay (2008:438) on the external environmental conditions that favours or constrain entrepreneurship and small business development, the majority of respondents (69%) felt that taxation was a constraint to the growth of their business.

As at 2007, the average costs of registration for income tax purposes for taxpayers was estimated at approximately R350 (FIAS, 2007:32) while the costs of preparation, completion and submission of an income tax return were believed to be in the region of R800 (FIAS, 2007:37). By comparison, the costs of registration for small businesses with a turnover of up to R300 000 was found to be R723, while the costs of registration for a business making up to R14 000 000 in revenue was found to be R835. It is clear from these figures that smaller businesses bear the burden of rather higher compliance costs calculated as a percentage of their turnover (FIAS, 2007:38). FIAS (2007:45) also concluded that the costs of compliance were more burdensome for small businesses and demonstrated the regressive nature of compliance costs in the form of a table (Table 3) as follows:

Table 3: Tax and accounting costs as a percentage of turnover (based on highest turnover in each turnover bracket)

COST AS A % OF TURNOVER	TURNOVER			
	R1 - R300 000	R300 001 - R1 000 000	R1 000 001 - R6 000 000	R6 000 001 - R14 000 000
Pay for min tax services	2.2%	0.7%	0.1%	0.1%
Pay for tax & accounting services (maximum)	11.5%	3.2%	0.6%	0.3%

Source: FIAS (2007:45)

Mahadea and Pillay (2008:436) demonstrated that the annual compliance costs for a small business is estimated at almost 3% of its turnover while the same costs for a larger business are estimated to be in the range of 0.1% and 0.5% of its turnover.

A survey on informal SMMEs tax compliance (Govender, 2008:38) revealed that the majority of small businesses see the costs of complying with the tax requirements as a burden to their business, both in terms of meeting regulatory requirements which are too technical as well as the actual costs of compliance. By implication, the attitude of small businesses is that the compliance procedures are too cumbersome and time-consuming as well as confusing for a person without the necessary qualification and exposure to the procedures and compliance requirements. This tends to take the much needed time away from the business itself, which is detrimental to the immediate concerns of the small business owner.

Furthermore, small businesses generally view the tax rate as extremely high and directly impacting on their sustainability. Small businesses generally view the costs of compliance as negative towards the potential of and prospects for the growth of their businesses. Similarly, because the costs of compliance are not once off, they make the commitment to compliance high and burdensome to small businesses and thus threaten their long term sustainability (Tlhomola, 2010:96). The high tax rates also have a direct impact on the amount of tax that needs to be paid.

4.2.3 Meeting the requisite tax burden

Apart from the rigours of tax compliance with the attendant cost implications, small businesses regard the actual obligation of tax payment as a burden to their survival. This is due to the fact that the majority of small businesses are such that they are created to cater for immediate personal needs and are survivalist in nature (Tlhomola, 2010:96). With the associated low margins of return, paying the tax becomes an unnecessary obligation amongst the varying competing needs of the business and at times threatens the very survival of the business.

Tlhomola (2010:96) also observed that the current levels of taxation are perceived to be too high, thus impacting on the business revenue with the result that future growth of the business is hampered. The respondents in a survey conducted with regards to the perceptions of small, medium, micro enterprise on factors contributing to failure, stated that paying tax impacts negatively on the cash flow of the business because the funds could rather be used for business investments. (Ntsika in Blignaut & Demana, 2002:5; Tlhomola, 2010:96)

4.2.4 Unwanted business profile

Govender (2008:39), noted that for small business to expose themselves to the relevant tax authorities through tax compliance, results in an unwanted profile in that it draws increased and constant attention from the tax authorities on their business operations. This, in turn, implies a long term commitment by small businesses to tax compliance, which in many ways is not a desirable or an attractive move by small businesses. Once

the business registers as a taxpayer, there is a continuous obligation to complete the returns and pay the relevant tax liability as they would have entered the system (SARS 2011a:8). Failure to do so may result in an investigation by SARS which may result in penalties (South Africa, 2011).

4.2.5 Unnecessary interference by authorities

Furthermore, the perception of small businesses is that compliance to taxation also leads to unnecessary interference in the affairs and running of their businesses by authorities. As the compliance to taxation will imply substantial investment by small businesses both financially and in the form of investing their time, this becomes an unnecessary burden to small business (Govender, 2008:39)

4.3 IMPACT OF TAX BURDEN ON SMMEs FAILURE

From the above, it is evident that the existing taxation regime, before taking into account the relief measures, is seen as unfavourable for the sustainability of small businesses. The current tax regime, with its regressive nature and scale is perceived to be too high by small businesses and ultimately forces small businesses to remain outside the regulatory framework.

The current tax regime imposes a tax liability that is rather hostile for small businesses and their survival. Meeting the obligations of the tax liability affects the cash flows of the business and therefore limited funds are available for reinvestment into the business as trading and/or fixed capital. As a result, SMMEs struggle to finance their operating expenses, which are crucial to their survival and maintenance of existing levels of performance. This reduction in available funds also leads to the small business' inability to expand due to the lack of re-investment funds. Statistics show that most small businesses do not survive the initial stages due to a variety of reasons, cash flow being one of them (Chen 2007:17).

It is further evident that the burden of taxation carries with it psychological implications. Psychological impact can have negative consequences in that it may prevail in the form of

negative attitude towards taxation, resulting in non-compliance and possible tax evasion (Oberholzer, 2007). Tax evasion is illegal and can result in penalties (South Africa, 2011) which small businesses cannot afford. It can also result in imprisonment (South Africa, 2011), which is not good for a small business as most of them do not exist independently of their owners.

In terms of Section 75(1) of the Income Tax Act, a taxpayer can be imprisoned for a period of up to 24 months if he/she defaults in any manner stated in Paragraph (a) to (k) of that section. Further, taking into account the nature and seriousness of the non-compliance, the period of non-compliance, and any recurrence or repeat of the non-compliance, the Commissioner may impose administrative penalties prescribed in terms of Section 75B(3) in respect of non-compliance with any procedural or administrative action or duty imposed or requested in terms of the Income Tax Act. This has a negative impact on the cash flow of the businesses.

In terms of Section 76(1) on the Income Tax Act, if a taxpayer omits from his/her return any amount which should have been included therein or if he/she makes an incorrect statement in any return rendered by him/her which results in less tax than the tax that would have been charged in the absence of such statement, the Commissioner may levy a penalty of 200% of the amount of the difference in tax that resulted there from. This also has a negative impact on the cash flow of the businesses.

Further, Section 89*quat* imposes interest on underpayment of taxes. This on its own requires cash outlay to settle the interest liability and has a negative impact on the cash flows of the businesses. Keeping in mind the regressive nature of taxation, the impact can be significant.

Section 91 of the Income Tax gives the Commissioner the power to collect outstanding taxes, even if it means the recovery of the taxes from the business assets. This has a direct impact on the business as the business needs its assets in order to continue with its operations.

All the costs mentioned above add to the overall capital needs of the business. It is important to emphasise that taxation is not the only cost faced by small businesses. Chen (2007:53) in the study on causes of SMMEs failure found that lack of capital for growth and expansion was one of the top ten reasons for SMMEs failures. The findings in Chen's study (2007:67) were that business needs capital for various reasons listed hereunder:

- to finance working capital needs;
- to finance fixed assets investment;
- to finance personal expenses where the owner does not have alternative sources of income; and
- to finance payment of various taxes to the government;

It can thus be concluded that SMMEs face a serious cash challenge and all the costs add up and result in significant implications for the continued existence of the businesses.

4.4 ATTITUDES OF SMMEs TOWARDS TAXATION AND COMPLIANCE

From the definition of attitude in Chapter 3, it is evident that taxpayers may either like or dislike taxation and the compliance requirements thereof. Attitudes towards taxation may be evidenced by general compliance or non-compliance and tax evasion. Tax evasion is an illegal way of avoiding tax. Non-compliance to taxation regulation and tax evasion may result in significant penalties. These penalties may be in the form of money, which in turn has a direct impact on the cash flows of the businesses. Cash flow has a direct impact on the failure of SMMEs and has been identified as one of the top 10 reasons contributing to SMMEs failure (Chen, 2007:17).

Several studies on individual taxpayers' attitudes towards tax have been conducted. A study on small business taxpayers' attitudes towards tax was also conducted in Malawi (Baye, 2011). Though some of these studies have been specifically directed at individuals, some reliance can be placed on them for the purpose of this study as most small businesses are owned by individuals who are also involved in the day to day operations of the business. Ahmed and Braithwaite (2005:541) in their study on understanding small

business taxpayers concluded that one would not expect to find small business owners being more willing to pay tax than others in the community. The results of the studies can be classified in to two categories being general tax compliance and tax evasion.

4.4.1 General tax compliance

Oberholzer (2007:102) found that 43.85% of the respondents felt that tax rates should differ depending on the income earned, i.e. a progressive tax rate system should be used. In the same way, Baye (2011:59), who conducted a study in Malawi, found that a significant number (approximately 50%) of taxpayers believed that the tax rate should differ depending on the income. It is possible that businesses with lower income prefer to have a lower tax rate as they might feel that taxation is taking away too much of their profits and this may encourage the development of negative attitude towards taxation. This argument is supported by Oberholzer's finding where 63.08% of the respondents felt that rich people should pay tax at a higher rate when compared to poor people (Oberholzer, 2007:102). This feeling by the taxpayer may have an impact on whether or not they feel that the tax they pay is fair.

Oberholzer (2007:102) found that 16.54% of the sample tested felt that it was unfair to pay tax. These results were prevalent in taxpayers who were less tax compliant (Oberholzer, 2007:185). Baye (2011:34) conducted a similar study in Malawi on small businesses and found that 8% of the taxpayers did not like being taxed and one of the reasons provided for this was that, they felt that the amount of tax did not consider the taxpayer's ability to pay. Though the above is only applicable to 8% of the sample tested in the case of Malawi and 16.54% in the case of South Africa, it still represents genuine feelings of the taxpayers. Webley (in Oberholzer, 2007:185) found that people use the unfairness of the tax system as justification for evasion.

In addition to the above, Oberholzer (2007:178) found the following with respect to general tax compliance issues:

- approximately 49% of the respondents does not report all their income to SARS when they submit their return;

- 18.15% would consider not reporting all their income to SARS when submitting their income tax return;
- 17.69% had sometimes made higher deductions than legally allowed when submitting the income tax return;
- 20.77% would consider making higher deductions than legally allowed when submitting the income tax return;
- 40.38% agreed that if the tax advisor advises them not to declare all the income, they would take the advice.

Above is further evidence of negative attitude towards compliance as a significant number of people are either evading tax or have considered evading tax.

4.4.2 Tax evasion

There are a variety of factors which may contribute to tax evasion as highlighted in previous studies, ranging from high tax rates to the complex nature of taxation. These factors are discussed in more detail in the following paragraphs. Some of these past studies focused on individual taxpayers but reliance can be placed there upon as SMMEs are largely owned and managed by individuals.

The study by Oberholzer found that 77.31% of the respondents felt that the tax rates were too high and that these rates should be reduced. She also found that there was no relationship between their feelings towards the tax rate and their attitude towards evasion (Oberholzer, 2007:172). Some of the respondents in a similar study on small businesses by Baye (2011:55) felt that when businesses are not doing well, the government should adjust the tax rates. It can be concluded from the above that when the businesses are struggling, the taxpayers feel that taxes consume their already small profits. This can create a negative attitude towards taxation and compliance thereof. In addition to this, the issue of complexity of tax may also have an impact on tax evasion.

The findings in the study by Oberholzer (2007:102) with respect to the complexity of tax were that 31.54% of the respondents did not know why they have to pay tax and 37.69% felt that tax was very complicated and they did not know how to calculate their own tax liability. It was further found that 56.52% of the respondents who do not know why they

have to pay tax and 73.91% of those who find tax too complicated are those who will tend to evade tax more.

The above findings were supported by findings in the study by Baye on small businesses where 38% of the total respondents did not know how to calculate their own tax liability. This led to a conclusion that this inability may result in a negative impact on the tax compliance behaviour of business traders (Baye, 2011:63). People are likely to feel that something is a burden when they do not understand it. Where people do not know how to handle their tax matters, they will most likely dislike tax and this may contribute to non-compliance. Though Oberholzer (2007:201) found that the respondents felt that the penalties for tax evasion were too high, she also found this did not encourage compliance as 73.91% of those respondents tend to evade tax (Oberholzer, 2007:202).

It appears from the above information that there is a notable degree of negative attitude towards taxation. The findings described above show that there is a significant number of taxpayers who will tend to evade tax. The two studies complement each other even though the one was conducted on small businesses and the other on individual taxpayers. Tax evasion is an indicator of negative attitude towards tax. Oberholzer (2007:162) found that 45.77% of the respondents felt that the burden of tax is too heavy and as a result, most people are forced to evade tax.

It is therefore clear that taxpayers, whether small businesses or individuals, generally do not like paying taxes. While some accept that it is the right thing to do, others will do what they can to avoid having to pay (Oberholzer, 2007:162).

4.5 TAX RELIEF MEASURES IMPLEMENTED TO ASSIST SMMEs

In response to the tax burden faced by SMMEs as well as the attitudes of taxpayers towards taxation discussed above, SARS introduced relief measures aimed at easing the tax burden of SMMEs. These are grouped into those relating to small business corporations (SBC) and those relating to micro businesses. These measures are discussed in the following section.

4.5.1 Tax relief measures for small business corporations

A small *business corporation* is defined in Section 12E(4)(a) of the Income Tax Act and the meaning thereof has been adopted for the purpose of this study. Subject to Section 12E(4)(a)(i) to (iv), a small business corporation means any close corporation or co-operative or any private company as defined in section 1 of the Companies Act, 2008 (Act No. 71 of 2008), all the shareholders of which are at all times during the year of assessment natural persons.

Small business corporations qualify for a number of concessions in terms of the Income Tax Act, ranging from progressive tax rates to special provisions for writing off the cost of the assets. However, if one of the requirements for qualifying as a small business corporation is not met, the small business will be disqualified from applying such concessions as the Act requires all the requirements provided in the Act to be met.

4.5.1.1 Tax Rates

Small business corporations may be taxed on the progressive rate system (SARS, 2011:30). The rates used in this regard are detailed in Table 4 below:

Table 4: Small business corporations (SBCs): Tax year ending during the 12-month period ending on 31 March 2012

Taxable income	Rate of Tax
Not exceeding R59 000	0% of taxable income
Exceeding R59 000 but not exceeding R300 000	10% of the taxable income exceeding R59 750
Exceeding R300 000	R24 025 plus 28% of the taxable income exceeding R300 000

Source: SARS Tax guide for small business 2011/2012 (SARS 2011a:30)

From Table 4 above, it is evident that the lower the taxable income, the lower the tax liability. Small businesses may also find themselves exempt from paying tax if their taxable income is lower than R59 000. In addition, small business corporations making up to

R300 000 in taxable income only need to pay tax at 10%, which is much lower compared to the current 28% corporate rate of taxation. In addition to the tax rates concession, small business corporations have available to them certain relief measure relating to the write off of the cost of the asset.

4.5.1.2 Depreciation – immediate write off

In terms of Section 12E(1) of the Income Tax Act, the cost of an asset **owned** by a small business corporation or **acquired** by a small business corporation in terms of an instalment credit agreement may be deducted in full in the year the asset is brought into use for the first time by such small business corporation. The asset must have been brought into use on or after 1 April 2001 for the purposes of the SBC's trade, other than mining or farming, and it must be used by the small business corporation directly in the process of manufacture or similar process carried on by that small business corporation (South Africa, 2011). The Act therefore allows for an immediate write off of all plant or machinery used in a process of manufacture or similar process ("manufacturing assets") in the tax year it is brought into use for the first time. This provision does not apply where an asset is acquired for no consideration (SARS, 2009:12). Where a small business corporation does not qualify for an immediate write off, an accelerated write off may be applicable.

4.5.1.3 Depreciation – accelerated write off

In terms of Section 12E(1A) Income Tax Act, a small business corporation may elect to accelerate the write off of their assets, acquired on or after 1 April 2005, which do not qualify for Section 12E(1) and which may be written off in terms of sec 11(e) of the Income Tax Act as follows:

- 50% of the cost of the asset in the tax year during which it was first brought into use;
- 30% in the second tax year; and
- 20% in the third tax year.

It is evident from the above that, though there is some relief, it still excludes some small businesses and does not therefore eliminate the negative attitude towards taxation and the negative implications of taxation on the business operations.

Although the advantages and disadvantages are not as lengthy as that of the turnover tax system as discussed in section 4.5.2 below, it is evident from the above that being a small business corporation has the following advantages:

- Smaller businesses with taxable income of up to R59 000 may find themselves not having pay any tax at all while those making up to R300 000 only pay tax calculated at a rate of 10% which is significantly lower than the corporate tax rate of 28%.
- The immediate or accelerated write off of the cost of the asset provides relief in that it reduces tax payable and thus lower cash flow is required to settle the tax liability. The cash flows are therefore available to small businesses to reinvest, which is crucial in the start-up phase.

The disadvantage of this type of relief is that it is only available to small businesses which meet the definition of a small business corporation. Some of the small businesses may therefore not qualify as the requirements are strict and all of them have to be met.

4.5.2 Tax relief measures for micro businesses

Turnover tax relief

Turnover Tax is a tax levied and paid for the benefit of the National Revenue Fund, payable by a person that was a registered **micro business** during a year of assessment, in respect of its taxable turnover for that year of assessment (South Africa, 2011). It is essentially a simplified tax package that consists of turnover tax as a substitute for income tax, capital gains tax (CGT), secondary tax on companies (STC), and an increase in the value-added tax (VAT) compulsory registration threshold from R300 000 to R1 million (SARS, 2011:3). It is important to note that STC has since been replaced by dividends tax.

It is evident from the above that for the provisions of turnover tax to apply, one must first meet the requirement for the classification as a micro business as detailed in Paragraph 2

of the Sixth Schedule to the Income Tax Act. However, where a business is disqualified from being classified as a micro business in terms of Paragraph 3 and 4 of the Sixth Schedule; the provisions of turnover tax will not be applicable to such business.

Once all the requirements for classification as a micro business are met and the registration as a micro business has been carried out, a person qualifies for a turnover tax relief. The result of this is that the tax liability of that business is calculated by applying the progressive rates of taxation to the taxable turnover as defined in Chapter 3 (not taxable income). The tax rates applicable for turnover tax are detailed in Table 5 below.

Table 5: Turnover tax rates 2011/2012

Turnover	Marginal Rates (R)
R0 – R150 000	0%
R150 001 – R300 000	1% of each R1 above R150 000
R300 001 – R500 000	R1 500 + 2% of the amount above R300 000
R500 001 – R750 000	R5 500 + 4% of the amount above R500 000
R750 001 and above	R15 500 + 6% of the amount above R750 000

Source: SARS Tax Guide for small businesses 2011\2012 (SARS, 2011a:18)

From Table 5 provided, it is clear that the lower the turnover of the business, the less the tax. New businesses can even find themselves not having to pay any tax at all. This is beneficial as capital investments are required in the early stages of the business and the exemption from tax eases the cash flow burden.

The challenge is that qualifying for turnover tax is not automatic. There are certain exemptions which results in exclusion of certain businesses from this system. This may also fuel negative attitudes towards the tax system and may result in certain small businesses maintaining a view that the fiscus does not assist them. Further, this relief measure has some advantages and disadvantages discussed hereunder.

Advantages of turnover tax

Although no research has been conducted testing the advantages of turnover tax, the review of the turnover tax system reveals the following possible advantages:

- The determination of taxable income can be a highly complex exercise. Turnover tax is simple as the tax liability is simply calculated on taxable turnover and as a result, there are no complicated calculations (SARS, 2010:1).
- In terms of Paragraph 6 of the Sixth Schedule, the turnover tax simply includes 50% of the amounts received (the proceeds) from the disposal of business assets in taxable turnover. There are therefore no complex calculations of taxable capital gains (South Africa, 2011).
- Intensive record-keeping is not required under the turnover tax system (SARS, 2010:1). Thilakdari (2008) also agrees that the administration is simpler.
- With regards to provisional tax, an interim return will not be required if the business is not liable for an interim payment (SARS, 2010:1)
- Businesses with low turnovers and high profit margins can reduce their tax liability with turnover tax and as a result, turnover tax can result in a tax saving for a business (SARS, 2010:1). The first R150 000 is not subject to tax even though the business is making profits, which would have been subject to tax under the normal income tax system.
- It can result in the saving of consulting fees as the requirements are much less time-consuming for turnover tax than for VAT, income tax, provisional tax, CGT and STC (currently replaced with dividends tax) (SARS, 2010:1).
- In terms of Section 64F(h) of the Income Tax Act, where dividends of a micro business registered for turnover tax are less than R200 000 per annum dividends tax is not payable (South Africa, 2011).
- In terms of Paragraph 5 of the Sixth Schedule, turnover tax is levied on amounts received. Turnover tax is therefore levied on a cash basis (South Africa, 2011). It does not therefore put a strain on the cash flow of the business by taxing amounts that are not yet received.

Disadvantages of turnover tax

Though turnover tax has certain advantages as discussed above, it also carries with it certain shortcomings. The disadvantages of turnover tax are as follows:

- Companies in the tax loss position will still be liable for tax under the turnover tax system as, in terms of Section 48A of the Income Tax Act, turnover tax is levied on turnover, regardless of the taxable income/loss of the company (South Africa, 2011).
- In order to opt for turnover tax, one must apply before the beginning of the year of assessment in terms on Paragraph 8 of the Sixth Schedule (South Africa, 2011). Taxpayers therefore need to be able to accurately predict the performance of their business beforehand.
- In terms of Paragraph 8 of the Sixth Schedule, the small business must remain in that system for a minimum period of three years, unless the provisions of the Sixth Schedule no longer apply to it (South Africa, 2011). There is therefore limited flexibility for the taxpayer who may go through a difficult period, as result of his business making losses.
- If a very small business is deregistered from the turnover tax system, it may not re-enter the system for a period of three years (South Africa, 2011). There is therefore limited flexibility for the taxpayer who may feel the need to re-enter the system.

4.5.3 Other tax relief measures for small businesses

Provisional tax

In terms of Paragraph 20(1)(b) of the Fourth Schedule, when estimating the second provisional tax and completing the second provisional tax return, small businesses with turnover of less than R1 million can place reliance on the previous year's assessment instead of making an estimate. The benefit of this is that small business taxpayers can protect themselves from penalties resulting from instances where an estimate made is not more than 90% accurate.

Skills development levy

In terms of Section 3 of the Skills Development Levy Act no 9 of 1999, every employer must pay a skills development levy imposed by that Act. Section 4 of the same Act exempts employers where the total remuneration payable in the period of 12 months does not exceed R500 000 (South Africa, 1999). This exemption covers small businesses and is therefore a further relief from tax that is available to SMMEs.

Capital gains tax

Capital gains tax relief is available in terms of Paragraph 57 of the Eighth Schedule, to a natural person who disposes off of an **active business asset** of a **small business**. An *active business asset* is defined in paragraph 57 as an asset which constitutes immovable property, to the extent that it is used for business purposes; or an asset (other than immovable property) used or held wholly and exclusively for business purposes, but a financial instrument; and an asset held in the course of carrying on a business mainly to derive any income in the form of an annuity, rental income, a foreign exchange gain or royalty or any income of a similar nature. For the purpose of Paragraph 57, a *small business* means a business of which the market value of all its assets, as at the date of the disposal of the asset or interest in a partnership or company, does not exceed R5 million.

Paragraph 57 provides that a natural person must, when determining an aggregate capital gain or aggregate capital loss, disregard a capital gain determined in respect of the disposal of the following:

- an active business asset of a small business owned by that natural person as a sole proprietor; or
- an interest in each of the active business assets of a business, which qualifies as a small business, owned by a partnership, upon that natural person's withdrawal from that partnership to the extent of his/her interest in that partnership; or
- an entire direct interest in a company (which consists of at least 10% of the equity of that company), to the extent that the interest relates to active business assets of the business, which qualifies as a small business, of that company,

For this exemption to apply, one of the following conditions must apply:

- that person has held for his/her own benefit, that active business asset; interest in the partnership; or interest in the company (as the case may be) for a continuous period of at least five years prior to that disposal;
- that person has attained the age of 55 years; or
- the disposal is in consequence of ill-health, other infirmity, superannuation or death.

The above exemption does not apply to any capital gains in excess of R750 000 during a person's lifetime. Further, that natural person must realise all capital gains resulting from assets forming part of the same small business, qualifying for this relief within a period of 24 months commencing on the date of the first disposal. The provisions of these paragraphs apply collectively to all the small businesses of a natural person, provided the aggregate value of all small businesses does not exceed R5 million.

In terms of Paragraph 57A of the Eighth schedule to the Income Tax Act, a registered micro business must disregard any capital gain or capital loss in respect of the disposal by that business of any asset which constitutes immovable property, to the extent that it was used for business purposes; and any asset (other than immovable property) used mainly for business purposes. It is evident from the provisions of Paragraph 57A that micro businesses have an opportunity to disregard the whole amount of the capital gain depending on the nature and usage of the asset.

Dividends Tax

In terms of sec 64E(1) of the Income Tax Act, there shall be levied a tax known as dividends tax, calculated at the rate of 15% of the amount of any dividend paid by any company, other than a headquarter company.

The relief available to micro businesses emanates from the provisions of Section 64F(h) of the Income Tax Act which provides that any dividend declared by any company that is a registered micro business during any year of assessment during which such company is a registered micro business, to the extent that such dividend does not exceed the amount of

R200 000 during such year, shall be exempt from dividends tax. Similar relief was granted under secondary tax on companies before the implementation of dividends tax.

Value Added Tax

In terms of the Section 7 of the Value Added Tax Act no 89 of 1991 (VAT Act), VAT should be levied on the supply of goods and services by a vendor, in the course of an enterprise carried on by him. A business is required to register in terms of sec 23 of the VAT Act as a vendor if the total value of its taxable supplies exceeds or is expected to exceed R1 million. By implication, small businesses whose turnover is less than R1 million will be exempt from registration and paying VAT on their supplies.

4.6 CONCLUSION

A review of the literature revealed that SMMEs incorporated in terms of any law in the Republic of South Africa are companies as defined in the Income Tax Act and as a result, they are also subject to taxation in terms of the same Act. The subjection of SMMEs to tax has resulted in them being a large part of the tax base. As a result, they also contribute significantly to the tax revenue of the South African National Treasury. Though SMMEs are a large part of the tax base, there has been evidence of non-compliance (South Africa, 2006:12).

Further, a review of the literature revealed that tax is seen as a constraint to the development of SMMEs due to the burden it presents to these businesses. Previous research found that the impact of tax on cash flows contributes to failure (Chen, 2007:17).

The literature review also revealed that small businesses have negative attitudes towards tax as evidenced by various views expressed in the study by Baye (2011) and as a result, they tend to evade tax. It further reveals that in response to the findings of the researches of past struggles of SMMEs, SARS implemented certain relief measures.

A further review of the literature found the relief measures to have certain advantages and disadvantages as detailed in section 4.5 of this chapter. Amongst other, turnover tax was

specifically found to be disadvantageous due to the fact that companies in a tax loss position still have to pay tax under this system.

Though these relief measures have been mentioned in different pieces of literatures as evidenced by their detailed discussion in section 4.5 of this study, the views of taxpayers with regards to these relief measures have not been studied. The following chapter details how these views will be investigated for the purpose of this study.

CHAPTER 5

RESEARCH DESIGN AND METHODS

5.1 INTRODUCTION

With the research problem identified in Chapter 1, all the necessary delimitations and assumptions provided in Chapter 2 and a literature review carried out in chapter 4, it is important to establish how the study will be conducted. This chapter details the research design and methods which will be followed in order to address the research problem.

5.2 RESEARCH PARADIGM OR PHILOSOPHY

This study is based on the belief that different taxpayers have different views with regards to taxation relief measures. These views will in turn have an impact on whether or not the taxpayers will take advantage of these measures. The knowledge relating to this lies with the SMMEs taxpayers themselves. The best way to gather this knowledge is through direct interaction with SMMEs owners. As a result, the study involves semi structured interviews with micro and very small enterprises.

5.3 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN

5.3.1 A description of the proposed study

A study of the taxpayers' views with regards to the relief measures intended at easing the tax burden of SMMEs is a study of actual, lived experiences and the best way to learn more about this is to deal directly with the respondents. It is therefore a complex matter that probably cannot be best answered by a review of literature, especially considering that the laws constantly change and people's attitudes are impacted by these changes in laws.

Given the above, a qualitative strategy of inquiry will be used for this study. Qualitative research helps one understand and explain the meaning of social phenomena, with as little disruption of the natural setting as possible (Merriam, 1998:5).

5.3.2 Distinguishing characteristics of qualitative research

Qualitative research is concerned with experiences as they are lived or felt (Sherman & Webb in Merriam, 1988:6). Brayman and Bell (2007:403) describe the naturalism tradition of qualitative research as a process which seeks to understand social reality as it really is. The authors further stated that the perspectives of those being studied, as to what they view as important, provide a point of orientation (Brayman & Bell, 2007:425). In qualitative study, the researcher is the primary instrument for data collection and analysis with the result that data is mediated through the researcher rather than other non-human instruments (Merriam, 1998:7) The result of this is that data collection can be maximised and strategies adopted to make sure that complete and meaningful data is collected for interpretation.

5.3.3 Basic or generic as a form of qualitative research

Basic or generic is a qualitative research approach that collects data through interviews, observations or document analysis. The findings are a mix of description and analysis which usually result in the identification of recurring patterns that cut through the data on delineation of the process. This analysis does not extend to building a substantive theory. There are also no bounded systems or functioning that circumscribes the investigation (Merriam, 1998:11).

5.3.4 General characteristics of the research design

Below are the descriptors that best reflect the core characteristics of the study:

- Empirical research: The proposed study can be classified as an empirical study as new data will be collected and analysed, i.e. the researcher will collect and analyse primary data.

- Basic research: The study can also be classified as basic qualitative research as data will be collected through an interview and the findings will be a mixture of description and analysis (Merriam, 1998:11).
- Descriptive research: Descriptive research collects descriptive data. Descriptive data is data whose values cannot be measured numerically but can be distinguished by classifying into sets or categories (Saunders, Lewis and Thornhill, 2007:596). The focus of this study is to provide an in-depth description of specific taxpayers' lived experiences.
- Primary data: Primary data refers to data that is collected specifically for a research project being undertaken (Saunders *et al.*, 2007:607). For the purpose of this study, primary data will be collected to address the research questions.
- Textual (qualitative) data. Qualitative data is described as non-numerical data and can also refer to non-textual data such as pictures (Saunders *et al.*, 2007:145). Data will be collected through interviews and this in its nature produces textual data.

5.4 SAMPLING

Saunders *et al.* (2007:610) define a *sample* as a subgroup or part of a larger population. This study aims to draw conclusions on the view of SMMEs taxpayers with regards to tax relief measures. The study has also been delineated to focus only on micro enterprises, very small as well as small businesses operating in the construction sector in the Gauteng province. The units of analysis are thus micro enterprises, very small as well as small businesses in Gauteng, operating in the construction sector.

The construction industry has been selected as it is expected that the trade and construction sectors can create about 485 000 jobs over the three years from 2012 (National Treasury, 2011). The construction industry has also been identified by SARS as one of the areas in the South African economy and in the tax system that has significantly lower levels of compliance than other sectors in the economy and as a result has been targeted by the SARS Compliance Programme (SARS, 2012).

A non-probability or judgemental sampling method will be used to select the sample to be studied. With this method, the probability of each case being selected from the total population is not known (Saunders *et al.*, 2007:207). Breedt (2010:37) in her study on whether turnover tax is a benefit or a burden selected a sample of 12 businesses from three sectors with the result that an average sample of four businesses was tested per sector. As a result, only four businesses from the construction industry has been randomly selected for this study and their view studied as this study only focuses on one sector of the economy. As the objective of the research is to provide an in-depth description of the experiences, it is not necessary to test large samples of data. It is more appropriate to focus on smaller samples and obtain a detailed understanding of their experiences. In addition, it is not practical to test huge samples due to time and budget constraints.

5.5 DATA COLLECTION

In qualitative research, the approach tends to be much less structured, there is much greater interest in the interviewee's point of view, rambling or going off at tangent is encouraged, there is a possibility of departure from any schedule being used for the purpose of the interview, interviewing tend to be flexible in response to the direction the interviewee takes the interview, the researcher wants rich detailed answers and the interviewee may be interviewed on more than one occasion (Brayman & Bell, 2007:473-474).

For the purpose of this study, data will be collected through semi-structured individual interviews held by the researcher with the respondents. The use of semi-structured interviews as a method of collecting data is beneficial for the purpose of this study for the following reasons:

- The purpose of the research: Saunders *et al.* (2007:315) stated that where it is necessary to understand the reasons for the decisions taken by the research participants or the reasons for their attitudes and opinions, qualitative interview is necessary. Semi-structured interview provides the researcher with an opportunity to probe answers where the researcher wants interviewees to explain or build on their responses (Saunders *et al.*, 2007:315). In order for this study to achieve its purpose,

it is important to obtain a detailed understanding of the taxpayers' views with regards to the tax relief measures available to them.

- The significance of establishing personal contact: Participants prefer to be interviewed rather than to provide information through the use of a questionnaire (Saunders *et al.*, 2007:315). Personal interviews provide an opportunity for interviewees to receive feedback and personal assurance about the way information will be used (Saunders *et al.*, 2007:315). This is particularly important in this research as taxation is a sensitive issue.
- Nature of data collection questions: An interview is undoubtedly the most appropriate approach where the questions are open ended (Saunders *et al.*, 2007:316). Some of the questions in this study are open ended where the interviewees will be expected to provide more than a simple "yes" or "no" answer.

The specific attributes to be investigated are whether the small businesses are aware of the tax relief measures available to them; where these businesses are aware, whether they are taking advantage of them and where taxpayers are not taking advantage of these relief measures, what are the reasons for not taking advantage of them. The form of data to be collected will comprise of verbal responses to the interview questions posed. There will be no pilot run and there is also no need for any special equipment to assist in collecting data. It will take approximately four weeks to collect the required data.

A challenge that may be faced in accessing the sources of data is the fact that tax is a sensitive issue and the targets might be reluctant to talk about it. The fear may be that they will be prosecuted for any act of non-compliance to tax that may come to light during the interview. This will be overcome by keeping the respondents anonymous and making this known to the respondents.

5.6 DISCUSSION OF THE INTERVIEW QUESTIONS

Due to the nature of the research, a semi-structured interview was selected as a tool for data collection. Questions were structured in a way that will result in the research question being answered. The questions were grouped into introductory questions and questions

relating to the taxpayers' views with regards to the SARS relief measures available to SMME.

5.6.1 Introductory questions

These questions were asked in order to obtain an insight into the taxpayer's business. The aim was to establish whether the business qualified as a small or micro enterprise as the research is delineated to focus on those businesses. The question was also asked to establish the length of time the business has been operating with an attempt to understand if the business has been operating long enough to have been exposed to different tax challenges and the relief measures introduced to assist them with these challenges.

5.6.2 Questions relating to available tax relief measures

An instrument used in Elanie Breedt's study on whether or not turnover tax is a benefit or a burden was adopted and modified accordingly (Breedt, 2010:59). Below is the discussion of the subgroups of the questions asked.

5.6.2.1 *Awareness of tax relief measures*

A question was asked to establish whether respondents are aware of the available tax relief measures. Specific focus was on the relief measures that are viewed as having the most significant impact on the taxpayer as a result of providing relief to the tax liability resulting from daily operations. Taxpayers were as a result not asked about dividends tax as this is conditional upon declaration of any dividend. They were also not asked about capital gains tax as the disposal of capital assets is not part of the daily operations of the small business. Further, they were not asked about skills development levy as this is also not part of the daily operations of the small business.

The aim of this study is to establish what the view of taxpayers is with regards to available tax relief measures. Before taxpayers can have a view on these measures, they need to first be aware of them. Taxpayers who are not aware of the relief measures, even after prompting, will naturally be unable to express their viewpoint. Where taxpayers are found

to be unaware of the available tax relief measure, more participants will be interviewed until participants who are aware of the available tax relief measures are found.

5.6.2.2 *Taking advantage of available relief measures*

Questions were asked to establish whether those taxpayers who are aware of the relief measures are taking advantage of them. Where taxpayers were not taking advantage of these relief measures, they were asked to provide reasons for not taking advantage of these relief measures. This assists in providing information with regards to the views of taxpayers with respect to the available relief measures.

Where taxpayers are taking advantage of the relief measures, they were asked to provide details of the measures they were taking advantage of, why they chose to take advantage of those specific ones and if they feel they are providing effective tax relief to their businesses. This provides further information with regards to the views of those taxpayers taking advantage of the relief measures.

5.6.2.3 *Taxpayer's view with regards to the available relief measures*

Respondents were requested to provide their views with regards to whether or not SARS has sufficient relief measures in place to assist the small business owner. This is a question aimed at providing additional information with regards to the research questions.

5.7 DATA ANALYSIS

Since data will be collected on the view of taxpayers with regards to tax relief measures, it is qualitative in nature and will comprise mainly of textual responses. Data will be recorded by documenting the responses to the interview questions. Where appropriate, this will further be tabulated and the descriptive method of analysing data will be adopted. The descriptive method will be adopted as it will provide an in-depth description of the results.

5.8 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

As mentioned earlier, taxation is a sensitive topic. Interviews that may touch on compliance, whether directly or indirectly is even more sensitive. The interviewee may therefore choose not to reveal certain information that the researcher wishes to discuss due to the fact that this may lead to probing questions that would intrude on sensitive information that they may not wish to discuss (Saunders *et al.*, 2007:318). This is a typical example of response bias. This type of bias in this study will be managed once again by making sure that the interviewees are aware that their identity will not be disclosed and that the information will not be used for any form of prosecution by utilising the “Informed consent for participation in an academic research study” (Refer Appendix B).

The study may also be subjected to interviewer bias which is described by Saunders as a situation where an interviewer uses comments, tone and non-verbal behaviour to influence the response of the interviewee (Saunders *et al.*, 2007:318). This will be kept in mind by the interviewer when structuring and asking the questions.

The issue of reliability of data is overcome in this case by the fact that the research findings are not intended to be repeated as they will reflect reality at the time data was collected (Saunders *et al.*, 2007:319).

5.9 RESEARCH ETHICS

Ethics refers to the appropriateness of the behaviour in relation to the rights of those who become research subjects (Saunders *et al.*, 2007:178). Ethical issues revolve around the way one should treat people on whom one conduct the research and whether or not there are activities one should not engage in, in one’s dealings with them (Brayman & Bell, 2007:127). The following specific ethical principles are applicable to this study:

- copyrights;
- plagiarism (a declaration against plagiarism was signed);
- voluntary participation and the rights of subjects to withdraw from the study at any point without negative consequences;

- prohibition on the use of financial/non-financial incentives to encourage participation;
- informed consent of participants (Appendix B contains a first draft of the informed consent form that was used in the study);
- prohibition of deception of participants;
- confidentiality and privacy of research participants and data provided by them;
- anonymity of research participants;
- appropriate care with respect to archiving and storage of research data;
- researcher's objectivity, honesty and integrity;
- prohibition of fabrication or falsification of data;
- prohibition of misleading or false reporting of research findings.

5.10 CONCLUSION

This chapter detailed the research design and methods aimed at addressing the research problem. The questions to be asked in the interviews were also provided and discussed. The next chapter details the results of the interviews conducted.

CHAPTER 6

RESULTS OF IN-DEPTH INTERVIEW

Chapter 5 detailed the research design and methods aimed at addressing the research problem. The sample as well as interview questions were also discussed. This Chapter details the results of the interviews conducted.

For the purpose of this study, interviews were carried out with four respondents as detailed in Chapter 5 of this study. The respondents were identified through referrals. The interviews were held with owners who are also managers of their businesses. In order to answer the research questions as posed in Chapter 1, the results of these interviews are classified into five categories, namely, general characteristics of the businesses, awareness of existing relief measures, applicability of existing relief measures, utilisation of existing relief measures and respondents' view with regards to the sufficiency of existing relief measures. The results under these classifications are discussed in detail hereunder.

6.1 GENERAL CHARACTERISTICS OF THE BUSINESSES

Respondents were asked questions aimed at establishing their classification into micro or very small businesses. Further, questions were asked to establish how long the respondents' businesses have been operating and whether they handle their own tax affairs or whether they use the services of a tax practitioner. The results are summarised in Table 6 and Table 7 below.

Table 6: Summary of the results on the classification of the businesses

	Value of Revenue	Value of assets	Number of employees	Classification	Personal Service provider?
Respondent 1	More than R0.2m but less or equal to R3m	More than R0.2m but less or equal to R0.5m	6 to 10 employees	Very Small Business	No
Respondent 2	More than R0.2m but less or equal to R3m	More than R0.5m but less or equal to R1m	11 to 50 employees	Very Small Business	No
Respondent 3	More than R0.2m but less or equal to R3m	More than R1m	Up to 5 employees	Very small Business	No
Respondent 4	More than R0.2m but less or equal to R3m	Up to R0.2m	Up to 5 employees	Micro business	No

Table 7: Summary of the results on the characteristics of the businesses

	Business type	Classification	Operating (years)	Taxes on their own	Use of tax practitioner
Respondent 1	Builder	Very Small business	6	Yes	No
Respondent 2	Architect	Very Small business	4.5	No	Yes
Respondent 3	Town Planner	Very Small business	10	No	Yes
Respondent 4	Town Planner	Micro	2	No	Yes

One of the respondents was a micro business while the other three were very small businesses. The respondents have been operating for a period ranging from one to ten years with three of the respondents having been operating for less than six years. One of

the respondents handles his own tax affairs while the other three uses the services of a tax practitioner. Two out of three of those who use the services of a tax practitioner were found to be actively involved in the tax affairs of the company while the other one was involved to a lesser extent.

6.2 AWARENESS OF EXISTING RELIEF MEASURES

Respondents were asked whether or not they were aware of existing tax relief measures. Where the respondents were not aware of any relief measures or where they were aware of only some of the relief measures under review, a list of the available relief measures which the respondents did not indicate that they were aware of was provided to them, after which they were asked if they were aware of the relief measures provided to them. The results of this are detailed in sections 6.2.1 and 6.2.2 below.

6.2.1 Immediate awareness of relief measures without prompting

The relief measures that the respondents were aware of without prompting are summarised in Table 8 below.

Table 8: Summary of the results on immediate awareness of relief measures without prompting

Relief measure	Number of the respondents aware	Number of the respondents not aware
SBC	0	4
Turnover tax	0	4
Provisional tax payment	1	3
VAT	1	3

From the above, it is evident that some of the respondents were aware of some of the relief measures without any prompting. The most common relief measures they were aware of are VAT and provisional tax. One out of four respondents was aware of VAT and provisional tax relief measures. The relief measures that were not mentioned by the respondents without prompting were SBC and turnover tax.

6.2.2 Awareness of relief measures after prompting

A list of all the available relief measures under review which the respondents did not indicate that they were aware of was provided to the respondents. After this, they were asked if they were aware of all the relief measures mentioned. The results are detailed in the Table 9 below.

Table 9: Summary of the results on awareness of relief measures after prompting

Relief measures	Number of the respondents aware	Number of the respondents not aware
SBC	0	4
Turnover tax	2	2
Provisional tax payment	4	0
VAT	4	0

From the above, it is evident that the respondents were aware of turnover tax, provisional tax payment as well as VAT. Their awareness of the relief measures grew with prompting from an overall lack of awareness to recognisable levels of awareness as detailed in Table 9 above. From Table 9, it is evident that two of the respondents were aware of turnover tax. Provisional tax and VAT relief measures were the most common with all the respondents being aware of them.

It appears that taxpayers are generally aware of some of the tax relief measures but do not view them as an effort to provide tax relief without these measures being listed to them as such. This is evidenced by the fact that there was a high level of lack of awareness when the respondents were first asked about their awareness of the tax relief measures and this was reduced significantly by providing a list of relief measures and then only asking the respondents if they were aware of these. The awareness changed from an average of 12.5% to an average of 62.5% with prompting.

Though awareness grew with prompting, all the respondents were still unaware of the relief measures available to small business corporations and half of the respondents were

unaware of turnover tax. The reason provided for this was a lack of communication by SARS of various relief measures available and as a result, small businesses are either unaware or not sufficiently well informed when it comes to certain relief measures. The other reasons provided were the general lack of publicity and the need for small businesses to physically visit the offices of the Receiver of Revenue before they can learn of any seminars and events that can assist them in becoming more aware of the various relief measures available to them. Though this is the specific experience of some of the respondents, it may not necessarily represent the true nature of events as SARS, through their website, makes information available to the public without the public having to visit the branch.

6.3 APPLICABILITY OF EXISTING RELIEF MEASURES

Where the respondents indicated that they were aware of any of the relief measures, they were asked whether or not the specific available relief measures are applicable to them. Only the respondents who indicated that they were aware of the relief measures were asked about their applicability to them. The results are summarised in the Table 10 below.

Table 10: Summary of the results on applicability of existing relief measures

Relief Measures	Number of the respondents aware	Number of the respondents where relief measures are applicable	Number of the respondents where relief measures are not applicable
SBC	0	Not applicable as respondents not aware	Not applicable as respondents not aware
Turnover tax	2	1	1
Provisional tax payment	4	3	1
VAT	4	4	0

From the Table 10 above, it is evident that some of the relief measures were applicable to some of the respondents. Though respondents may be aware of the available relief measures, these were not necessarily applicable to them. None of the respondents

indicated that they were aware of the SBC relief measure and as a result, none of them could indicate whether or not it was applicable to them. This does not mean that this relief measure was not applicable to all the respondents but that although this relief measure could have been applicable to some or all of the respondents, they were not aware of it and as a result, they could not tell whether or not it was applicable.

Of the two respondents who indicated that they were aware of turnover tax, only one indicated that it was applicable to his business. The other respondent did not qualify due to the fact that the value of his turnover was higher than the R1 million qualifying threshold. All the respondents who indicated that they were aware of the provisional tax payment relief measure also indicated that it was applicable to them.

Of the four respondents who indicated that they were aware of the VAT relief measure, only three indicated that it was applicable to them. The other respondent did not qualify due to the fact that the value of his taxable supplies exceeded the R1 million VAT registration threshold.

All the respondents who indicated that the tax relief measures were not applicable to them view the relief measures as insufficient in assisting small businesses. The reason for this is that though these relief measures are available, they do not assist them as they do not qualify for their application.

The respondents who indicated that the relief measures were applicable to them were then asked if they were taking advantage of these relief measures. The results are detailed in 6.4 below.

6.4 UTILISATION OF THE AVAILABLE RELIEF MEASURES

The respondents who indicated that the available relief measures were applicable to them or that they qualified for the application of these relief measures were then asked if they were taking advantage of them and if they were, which ones. The results of the respondents are detailed in Table 11 below.

Table 11: Summary of the results on utilisation of the available relief measures

Relief Measure	Number of the respondents where relief measures applicable	Number of the respondents utilising	Number of the respondents not utilising
SBC	0	Not applicable as respondents not aware	Not applicable as respondents not aware
Turnover tax	1	0	1
Provisional tax payment	4	1	3
VAT	4	4	0

From Table 11 above, it is clear that none of the respondents who qualified for the application of turnover tax relief measure were taking advantage of it. The reason provided for this was that when the turnover tax system was introduced, this respondent was already paying tax using the normal tax system and since then, there has been no review of the tax system followed. There has been no investigation from the part of the respondent as to whether or not this system would be beneficial and as a result, there has been no switch to the turnover tax system or a well investigated decision to stay in the normal tax system.

It is further evident that all the respondents who qualified for the VAT relief measure were also taking advantage of it. It is also evident that of all the respondents who qualified for provisional tax payment relief, only one was taking advantage of it. The reason provided for not taking advantage of it was that it is not effective in that the performance of the company differs from year to year. Respondents indicated that they would not like to rely of previous year’s estimate when they expect their profits to be much lower than the year before as this will result in their businesses paying much higher tax than they should with the money they do not have.

The other reasons provided for not choosing to utilise the relief measures were associated with the “know how”. Respondents indicated that even if they hear about certain relief

measures, they are not certain about their application and how they should go about trying to take advantage of them.

The reason provided for choosing to take advantage of the provisional tax payment relief measures was the relief from not having to estimate income before submitting a provisional tax return. The reason provided for choosing to take advantage of the VAT relief measures was the reduction of red tape associated with it. Respondents felt that the relief measure took away the record keeping obligations as well as the need to submit many returns.

The respondents utilising the relief measures were then asked if these relief measures were providing effective relief. Respondents who were not utilising the relief measures were not asked whether or not the relief measures were sufficient. The results are provided in Table 12 below:

Table 12: Summary of the results on the effectiveness of the available relief measures

Relief Measure	Number of the respondents utilising	Effective relief	Not effective relief/ No opinion
SBC	0	Not applicable as respondents not utilising	Not applicable as respondents not utilising
Turnover tax	0	Not applicable as respondents not utilising	Not applicable as respondents not utilising
Provisional tax payment	1	1	0
VAT	4	3	1

From Table 12 above, it is evident that all the respondents who were utilising the provisional tax relief measure felt that it was effective. Only three of the respondents indicated that the VAT relief measure was effective. The other one could not express an opinion on the effectiveness of this relief measure.

The respondents who felt that the relief measures were effective provided the following reasons:

- Ability to easily estimate their tax for the purpose of provisional tax payment;
- Reduction of record keeping obligation with regards to the VAT relief measure;
- Taking away the need to submit monthly VAT returns.

The reduction of record keeping with regards to VAT provides further evidence that where this relief measure is implemented, it is effective in reducing the tax burden faced by small businesses as identified in section 4.2.2 of the literature review.

These respondents were then asked what their views were, with regards to whether or not SARS has sufficient relief measures available to assist small business owners. The results of this are detailed in section 6.5 below.

6.5 RESPONDENTS' VIEW WITH REGARDS TO SUFFICIENCY OF RELIEF MEASURES AVAILABLE TO SMALL BUSINESSES

As detailed in the previous paragraph, the respondents were asked to express their views with regards to whether or not SARS has sufficient relief measures to assist small business owners. From the results of the interviews, several themes were identified when a view was held by more than one respondent and the views of the respondents have been classified under these themes.

Table 13: Summary of the results on the effectiveness of the available relief measures

Themes	Number of respondents who mentioned the theme
SARS is out to get us	2
SARS does not invest in small business development	3
Administrative burden	2
Lack of support to small businesses	2
Inability to claim VAT	2

6.5.1 Theme: SARS is out to get us

One of the respondents felt that the focus of SARS is to get everyone to complete the returns and pay the tax. This respondent views SARS as scary and as an organisation that is out to get them. The respondent felt rather disadvantaged by the system. This respondent felt that the relief measures are not emphasised in the same way as the need to pay the taxes.

In line with the results of the literature review in section 4.4.1 of this study, which found that some of the respondents were in favour of the progressive rate system, the other respondent felt that the tax is heavy and that it does not consider the strain that is faced by smaller businesses and the contribution they are making towards the economy. This respondent held the view that SARS was on a mission to try and collect as much money as they can, as early as they can and their main aim was not to assist small businesses.

6.5.2 Theme: SARS does not invest in small business development

One of the respondents views the relief measures as insufficient in assisting small businesses and their development. This respondent expressed the need for SARS to come across as backing full SMMEs development. The other respondent felt that SARS should categorise and exempt small businesses. This is in line with the results of the literature review in section 4.4.1 of this study, which found that taxpayers in the study conducted by Oberholzer (2007:102) and Baye (2011:59) felt that the tax rates should differ depending on the income earned, i.e. a progressive tax rate system should be used. Oberholzer (2007:102) and Baye (2011:32) further found that some of the respondents felt that it was unfair to pay tax.

Further, one of the respondents expressed a lack of confidence in the fact that the suggestions and questions raised by small businesses are taken seriously by SARS. The respondent felt that meetings are held but there is no real focus on the issues raised by small businesses. The respondent raised the fact that SARS needs to be seen as attending to the issues faced by the small businesses and applying and implementing their suggestions.

6.5.3 Theme: Administrative burden

The other issues that came across were with regards to the frustrations with the tax system. One of the respondents expressed that he find that applications take too long. The other suggested that information is not readily available which is aimed at creating awareness of the different relief measures. He further stated that there is a need to visit the SARS branch which is not necessarily within their locations before they can find out information about small business tax seminars. They expressed a lack of support from SARS.

The above is in line with the findings of the literature review in section 4.2.1 of this study, which found evidence that the effort taken by small business owners to register their businesses for tax purposes is more cumbersome than for larger entities based on their size, capacity and turnover.

6.5.4 Theme: Lack of support

One of the respondents expressed the view that small businesses do not receive sufficient support from SARS which would assist them in taking advantage of available relief measures. The other respondent was of the view that the smaller the business, the more disadvantaged they are as professionals who can support them through making them aware of the relief measures work for larger organisations and they simply cannot afford to pay the professional fees to attain their professional services. These respondents felt that something needs to be done as there are no advances in the form of cash flows available to small businesses and as a result, the strain is exacerbated.

6.5.5 Theme: Inability to claim VAT

Two of the respondents expressed the view that their inability to claim VAT due to the fact that they are not VAT vendors was a disadvantage. They expressed the fact that the system was unfair because they are charged VAT and they are unable to claim it back from SARS. It appears that these respondents are more focused on the fact that they

cannot claim the VAT input and not on the fact that they do not have to declare the VAT output.

6.6 CONCLUSION

From the results of the interviews conducted, it was found that respondents appear not to view the relief measures as relief measures. They appear to be aware of them only as part of the provision of the Income Tax Act and the VAT Act but not as provisions intended to provide relief to them. Most of the respondents indicated that they were unaware of the relief measures until these were listed to them. Listing the relief measures to the respondents changed the awareness level from 12.5% to 62.5%.

Awareness of the relief measures did not however mean that the specific relief measures were applicable to the respondents. When the respondents were asked whether the relief measures were applicable to them, some of these respondents indicated that they were not applicable. Further, only some of those who indicated that the relief measures were applicable to them were actually taking advantage of them. While most of those who were taking advantage of the relief measures felt that they were effective, there was still one respondent who could not express an opinion.

It was also found that, not all small businesses believe that SARS is trying to assist them. Some of them felt that the most important thing to SARS was tax collection rather than assisting small businesses.

Respondents felt that SARS need to be seen as assisting small businesses and taking the concerns and questions raised by small businesses more seriously. The issue of accessibility of information and support from SARS also came to light where the respondents felt that they were not receiving sufficient support from SARS and that for them to become aware of relevant information, they must have visited a SARS office.

CHAPTER 7

CONCLUSION

7.1 INTRODUCTION

Although SMMEs contribute significantly to the South African economy, these businesses have a very high failure rate (Adcorp, 2012:1) Previous research has identified a significant tax burden as one of the factors contributing to SMMEs failure (Tihomola, 2010:9). Areas pertaining to tax impediments and the lack of tax incentive schemes, the impact of tax on cash flows, the complexity of tax systems and the tax compliance burden for SMMEs have been identified as some of the significant constraints to further development of SMMEs (Ntsika in Blignaut & Demana, 2002:5).

In 2004, SARS undertook to review the administrative and tax compliance concerns of SMMEs and as a result, they held extensive workshops and consulted widely with various stakeholders from the Government and industry. As a result, relief measures were put in place by SARS to ease the tax compliance burden (National Treasury, 2005:87).

Different relief measures currently in place are: progressive tax rates available to small business corporations; immediate or accelerated write off of the costs of the assets by small business corporations; turnover tax, provisional tax; skills development levy; VAT; capital gains tax and dividends tax.

7.2 RESEARCH PURPOSE

The purpose of the study was to determine the taxpayers' views with regards to the tax relief measures put in place to ease the tax burden of SMMEs. To achieve this purpose, the following research questions were posited:

- Are taxpayers aware of the relief measures available to them?
- If taxpayers are aware of the relief measures available to them, are these measures applicable to them?

- If the relief measures are applicable to them, are they taking advantage of these measures?
- If taxpayers are not taking advantage of the relief measures available to them, why are they not taking advantage of them?
- What is the view of taxpayers with respect to the sufficiency of relief measures provided by SARS?

For the purpose of this section, the conclusion is structured in terms of the research questions. The first two questions are grouped together, the next two questions are also grouped together while the last question will be concluded on separately.

7.2.1 Taxpayers' awareness of the relief measures available to them and the applicability thereof

To address the research question of whether or not taxpayers are aware of the relief measures available to them, taxpayers were asked whether or not they were aware of any of the available relief measures. The study revealed in Chapter 6 that only 12.5% of the respondents were aware of the relief measures without prompting. The study further revealed that this number grew to 62.5% with prompting. The study also revealed that different respondents were aware of different relief measures. There was therefore no group of relief measures which all the respondents were aware of and another group which all the respondents were not aware of.

The next question was asked to establish whether or not the relief measures which the taxpayers are aware of are also applicable to them. The study revealed that the awareness of the available relief measures did not necessarily mean that these were applicable to the respondents. Some of the relief measures which were not applicable to some of the respondents are turnover tax and provisional tax, regardless of the respondents' awareness thereof.

7.2.2 Utilisation and reasons for not utilising the relief measures

The next question of whether or not taxpayers are taking advantage of the available relief measures was investigated by asking those respondents who indicated that certain relief measures are applicable to them if they are taking advantage of them. The study reveals in Chapter 6 that none of the respondents who were aware of the turnover tax relief measure were taking advantage of it. One of the reasons for this is the issue of applicability constraints. It appears from this that the nature of the relief is such that it excludes some of the small businesses from its application due to the requirements that have to be met.

Of the respondents who were aware of the provisional tax relief measure, only one was taking advantage of it. The main issue that became clear from the interviews in this regard is that the provisional tax does not take into account the fact that a business can have one good year followed by a bad one resulting in unnecessary payments being made. The impact of tax on cash flows has been identified as one of the significant constraints to further development of SMMEs (Ntsika in Blignaut & Demana, 2002:5).

All the respondents were aware of the VAT relief measure and they were also taking advantage of it. From the results of the interviews in Chapter 6, the VAT relief measure appears to be the most popular in terms of both awareness and usage. The only concern respondents expressed was the inability to claim input VAT.

7.2.3 Taxpayers' views with respect to the sufficiency of relief measures provided by SARS

Respondents were asked to express a view with regards to the sufficiency of the relief measures made available by SARS. From the results of the interviews, it is evident that some of the respondents are of the view that the relief measures are not sufficient. This conclusion is reached due to the finding that SARS is viewed as scary and an organisation that is out to get small businesses, even with the relief measures in place.

Further, the tax burden is viewed as high and disregarding the strain faced by small businesses, even with the relief measures in place. In addition to this, taxpayers view the relief measures as insufficient in assisting small businesses and their development.

7.3 RECOMMENDATIONS

SMMEs need to take more control of the cost savings in their businesses through making all efforts to learn about the relief measures available to them and weighing the cost to the benefits of taking advantage of these relief measures. In some instances, owners may only need to engage with their tax practitioners in order to find out what relief measures they can benefit from and encourage the practitioners to explore these.

SARS needs to invest in programmes that will assist SMMEs in becoming more aware of the measures available to provide tax relief to these businesses. This may be in the form of advertising or establishing a dedicated support centre for small businesses. It is not sufficient for SARS to draft simplified tax guides and other documents. SARS needs to be seen as doing all they can to make SMMEs aware of the availability of these guides and other documents as well as the usefulness thereof. This way, they will start to be seen as providing the much needed support to businesses and this has the potential of making a significant contribution to the views of the taxpayers with regards to tax matters in general.

Future research may focus on exploring different avenues that may be implemented in order to provide support to small business taxpayers. The results of this future research may assist SARS in implementing the most appropriate support measures which taxpayers themselves feel they need and which they feel will provide the support they require.

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APPENDIX A

- Data collection instrument(-s) -

The discussion guide to be used in conducting semi-structured interviews

Introductory Questions

Please provide a yes or no answer to the following questions

Indicate the classification of your business by utilising the table below

Please select an appropriate answer

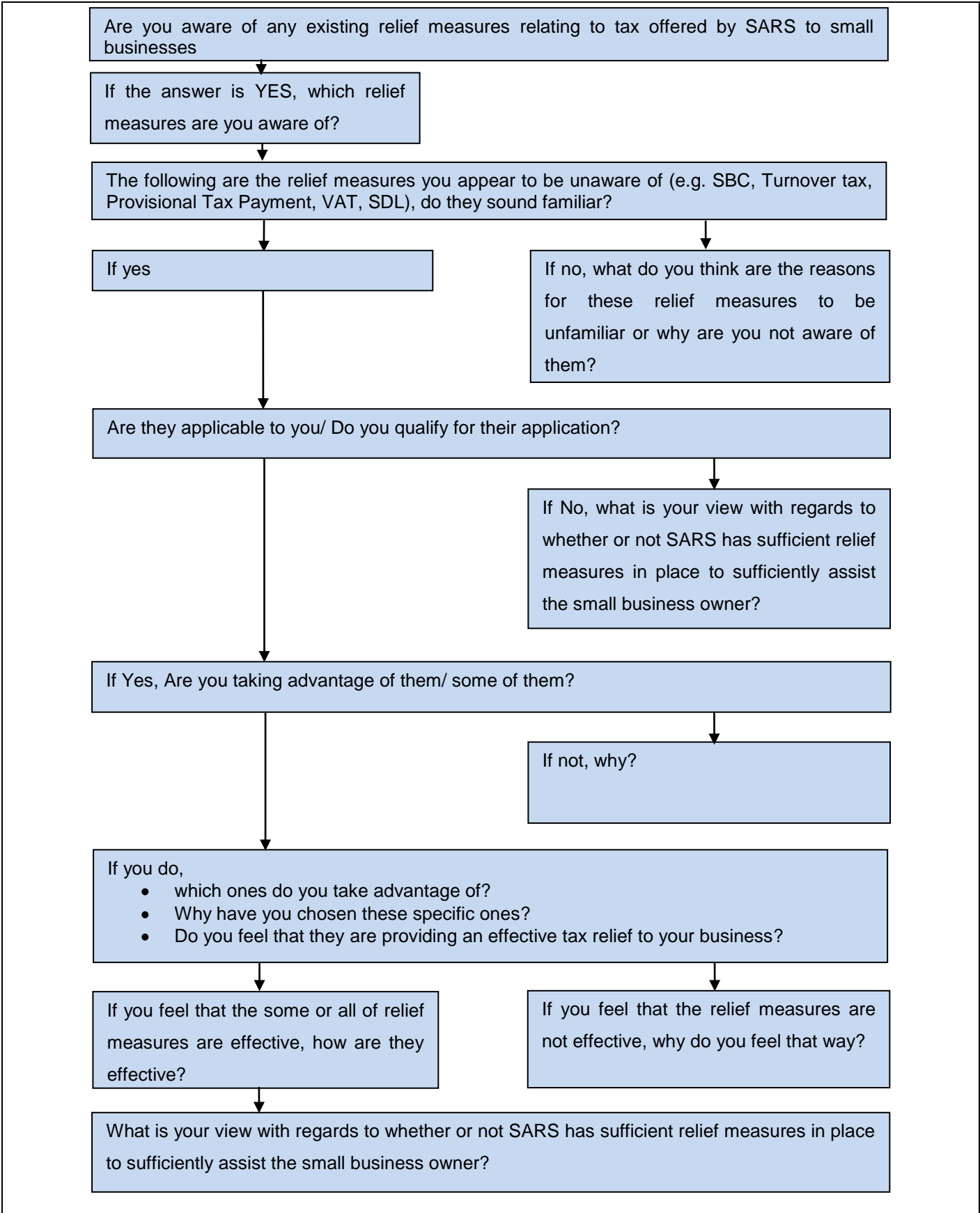
Unit of measure	Micro Business	Mark with an X	Very Small Business	Mark with an X	Small Business	Mark with an X	Medium	Mark with an X
Revenue	Up to R0.2m		More than R0.2m but less or equal to R3m		More than R3m but less or equal to R6m		More than R6m	
Value of Assets	Up to R0.2m		More than R0.2m but less or equal to R0.5m		More than R0.5m but less or equal to R1m		More than R1m	
Number of employees	Up to 5 employees		6 to 10 employees		11 to 50 employees		More than 50 Employees	

How old is your business

Do you handle your own tax or do you use the services of a tax practitioner?

Questions relating to available tax relief measures

These questions are detailed below and the flow thereof has been illustrated by the use of a table.



APPENDIX B
- Informed consent form -



UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Faculty of Economic and
Management Sciences

Informed consent for participation in an academic research study

Dept. of Taxation

SMME TAXPAYER'S VIEW WITH REGARDS TO SARS RELIEF MEASURES FOR SMMEs

Research conducted by:

Ms. R.C. Kwinda (10292846)

Cell:079 494 5769

Dear Respondent

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

The purpose of the study is to understand SMMEs taxpayer's view with regards to tax relief measure aimed at easing the tax burden.

Please note the following:

- This study involves an anonymous interview. Your name will not appear on the interview documents and the answers you give will be treated as strictly confidential. You cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- Please answer the questions in the attached interview schedule as completely and honestly as possible. This should not take more than 60 minutes of your time.
- The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my supervisor, Ms T Hills on Theresa.Hills@up.ac.za if you have any questions or comments regarding the study.

Please sign the form to indicate that:

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

Respondent's signature

Date