THE RELATIONSHIP BETWEEN TAX KNOWLEDGE AND TAX COMPLIANCE: A SURVEY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN DURBAN

Submitted in fulfillment of the requirements of the degree of

Master of Accounting

In the Faculty of

Accounting and Informatics

at the Durban University of Technology

NOMPUMELELO PRECIOUS SITHEBE

February 2022

Supervisor: Prof. L.J. Stainbank   Date: February 2022
DCom

Co-Supervisor: Mrs C. Ronald   Date: February 2022
MCom

DECLARATION

I, Nompumelelo Precious Sithebe, declare that this dissertation is a representation of my own work in conception and execution. This work has not been submitted in any form for another degree at any university or institution of higher learning. All information cited from published or unpublished works have been acknowledged.

Nompumelelo Precious Sithebe

_____

_____   Date:10 February 2022

APPROVED FOR FINAL SUBMISSION

Prof. L.J. Stainbank

_____

DCom   Date: 10 February 2022

Mrs C. Ronald

_____

MCom   Date: 10 February 2022

DEDICATION

This dissertation is dedicated to my late sister Duduzile Mthembu, who has always been a constant source of inspiration throughout my academic journey.

ACKNOWLEDGEMENTS

ABSTRACT

The self-assessment tax system has become a popular system in most developing and developed countries. It was introduced in South Africa in 2001 through SARS efiling with the aim to improve the level of tax compliance and to increase tax collection by the South African Revenue Service (SARS). This system allows taxpayers to calculate and pay their own taxes without the intervention of tax officials. Appropriate enforcements include levying penalties and interest as provided by the law against non-compliant taxpayers. The study focuses on small and medium-sized enterprises (SMEs) in the Durban area. SMEs are key contributors to tax revenue and eventually to economic growth in South Africa. SMEs also play a critical role in creating job opportunities. This study examines the relationship between tax knowledge and tax compliance in the self-assessment system (SAS). A quantitative research methodology was applied. Questionnaires were issued to the SMEs registered in Durban. Data was collected through a survey resulting in 93 responses.

The study found that the majority of the respondents were compliant; however, there is still more work to be done to improve the level of compliance. The use of tax practitioners and improvement in the tax knowledge through training and mentoring programs may assist in improving the level of tax compliance.

The results also revealed that most taxpayers have good knowledge on taxpayer responsibilities and value-added tax (VAT) and poor knowledge on turnover tax and payroll taxes. Turnover tax is one of the incentives implemented by government to reduce the tax burden of SMEs. The reason for poor knowledge on turnover tax was that the majority of taxpayers are not aware that turnover tax exists. Poor knowledge on payroll taxes negatively affects the business operations as payroll taxes are withheld by employers from the gross salary to be paid to SARS. This results in an incorrect declaration on the EMP201 and income tax returns which creates unnecessary audits and imposition of penalties by SARS. The use of efiling is still an issue as some of taxpayers prefer to join the queues at a SARS branch to submit their returns instead of using efiling.

Tax complexity was found to be a barrier to tax knowledge because of frequent changes to tax laws which requires taxpayers to update their knowledge frequently. It was recommended that to address the barriers to tax knowledge, public awareness campaigns by SARS on the importance of taxation, more use of social media platforms by SARS on the importance of taxation, and the introduction of tax education in secondary schools should be implemented.

The study did not find a statistically significant relationships between the components of tax knowledge which were tested and tax compliance. However, it does indicate to tax administrators the relative importance of tax knowledge in assisting with the design of tax education programmes, simplifying tax systems and developing an understanding of taxpayers' behaviour.

Table of Contents

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

Abbreviation	Meaning
BASA	Banking Association of South Africa
BRICS	Brazil, Russia, India, China, South Africa
CIPC	Companies Intellectual Property Commission
DTC	Davis Tax Committee
GDP	Gross Domestic Product
IRS	Internal Revenue Services
ITA	Income Tax Act
ITMS	Integrated Tax Management System
NDP	National Development Plan
PAYE	Pay As You Earn
SARS	South African Revenue Service
SAS	Self-assessment system
SBC	Small Business Corporation
SDL	Skills Development Levy
SME	Small and Medium-Sized Enterprise
SPSS	Statistical Package for the Social Sciences
TAA	Tax Administration Act
UIF	Unemployment Insurance Fund
USA	United States of America
VAT	Value-added Tax

CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

Small and medium-sized enterprises (SMEs) are recognised as the key drivers of development and economic growth in South Africa and globally. It has been estimated by Ramharak (2016: 15) that in South Africa, "SMEs employ about 60% of the labour force, makeup 90% of formalised businesses and total economic output accounts for roughly 34% of GDP".

While contributing significantly to the economy, SMEs encourage the development of diversification through their development of unsaturated and new sectors of the economy. Moreover, technology-based and innovative SMEs can provide a stage "for local, regional and international growth, especially in Brazil, Russia, India, China, South Africa (BRICS) economies" (Muhammad 2010: 68). SMEs are also seen "as drivers for reducing unemployment, especially since the formal sector continues to shed jobs" (Lekhanya 2015: 412).

1.2 BACKGROUND TO THE STUDY

The South African Revenue Service (SARS), established in terms of the South African Revenue Service Act 34 of 1997, is the South African government's tax-collecting agency. It is an autonomous agency mandated to collect revenue and ensure compliance with tax law. Tax revenue is the backbone of a country's economy. Governments would be unable to deliver on or adhere to their social and welfare commitments without the collection of tax revenue (Marchbank 2012: 16). Tax compliance of taxpayers is important as it is the key determinant of the revenue collected by SARS. Non-compliance may be presented in different forms such as failing to submit tax returns on time or non-submission, understatement or overstatement of income and or deductions, and failure to pay assessed taxes within the due period (Azrina Mohd Yusof, Ming Ling and Bee Wah 2014: 220).

A self-assessment system (SAS) allows taxpayers to file their declarations and pay their taxes without having any interaction with the tax authority; the benefit is that the tax authority is paid earlier than would be the case under an administrative system. It also allows SARS to use its

resources efficiently. The Banking Association of South Africa (BASA) (2017) states that business owners are not aware of the tax laws, or they do not understand them. The varying time scales for payment of different types of tax makes it more complicated when taxpayers must submit returns monthly, bimonthly and annually.

The tax gap results from non-compliance by taxpayers in South Africa (Venter, de Clercq, Swanepoel, Posthumus, Doussy, Heyns and Van Aard 2010: 64). The difference between the tax that should be theoretically collected and the tax collected is defined as the tax gap. This means that the tax that should be collected is lost because of errors on assessments, tax evasion, organised crime and non-payment (Davis Tax Committee (DTC) 2014: 25a). Practices to intentionally avoid paying one's true tax liability is known as tax evasion. Tax evasion is the intentional and fraudulent attempt practiced by dishonest persons to reduce payment of taxes by concealing income from the revenue authorities, "underreporting income, inflating deductions, or hiding money and its interest altogether in offshore accounts" (Dare 2018: 2). Tax evasion is a criminal offence as it is a violation of the provisions of the Income Tax Act and other tax related acts.

Palil (2010: 68) defined tax compliance as "taxpayers' willingness to obey tax laws to obtain the economic equilibrium of a country". Alm and Torgler (2011: 638) describe tax compliance as the willingness and honesty of taxpayers in paying their taxes. Improved tax collection allows the South African government to deliver essential services such as education and improved infrastructure like bridges and roads (Naicker and Rajaram 2019: 94).

Tax knowledge can be defined as the processes by which taxpayers become aware of other tax-related information and tax legislation (Oladipupo and Obazee 2016: 2). It also helps taxpayers to meet their tax obligations to the government. This implies that the principal reason for taxpayer knowledge is to encourage taxpayers to voluntarily comply with tax laws and regulations. According to Baru (2016: 25), the main objective of taxpayer knowledge is to improve the understanding of the tax policies that determine the compliance with the tax system which positively affects compliance, increases tax collection through voluntary compliance and improves the taxpayer's attitude towards taxation.

In South Africa, taxpayers are categorised as small, medium or large depending on their business size. Tax knowledge of SMEs becomes essential when the objective of raising tax revenue in the changing environment, particularly from the official tax assessment, is considered (Saad 2014: 1069). At the same time, improving revenue generation and achieving tax compliance is not an easy task. However, this issue can be minimised through tax knowledge (Saad 2014: 1069).

This study, therefore, assesses the relationship between SMEs' tax knowledge and tax compliance in Durban.

1.3 PROBLEM STATEMENT

Ulph (2013: 6) defines a tax system as "the set of tax laws or rules that define the various rates and duties that apply to the various transactions that individuals and companies must go through to comply with the rules relating to tax returns' completion, providing information, and undergoing investigations where tax returns are selected for audit or verification". South African taxpayers are facing difficulties in understanding the tax laws and regulations when submitting their returns as noted by Mazansky (2016: 8) who indicated that "South African taxpayers have the worst of both when it comes to an assessment of tax returns, they do not have the legislative checks and balances usually in the SAS and in practice, are denied important protections inherent in the alternatives".

According to Tee, Boadi and Opoku (2016: 119), tax plays a significant role in the growth of SMEs in low-income countries. SMEs have an important role in promoting the socio-economic development agenda of the country (Ramharak 2016: 74).

Tax non-compliance is one of the causes for revenue losses which pose a considerable risk for the South African government. The SME sector has been identified by SARS as one of seven high-risk areas and indicated that non-compliance in the SME sector continues to be high (Pretorius 2015: 01). The promotion of SMEs is essential to the growth of every economy. However, SMEs have many obstacles in trying to achieve success. Many of these businesses across the world "cannot keep their doors open and end up failing due to various compliance and regulatory burdens" (Ramharak 2016: 18).

In developing countries, tax compliance has been enforced by many changes to the tax laws which have become so complex that only a certain number of tax experts can understand them (Saad 2014: 1072). Enforcement of tax laws cannot lower non-compliance among taxpayers because some tax measures put the cash flows of SME taxpayers under severe pressure, which may cause many to go out of business in the informal sector (Ngigi 2015: 56).

High compliance costs are one of the challenges that are faced by small businesses. This is mainly due to the frequency for submitting certain returns such as employees' tax, provisional taxes and income tax which are the same irrespective of the size of the business (Ngibe and Lekhanya 2019:10).

The role of SMEs is evident from the creation of employment, processing local raw material and an increase in tax revenue (Mukhlis, Utomo and Soesetio 2015: 161). The SME sector can understand their tax obligations when there is the perception of justice, and businesses in the SME sector receive any benefits in real terms. Equitable distribution of economic activities and economic growth development are the results of the significant role played by the existence of the SME sector.

SMEs have the opportunity to not comply with the tax laws as they self-report and there is limited control underlying their money flows. SMEs require tax knowledge to understand and comply with the tax laws. Due to facing different taxes, the need for self-assessment and receiving the sums of money some of which are to be partly passed on to the tax authorities, SMEs face some opportunities for avoiding various taxes (Ndlovu 2015: 45).

1.4 RESEARCH PROBLEM AND AIMS

An important revenue stream for the South African government is taxation. Tax compliance can be through voluntary tax compliance or compulsory tax compliance (Lukwata 2011: 66). Tax compliance is an issue challenging both developed and developing countries (Ngigi 2015: 48). Some of the determinants of tax compliance are tax knowledge and complexity of the tax system (Belay and Viswanadham 2016: 628). According to Saad (2014: 1070), SME taxpayers are not aware of their lack of tax knowledge, and this may lead to non-compliant behaviour. An obstacle for SMEs that wish to comply with tax regulation is the complexity of tax laws. Evidence indicates

that SMEs are liable for too many different taxes and failure to comply results in the imposition of interest and penalties (Pretorius 2015: 56; Kativhu 2019: 77).

The aim of this study is to assess the relationship between SMEs' tax knowledge and tax compliance in Durban.

To achieve this aim, the following research objectives were set:

- To establish the level of tax knowledge by the SME owners.
- To establish the barriers to tax knowledge.
- To establish the level of tax compliance of SMEs.
- To evaluate the relationship between tax knowledge and tax compliance.

The research objectives can be formulated into the following research questions:

- What is the level of tax knowledge of SME owners?
- What are the barriers to tax knowledge?
- What is the level of tax compliance of SMEs?
- Is there a relationship between tax knowledge and tax compliance?

1.5 IMPORTANCE OF THE SME SECTOR IN SOUTH AFRICA

Small businesses play a significant role in economic growth that may result in job creation, hence decreasing unemployment and poverty (Chimucheka 2013: 786; Gherghina, Botezatu, Hosszu, and Simionescu 2020: 01). SMEs have the potential to deal with the issues of inequality and unemployment because of the opportunities they present to the economically and socially disadvantaged South Africans (Smulders and Naidoo 2013: 34; Letsoalo 2014: 26)

SMEs are a significant proportion of the taxpayer population in any country worldwide (DTC 2014a: 66). SMEs also collect taxes such as payroll and value-added tax (VAT) on behalf of the government and that contributes greatly to the economic growth of the country (Akinboade 2015: 395-396).

The SAS requires taxpayers to be accountable in terms of filing requirements, record keeping and paying taxes. One of the main requirements of the SAS is to provide full information about income, deductions, and tax payable and making payment to SARS in accordance with the tax laws. Over many years, South Africa has made firm progress in improving its tax base amongst SMEs and different legislative measures were passed to provide preferential tax treatments to them.

1.6 RATIONALE FOR THE STUDY

SME taxpayers need basic tax knowledge to understand tax systems. The study investigates whether tax knowledge influences taxpayers' behaviour towards tax compliance which could provide insight to SARS in implementing simplified tax legislation for SMEs. Establishing the relationship between tax knowledge and tax compliance is an under-researched area in South Africa. This study extends knowledge in this area. However, as this study uses the opinions of SME taxpayers and their perceptions of their tax knowledge and tax compliance, it is noted at the outset that the measurements of tax knowledge and tax compliance are the self-reported measurements by the SME taxpayers.

If the tax needs of SME owners are identified, this may assist SARS to be in a better position in understanding how proper training and specific types of education campaigns can be implemented to inform business owners about taxation. If SME taxpayers in South Africa are knowledgeable about the tax, they may be secure in the knowledge that their businesses are fully acquainted with tax requirements so that they can comply with their tax obligations.

1.7 DEFINITIONS OF KEY TERMS USED IN THE STUDY

The following key terms have been used throughout the study and their definitions are thus provided to assist the reader with a clear understanding of these concepts.

1.7.1 Tax

The term **tax**, as defined in Section 1 of the Income Tax Act No. 58 of 1962, means any levy, tax leviable under this Act or administrative penalty imposed in terms of Section 75B.

1.7.2 Tax compliance

Tax compliance refers to the reporting of accurate income, deductions and paying all taxes in accordance with the relevant laws and regulations set in the Income Tax Act (Cuccia 2013: 86).

1.7.3 Taxpayer

In terms of Section 1 of the Income Tax Act No. 58 of 1962, a **taxpayer** is defined as any person or organisation (such as a company) chargeable with any tax leviable under this Act and includes every person required by this Act to furnish any return.

1.8 RESEARCH METHODOLOGY

The research design was quantitative and descriptive in nature. Data was collected using a questionnaire that was developed to address the research objectives. A five-point Likert scale was used to explore the views of the respondents. Descriptive statistics were used to address the first three research questions. To address the fourth research question, inferential statistics were used.

1.9 OVERVIEW OF CHAPTERS

This dissertation consists of five chapters. A brief summary of each chapter is provided below.

Chapter One introduces the research focus area, the study background, aim, objectives, research questions, limitations, rationale, and the statement of the problem.

Chapter Two discusses in detail the relevant literature related to the tax knowledge and tax compliance.

Chapter Three discusses the research methods of the study, sampling techniques, sample population including the reliability and validity of the research.

Chapter Four presents and discusses the results to answer the research questions.

Chapter Five provides a summary of the findings, conclusions and recommendations based on the results found in Chapter Four.

1.10 SUMMARY

This chapter introduced the research background and problem statement. Thereafter, the aim of the study, research questions and the significance of the study was explained. The next chapter focuses on relevant literature that was reviewed to gain more insight and understanding to support the relevance of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The previous chapter discussed the background, objectives of the study, as well as the importance of SMEs in the South African economy. This chapter first provides definitions of SMEs and thereafter discusses the relevant literature on the subject matter including prior studies on tax compliance and knowledge. The key objective of this research is to establish the role of tax knowledge in improving compliance. This chapter first introduces SMEs by conceptualising its meaning and characteristics. Thereafter, tax compliance and tax knowledge are introduced and discussed in detail. The two theories of tax compliance, which are the economic and psychological theories of tax compliance, are elaborated upon. The chapter concludes by examining the challenges associated with tax compliance.

2.2 SMALL AND MEDIUM-SIZED ENTERPRISES

Most South African small businesses according to an SME landscape report generate less than R 200 000 annual revenue and approximately half of SMEs hire between 2-5 employees (SME South Africa 2018: 06). SMEs in South Africa play a great role in the promotion of the social and economic growth of the country. SMEs are also a critical tool in the country's National Development Plan (NDP) for fostering employment in mostly labour-intensive industries (DTC 2014: 15b).

To provide a definition of an SME in South Africa, the DTC prepared an interim report on tax matters that relate to SMEs (DTC 2014b). Several definitions were considered by the DTC similar to those stated by the NDP (South Africa 1996) as well as the Income Tax Act (South Africa 1962) (referred to as the ITA hereafter). There is thus no definite definition.

Currently there are three categories of SMEs by the NDP - survivalist, lifestyle and entrepreneurial businesses:

- Survivalist businesses are those lacking structure, also referred to as "street shops"

operating with cash. Capital assets are absent and proper records are not maintained.

- Lifestyle businesses are businesses that operate typically from home or a single office, like plumbers, accountants and doctors.
- Entrepreneurial businesses are businesses focused on the expansion of their brand as well as the market. The key drivers in these businesses are inventions, innovative products and fresh markets.

According to the National Small Business Act of 1996, businesses are referred as being small, very small or medium-sized based on the number of persons in fulltime employment, their annual turnover and asset value. The most common determinant among these three used determinants for the classification of businesses locally is 'turnover'. Medium-sized enterprises are defined as trade, commercial, wholesale, and allied services with a turnover between R5 million and R64 million. Whereas small businesses range between R3 million and R32 million turnover, very small businesses earn between R500 000 and R6 million turnover, and micro businesses, have a turnover of at least R200 000 (DTC 2014b). Table 2.1 shows the classification and definition of SMEs as grouped into micro, very small, small, and medium-sized businesses for one industry out of 11 different types (National Small Business Act, 1996).

Table 2.1: Criteria to determine enterprise size (retail industry)			
ENTERPRISE SIZE	EMPLOYEES	YEARLY TURNOVER	GROSS ASSETS
	Less than	Less than:	Less than:
Medium	100	R30m	R5m
Small	50	R15m	R2.5m
Very small	10	R5m	R0.50m
Micro	5	R0.15m	R0.10m
Source: The National Small Business Act (1996)			

The ITA also includes a definition of the different business classes (micro, small, and medium). In the Eighth Schedule of the ITA, micro-enterprises are defined as primary businesses earning R1 million turnover during a year of assessment (amongst various other requirements). Section 12E of the ITA also has a relevant definition of a small business corporation (SBC) that, based on its gross income, should not exceed R20 million (DTC 2014b). These criteria are shown as this study is focused on small businesses, and one difficulty of conducting research into SMEs is the plethora of different definitions. However, regardless of which definition are used, small businesses usually create leakages in the tax system due to their poor record-keeping, informal structure and problems associated with the verifying information with third parties (SARS 2012).

2.2.1 The importance of tax compliance by SMEs for the South African economy

Raising government revenue to fund public goods and services is the main purpose of collecting taxes. Tax compliance remains a significant issue amongst revenue collection agencies globally as tax collection forms a bigger percentage of government revenue (Anyaduba, Eragbhe and Kennedy 2012: 37). Cui (2017: 94) states that a visible impression of government capacity especially in developing countries is revenue collection. It is, therefore, of vital importance that each country's revenue collection implements measures that will increase revenue collection (Cui 2017: 94).

Globally, SMEs remains an important part of the taxpayer population (DTC 2014a). However, the taxation of most SMEs generally poses challenges different from those experienced by larger businesses (Swistak 2016: 130). SMEs collect taxes such as VAT and payroll taxes on behalf of the government there by contributes largely to every country's economic growth (Akinboade 2015: 395-396). In South Africa 98% of businesses are small enterprises, employing around 47% of the national labour force and contributing to about 42% of the country's gross domestic product (GDP) (Department of Small Business Development (DSBD) 2016: 20). Le, Tuyet, Hanh and Do (2020: 209) state that across the world SMEs have always been identified as the key drivers to the economic development. Salehi, Khazaei and Tarighi (2019: 47) further asserted that majority of jobs in local municipalities are created by small businesses. Tax compliance by SMEs by SMEs is therefore important due to their central role in the economy.

Compliance is split into two categories, voluntary compliance and non-voluntary compliance (Lunani, Ayuma and Tanui 2019: 326). Manhire (2015: 12) explains that voluntary compliance is mainly based on the taxpayer's trust in the tax authority. In non-voluntary compliance, taxpayers are enforced by the revenue authority to comply with the tax legislation (Lunani *et al*. 2019: 326). It is a difficult task to convince taxpayers to comply with their tax obligations as the tax laws are not always understandable (Olaoye, Ayeni-Agbaje and Alaran-Ajewole 2017: 131). The risk of voluntary non-compliance is also higher in the case of small businesses. Gherghina *et al.* (2020:01) asserted that even though SMEs are the largest contributors towards the economic growth, tax compliance is one of the huge challenges that they are faced with. Many SMEs, even if incorporated, are managed by the owners of whom most lack adequate knowledge about taxation (Swistak 2016: 133). Non-compliance leakages by SMEs are harmful to an economy since it is deprived of the resources necessary for growth and public services (RARI 2016: 22).

Having discussed why tax compliance by SMEs is important, the next section discusses taxpayer compliance

2.3 TAXPAYER COMPLIANCE

Nghaamwa (2011: 17) defines compliance with taxation as a condition in which the taxpayer fulfills and implements all tax obligations namely in registering, compliance in calculating, calculating and paying the tax payable, compliance in reporting and payment of arrears.

Tax compliance is still a problem for the South African tax authority and many other tax authorities (Ngigi 2015: 5). Tax compliance is linked to factors such as the economy, education and even psychological factors. Azrina Mohd Yusof *et al.* (2014: 219) conducted a study in Malaysia. Their results revealed that company size and industry type have a significant effect on corporate tax non-compliance. Other studies found varied evidence between tax non-compliance and company size. For example, Tedds (2010: 18) found a negative association with tax non-compliance and company size. SMEs have a greater opportunity to evade tax than larger companies. Le *et al.* (2020: 210) is of the opinion that when the business size increases, compliance costs also increase. Nur–Tegin (2010: 2) argues that it is easier for smaller businesses to hide income and be unnoticed by the tax authorities.

11

There are four compliance requirements that the taxpayer must satisfy to be regarded as tax compliant (Naicker and Rajaram 2019: 94). These include the requirements of being able to calculate the tax liability, the length of time that the records must be kept, knowing when to file a tax return and when to make payment to the receiver of revenue. The taxpayer is deemed non-compliant if none of these four requirements are met (Ohms, Olesen and Khin-Carter 2015: 428; Le *et al.* 2020: 210; Nguyen, Pham, Le, Truong and Tran 2020: 66).

There have been various suggestions on the best way to improve the level of tax compliance. However, most businesses will not comply unless there is a motivation to do so. There are theories underlying tax compliance; these are discussed next.

2.3.1 Theories underlying tax compliance

Two main theories have been proposed to explain tax compliance. These are the economic theory of tax compliance and the psychological theory of tax compliance.

2.3.1.1 The economic theory of tax compliance

In this theory, emphasis is placed on actions and incentives associated with the price and benefit of action. Economic motives such as profit maximisation, tax rates, tax audits and probability of detection are known to influence taxpayers (Palil 2010: 182). However, this theory sets the basis for understanding the compliance behaviour but has been criticised by ignoring psychological and sociological factors that focus on the natural motivation for taxpayers' compliance without any enforcement. According to the economic theory of tax compliance, audits and penalties for non-compliance should be increased to enhance compliance. This model has also been used to examine tax evasion and compliance from a theoretical perspective (Jayawarden 2015: 05). Jayawarden (2015: 05) found this theory more valuable and more appropriate to the assessment of tax compliance for SMEs.

2.3.1.2 The psychological theory of tax compliance

This theory is focused on the impact of taxpayers' attitudes on their compliance behaviour. Psychological factors are believed by most researchers to be one of the key determinants of compliance behaviour (Jayawarden 2015: 07). Taxpayers are inclined to comply with their tax obligation by psychological factors that focus on the taxpayers' morals and ethics. This theory proposes that the taxpayer may comply even if the possibility of detection is low. It places

significance on changing the taxpayers' attitudes towards tax system as opposed to economic theories where increased penalties and audits are the solution to compliance issues (Lewis, Webley and Furnham 2013: 15).

Taxpayers with a higher level of tax knowledge may have higher tax morals and ethics than those with a lower level of tax knowledge. Lewis *et al.* (2013: 15), in their study, found that inadequate tax knowledge correlates with adverse attitudes pertaining to taxation and that such attitudes are enhanced by better tax knowledge. Kicher (2013: 27) emphasised how social factors arise from taxpayers' interaction, "the community in which they come from and social values, culture and beliefs shared"; thus, social factors play a big role in shaping the decisions made by taxpayers.

Having discussed the theories of tax compliance, one of the main issues that the tax authorities should focus on is identifying the factors that affect tax compliance in order to implement the relevant measures to improve voluntary compliance. Various factors have been identified by various authors that affect small business owners' compliance. The next section discusses compliance with business tax registration.

2.3.2 Business registration compliance

One of the factors that causes SMEs to be non-compliant is to not be registered as a taxpayer (Naicker and Rajaram 2018: 25). In South Africa, companies must register their businesses regardless of their size. The Companies and Intellectual Property Commission (CIPC) is a government agency that does formal company registrations. In 2016, SARS collaborated with CIPC to provide an integrated service between the agencies where a new company registration with CIPC automatically updates SARS and an income tax reference number is issued. The main benefit for this collaboration is the maintenance process with the SARS registration and a single registration process.

Naicker and Rajaram (2018: 24) focused on investigating factors influencing a business's decision to register or not. According to Naicker and Rajaram (2018: 24), "small businesses are reluctant to enter into the formal economy by registering for tax" arguing that this was due to the complexity of tax systems and the costs of compliance. SMEs are required by tax legislation to register for various tax types mainly: income tax, provisional tax, employees' tax, dividends tax, value-added tax (VAT), customs duty, excise duty, transfer duty and many more. The most common and

compulsory tax types that a registered small business should first register for are income tax and provisional tax and the collaboration of CIPC and SARS has eliminated the burden of these tax registrations as they are related and use one reference number.

VAT and employees' tax are also tax types that are essential; however, the business needs to meet certain requirements before registering for these tax types.

2.3.2.1 Income tax

Every business liable to taxation, under the Income Tax Act, 1962, is required to register with SARS as a taxpayer. The taxpayer can register once for all different tax types using the client information system. For CIPC registered companies, they are not required to perform a separate SARS tax registration for income tax, as the company is automatically be registered via a direct interface with CIPC.

2.3.2.2 Provisional tax

In addition to annual returns, every company is required to submit provisional tax returns. The first of these returns is required to be submitted six months from the start of the year, and the second at year end, and must contain an estimate of the total taxable income earned or to be earned for that period. Payment of the tax must accompany the return. A third "top-up" payment may be made six months after year-end.

2.3.2.3 Employees' tax (PAYE)

Employees' tax refers to the tax required to be deducted by an employer from an employee's remuneration paid or payable. The tax withheld from employees' earnings is referred to as Pay-As-You-Earn (PAYE). An employer who is registered or required to register with SARS for PAYE and/or Skills Development Levy (SDL) purposes, is also required to register with the Department of Labour for the payment of Unemployment Insurance Fund (UIF) contributions to SARS. SDL is the levy imposed to encourage skills and development in South Africa and it is contributed by the employer based on salaries paid. UIF is paid as a temporary benefit to employees when they become unemployed due to illness, maternity or adoption of leave.

The business can register for all different tax types (PAYE, UIF and SDL) using the client information system. The employer is required to calculate and submit the amounts withheld to SARS on monthly bases.

2.3.2.4 Value-added tax

Value-added tax is commonly known as VAT. VAT is an indirect tax on the consumption of goods and services in the economy. Government revenue is raised by SARS by requiring qualifying businesses to register and to charge VAT on the taxable supplies of goods and services. These businesses act as government agents in collecting the VAT and become vendors. In each stage of production VAT is charged and is proportional to the price charged for the goods and services. VAT rate increased from 14% to 15% from 1 April 2018 (Naicker and Rajaram 2018: 24).

Any person that carries on a business may choose to register for VAT if their turnover in the past period of twelve months, exceeded R50 000. That is regarded to as voluntary registration. VAT registration becomes mandatory where the taxable supplies for any consecutive twelve-month period will exceed one million rand. A vendor is required to submit VAT returns and make payments of the VAT liabilities (or claim a VAT refund) in accordance with the tax period allocated to the vendor.

SME owners are expected by law to have enough knowledge about the above-mentioned tax types and also to be aware at what stage the business should register for a certain tax type**.** Tax knowledge is thus an important aspect of tax compliance. Tax knowledge is discussed next.

2.4 TAX KNOWLEDGE

Puspita, Subroto and Baridwan (2016: 139) indicate that tax knowledge is being able to understand the tax system as well as the benefits of tax, being able to make payments and file tax returns, knowing the penalties of failing to meet tax obligations and having some understanding of tax principles. Taxpayers use tax knowledge as tax information in tax activities such as preparing tax calculations to declare income and deductions and making payments (Kicher 2013: 33). Tax knowledge is divided into two sections which are procedural knowledge (which is refers to the detailed knowledge about how to perform different tasks of taxation as well as knowledge on record keeping to be tax compliant) and declarative knowledge (which can be acquired easily by the taxpayers) (Al-Ttaffi, Bin-Nashwan and Amrah 2020: 19). Bornman and Ramutumbu (2019: 830) state that procedural knowledge requires taxpayers to be computer literate as it pertains the completing and filing of tax returns electronically through efiling. Knowledge about record

keeping for accounting and tax purposes is also imperative as the information is used to submit the returns to SARS through efiling.

A study by Mukhlis, Utomo, and Soesetio (2015: 165) found that taxpayers' knowledge has a positive and significant impact on taxpayer compliance; this means that the higher the level of knowledge of taxpayers the higher the level of compliance and vice versa. Saad's (2014: 1072) study on the importance of taxpayers' tax knowledge found that tax knowledge greatly affects taxpayers' attitudes towards the tax system.

The presence of a better quality of tax knowledge may provide an impetus for a taxpayer's positive attitude to fulfil tax obligations properly through a tax system that is considered fair (Mckerchar and Hansford 2015: 15). Therefore, the knowledge of taxation by the taxpayer affects the compliance of the taxpayer to carry out his or her tax obligations affecting the tax revenue received by the state if the taxpayer already a high level of tax knowledge. Nghaamwa (2011: 33) also indicated that tax knowledge affects taxpayers' compliance in paying taxes. The more information the taxpayer has on the usefulness of taxes and the better the taxpayer's understanding of taxes, the more dutiful the taxpayer may be in settling his or her tax obligations. There are key areas of tax knowledge that the taxpayer should understand and have knowledge about in the SAS.

2.4.1 Taxpayer responsibility knowledge

SARS has a role in ensuring that taxpayers understand their responsibilities as taxpayers. On the other hand, taxpayers also have a crucial part to play in meeting their responsibilities under the law. Taxpayer responsibility varies from one tax type role to another. As mentioned by Naicker and Rajaram (2019: 103) for a taxpayer to compliant, there are four main categories of taxpayer responsibility that should be met which are:

- Taxpayer registration
- Filing of tax returns timeously
- Accurate and complete information reporting
- Payment of taxes due timeously.

If the above responsibilities are not met then the taxpayer is regarded as non-compliant. Taxes payable to SARS are returned back to the society through service delivery and infrastructure (Naicker and Rajaram 2019: 94). Some taxpayers are not aware of the role of taxation (Anto, Husin, Hami and Bulan 2021: 49). Taxation has a variety of laws set in the legislation and every taxpayer is required to understand the tax laws in order to perform their responsibilities as taxpayers (Schutte, Labuschagne, Georgescu and Pop 2019: 60). Knowledge of the tax laws therefore plays a huge role in understanding taxpayer responsibilities.

2.4.2 Payroll knowledge

Payroll tax arises when the company or business employs people and deducts PAYE from their gross salaries. It is crucial that the tax that is deducted from employees' salaries is correct as that amount is paid to SARS through the submission of an EMP201 monthly and the EMP501 reconciliation. Every business owner with employees is required to have payroll knowledge to ensure the correct tax is deducted from gross salaries.

2.4.3 Business income knowledge

Poor tax knowledge among business taxpayers may result in unintentional non-compliance. Mohd Yusof *et al.* (2014: 78) noted that non-compliance might also include understatement or overstatement of income and or deductions. It is of vital importance that small businesses owners understand the income that should be included on the taxable income when submitting the tax return. The also applies to deductions; the taxpayer must have knowledge on the expenses that should be claimed as a deduction on the tax return. The consequence of this is that if the taxpayer is not knowledgeable about how to calculate business tax, it leads to incorrect submissions of tax returns, which creates more audits and additional assessments being raised by SARS.

2.4.4 Turnover tax knowledge

Turnover tax was introduced as one of the tax incentives in section 12E of the Income Tax Act for small businesses with the gross turnover of R 20 million or less in 12 months (Naicker and Rajaram, 2019: 127). Labuschagne (2018: 38) found that 90% of the respondents had lower levels of knowledge for turnover tax which included administrative requirements and incentives. Inadequate tax knowledge makes it difficult for SMEs to make informed decisions which may result in making incorrect decisions to avoid law enforcement.

2.4.5 VAT knowledge

VAT is one of the major four compliance areas for small businesses; this only applies to businesses that have met the requirements and have registered for VAT. It is considered to be the most complex tax type for small businesses which increases their administrative responsibilities (Naicker and Rajaram 2018: 107). Ndlovu (2015: 28) believes that the VAT threshold should be adjusted to lower the administrative costs of collecting the VAT revenue. He further suggested that small businesses are eliminated completely from registering for VAT. Naicker and Rajaram (2018: 99) highlighted that being registered for VAT benefits small businesses by improved access to business opportunities and being able to claim input tax credits and VAT refunds. On the other hand, being VAT registered results in higher compliance costs as it requires bookkeeping skills as well as time to prepare and submit returns to SARS.

This study has as its focus SMEs' tax knowledge and tax compliance. It is possible that SMEs are aware of the SAS and are making use of it to ease their tax burden. A summary of the discussion to this point, and the areas to be investigated in the empirical part of this study is shown in Table 2.2.

Table 2.2: Components of taxpayer compliance and tax knowledge			
2.3	Taxpayer compliance	2.4	Tax knowledge
2.3.2	Business registration compliance	2.4.1	Taxpayer responsibility knowledge
2.3.2.1	Income tax	2.4.2	Payroll knowledge
2.3.2.2	Provisional tax	2.4.3	Business income knowledge
2.3.2.3	Employees' tax	2.4.4	Turnover tax
2.3.2.4	VAT	2.4.5	VAT

The next section focuses on two factors which have been put forward as affecting taxpayer compliance.

2.5 THE EFFECT OF TAXPAYER AWARENESS AND SELF-ASSESSMENT ON TAXPAYER COMPLIANCE

The SAS and taxpayer awareness have both been proposed as factors affecting taxpayer compliance.

2.5.1 The effect of self-assessment system on taxpayer compliance

The SAS in South Africa was adopted in 2011 through the Tax Administration Act (28 of 2011) placing South Africa in line with other countries. Sapiei and Kasipillai (2013: 75) argue that the main aim of a SAS is to encourage taxpayer compliance, thereby minimising the collection costs for revenue agencies and increasing tax revenue collection.

The SAS imposes the responsibility onto the taxpayer in terms of keeping the required tax records, filing and calculating the tax payable (Palil and Mustapha 2011: 12866). The main objective of tax collection is to raise revenue so that the government can supply public goods and services. In accordance with the tax laws, the SAS requires every taxpayer to provide complete information about taxable income, compute the tax payable and make payment to SARS (Palil and Mustapha 2011: 12866).

Asrinanda (2018: 544) stated that a function of supervision for tax compliance is of vital importance to maintain the SAS. This function is important because in the SAS the taxpayer is given liberty to calculate the amount of tax payable that becomes payable. In an ideal world, if this function is operative, then the amount of tax payable, reported by the taxpayer in his or her tax return should be accurate (Fauziati and Kassin 2018: 353). Palil and Mustapha (2011: 12865) highlight that the main function of the SAS is the submission of tax returns and tax payments from all taxpayers, regardless of their background, without any supervision from tax officials. It also aims to simplify the tax administration and tax returns which can possibly help taxpayers to accurately submit their tax returns and improve compliance.

2.5.2 The effect of taxpayer awareness on taxpayer compliance

Fox and Murray (2013: 6) define taxpayer awareness as the behaviour of the taxpayer in the form of perceptions which include knowledge, views and explanations and the propensity to act in agreement with the requirements provided by the tax system and its applicable provisions. As noted by Palil, Akir and Ahmad (2013: 119), indicators in taxpayers' awareness include "taxpayers' willingness to pay taxes and report tax returns, and the level of order and discipline of taxpayers in paying taxes".

Palil *et al.* (2013: 55) identified three main forms of awareness regarding tax payments. Firstly, that taxes are a way of participating in the development of the country. By acknowledging this, taxpayers are willing to pay taxes because they feel they are not being prejudiced by tax collection (Palil *et al.* 2013: 55). Tax is seen as necessary for the growth of the country to improve the welfare of its citizens. Secondly, the realisation that the postponement in tax payments and the decrease of the tax burden is damaging to the country. Taxpayers are prepared to pay taxes because they know that delays in tax payments and decreasing the tax burden leads to a lack of financial resources that can hamper the growth of the country. Lastly, the awareness that taxes are set by law and harm the country if not paid. Taxpayers will pay because they are aware the legal basis of tax and it's the duty of all citizens to pay their fair share of tax (Palil *et al*. 2013: 55).

As indicated by Azrina Mohd Yusof *et al.* (2014: 260), the awareness to become a compliant taxpayer is being compliant with the tax law. The authors point out that the tax law is indiscriminate and there are no exemptions, either anywhere or for anyone; all are equal under the applicable tax laws to avoid any tax sanctions. Palil *et al.* (2013: 66) revealed that a taxpayer's consciousness and tax services have a positive and significant impact on a taxpayer's compliance level. That is, the higher the awareness of taxpayers of tax laws, the higher the level of taxpayer compliance, and vice versa. Palil and Mustapha (2011: 12686) state that awareness to become a compliant taxpayer is one of the factors that encourages compliance with the tax law when tax law is applicable to all and there are no exceptions.

Researchers in other countries, such as Pancawati and Nila (2011: 126) and Savitri and Musfialdy (2016: 268 -687), indicated that the consciousness of a taxpayer affects his or her compliance to

pay taxes. The higher the taxpayer's consciousness to pay taxes, the more dutiful the taxpayer is to pay taxes. Nghaamwa (2011: 26), in his research based in Jakarta, found that tax awareness and service of fines positively affect tax compliance. This current study did not probe taxpayer awareness and instead focused on taxpayer knowledge.

2.6 ENFORCING AND ENHANCING TAX COMPLIANCE

Kirk and Miller (2011: 19) argue that tax administrations usually have depended on alternatives to legal actions to ensure that taxpayers comply with the tax laws. The main assumption underlying this is that enforcement capability, efficient and ruthless investigation will result to compliance through the use of deterrence. However, the full diligence of the legal system is brought on taxpayers who do not obey through official administration, thereby initiating some level of regularity in the "application of the law and perception of fairness among taxpayers" (Khalizatul 2012: 22). Measures implemented to enforce and enhance compliance are discussed next.

2.6.1 Assessing tax enforcement and compliance enhancement in a local and international context

Both in South Africa and elsewhere, various laws and actions have been implemented to enhance compliance. Given the significance that administrations across the world assign to the collection of revenue, different measures have been set up to provide a more conducive environment for SMEs and to improve compliance. Some country-specific initiatives are discussed next.

The Income Tax Department (ITD) in Nigeria is committed to the nation-building process of Nigeria through its advanced tax policy, effective and efficient "tax administration and improved voluntary compliance in its efforts to create a taxpayer-friendly environment" (Anyaduba *et al.* 2012: 39). The government is devoted to accomplishing this by expanding its methods to facilitate revenue collection to ensure the best revenue collection under the law and by having a conducive policy framework while also ensuring that taxpayer confidence in the system is preserved.

The Internal Revenue Services (IRS) is the tax collection administrator in the United States of America (USA). It is committed to continuous improvements in efficiency, excellence and service delivery through various initiatives aimed to increase the number of taxpayers and improved

business procedures. The IRS has expanded its existing partnerships to establish new coalitions to enhance assistance in tax preparation, the education of taxpayers and self-sufficiency to improve taxpayer compliance. The IRS even offer products and services towards addressing the increasing needs taxpayers with limited English proficiency to create a more convenient tax environment. The IRS has therefore developed dedicated initiatives designed to provide multilingual services to taxpayers. In order to enhance and improve compliance, the IRS also improved its efforts in the changeover from a paper-based system to an electronic-based system to give assurance on quality and timely service through enhancing its outreach plans. SARS has also implemented the same system through the development of efiling; however, the provision of multilingual products and services are still an issue.

Similarly, Ghana introduced measures to enhance compliance with its tax laws targeting the informal sector, including microenterprises. According to Tanko (2015: 143), the measures included the following:

- introducing "comprehensive taxpayer education, information and assistance programmes aimed at converting taxpayer resistance to compliance",
- simplifying authoritative procedures and tax laws for ease of understanding by the typical self-employed taxpayer, and
- enhancing the integrity of tax administration through strategic customer services.

The South African government has also taken steps to improve tax compliance, some of which include the measures referred to above in strengthening and refining its tax system. These steps include the introduction of turnover tax for qualifying SMEs and the introduction of efiling for both corporate and individual taxpayers (Collen 2020: 02).

SARS has also indicated that it will enforce penalties for non-compliant corporates (including SMEs) whose tax returns are overdue (Maposa 2016: 07). This could potentially influence a number of SMEs to become tax compliant, as SARS, in conjunction with CIPC, could obtain a list of non-compliant SMEs (Scholtz and Gravenorst 2019: 01). Given the burden of tax compliance on SMEs, especially its significance toward the South African economy, SARS could encourage

SMEs to normalise their tax affairs by allowing voluntary disclosure applications to SARS for a limited time before it imposes penalties for non-compliance.

Smulders, Stiglingh, Franzsen and Fletcher (2012: 55) state that notwithstanding improvement, more should be done to create a tax regime that enables growth for SMEs and enhance compliance in an enabling environment. According to Junpath (2013: 100), compliance enforcement by SARS on SMEs is difficult because some SMEs may operate on a cash basis resulting not only in a loss to the economy but also to the state revenue. Kativhu (2019: 77) argues that small businesses are faced with a burden of penalties due to non-compliance. This causes SMEs to pay more taxes in addition to the calculated liability.

2.6.1.1 Audit probability and tax audits

The principal objective of the tax audit is to ensure tax compliance (Normatov 2020: 418). Tax audits should be led with carefulness and with more regularity to reduce any attempt to under-declare income and/or over deduct costs (Normatov 2020: 419). Engida and Baisa (2014: 435) indicate that tax audits are one of the monetary components that impact tax compliance.

The probability of detection for non-compliance behaviour by the tax authority is a factor that may have a role in tax evasion. If the taxpayer is a risk-averse person, "an increase in probability for tax audit will lead to a decrease in tax evasion" (Kiri 2016: 805). Modugu and Anyaduba (2014: 215) found that there is a positive relationship between tax evasion and the number of audits. Engida and Baisa (2014: 436) found that audit probability is the most explanatory variable in determining a taxpayer's behaviour. Accordingly, the authors concluded that taxpayers with limited financial means exhibit non-compliance behaviour (Engida and Baisa 2014: 435).

Engida and Baisa (2014: 435) argued that in a SAS, tax audits can play a crucial role and their most important role is to increase voluntary compliance. Frequent audits could motivate taxpayers to be wiser when compiling their tax information and declaring correct income and deductions on their tax returns. In contrast, taxpayers who have never been audited might decide to manipulate their figures by under-reporting their actual income and claiming false deductions (Wahl, Kastlunger and Kirchler 2010: 385).

Engida and Baisa (2014: 435) note that there is still uncertainty in the SAS in terms of the role of tax audits and the direct assessment tax system. They further state that the question "to what extent should audits be implemented?" remains unresolved in the SAS. Modugu and Anyaduba (2014: 212) agree that there is a conflict between the direct tax system and SAS in terms of audits as in the direct tax system all submitted tax returns will be subject to inspection while in the SAS the responsibilities are shifted to the taxpayers.

2.6.1.2 Tax penalties and fines associated with non-compliance

Osman (2011: 82) supports the narrative that taxpayers calculate the monetary consequences of different compliance behaviours such as whether or not to evade tax, the probability of detection and consequences thereof. Hendy (2013: 44) argues that the costs of hiring tax consultants and tax lawyers are cheaper than the non-compliance fines and penalties. Thus, the costs of non-compliance are higher than the cost of compliance. Hendy (2013: 51) argued that efficient taxable entities view tax noncompliance consequences such as tax fines, interest and penalties as avoidable expenditures and therefore they ensure that they act in agreement with the tax laws of the country.

Modugu and Anyaduba (2014: 212) state that the submission of late tax returns to SARS will result in penalties levied for each month they are late. This fine is a material cost, as failure to submit and pay the tax liability timeously also attracts interest in addition to the principal amount. This, in turn, increases the expenses of the business, thereby decreasing its profitability (Modugu and Anyaduba 2014: 206; Swartz 2019: 56).

It is also argued that higher interest and penalties make evading taxes risky for taxpayers and should discourage tax evasion (Osman 2011: 72). Hendy (2013: 44) argues that an increase in penalties can have a negative effect on taxpayers and therefore result in more tax compliance. In contrast, Alm (2013: 22) found that the impact of fines and penalties on non-compliance is almost zero. His study found that some respondents were neutral in their opinions on the impact of fines and they argued that fines are used by the revenue authority to punish taxpayers, but that it does not foster compliance. Lewis *et al.* (2013: 36) also found no support for the dissuading effects of fines. They suggested that policies such as fines and penalties which are based on deterrence are effective only when combined with regular audits.

Given that South Africa is a developing nation, it is critical to examine the challenges of tax compliance. The following section therefore discusses the challenges associated with tax compliance.

2.7 CHALLENGES ASSOCIATED WITH TAX COMPLIANCE

A number of challenges are associated with tax compliance. These are system complexity, knowledge of the system by taxpayers, understanding of tax laws by taxpayers, costs of tax compliance and efiling system usage. Each of these challenges is discussed separately in the following sections.

2.7.1 System complexity

Mas'ud (2014: 3) defined tax complexity from the perspective of accountants, tax lawyers and taxpayers. To a "tax accountant, tax complexity refers to as the time it takes to prepare income tax returns including tax planning or the time it takes to give advice". To a tax lawyer, tax complexity is the time taken and the cost incurred in complying with the relevant tax legislation. To taxpayers, it refers to the cost incurred and time taken in complying with the relevant tax legislation.

The tax laws in many countries, especially in developing countries, change rapidly, "thus producing instability and low transparency of the tax code" (Akinboade 2014: 205). As a result, complex tax laws and frequent changes of the tax code confuse taxpayers and tax administrators alike (Akinboade 2014: 205). This produces many opportunities for tax avoidance

The tax system or tax structure matters when it comes to tax compliance. The complexity of tax laws makes it difficult for an ordinary taxpayer who is not a tax practitioner to understand how the tax system works. According to Nghaamwa (2011: 17), the complexity of the tax system, penalties and tax rates affects the effectiveness of the tax system. The more complex the tax laws become, the lower the compliance level. Therefore, clear, simple and understandable tax rules enhance tax compliance.

Corporate taxpayers favour simple tax laws to gain an understanding of taxation and facilitate the preparation of tax returns Nghaamwa (2011: 17). The complexity of tax laws affects compliance because the tax managers or staff in a company use more time to debate and interpret the tax

legislation and they must also bring up-to-date their knowledge if there are frequent changes in the tax law (Falanni 2015: 22). There is the potential of errors in the interpretation of tax laws or the tax information obtained by the taxpayers, so it becomes necessary to simplify the legislation to promote compliance. Complexity may cause taxpayers to manipulate their financial statements as their attitude to tax is negatively affected by complexity, thus they may increase their expenses in their tax returns, making it difficult for SARS to find the deliberate errors. A further negative behaviour is looking for a gap in the tax law to find a different explanation that will benefit them (Falanni 2015: 22).

According to Saad (2012: 39), tax complexity and tax audits are related to non-compliance behaviour, "where the effect of complexity is very high and audit effect is fair". The impact of complexity on compliance varies with the features of individual taxpayers, such as income and education levels, perceptions of justice and fairness, and the chance to evade tax (Palil 2010: 20). Simplifying tax laws in the SAS might encourage "compliance among taxpayers as they might more easily interpret and understand the law and the tax structure, and so possibly be better able to declare their income and compute their tax liabilities correctly" (Coolidge 2010: 55).

Borrego, Loo, Lopes, and Ferreira (2015: 360) state that the tax system has become more complicated, especially in countries that have implemented a SAS. Under the SAS, taxpayers are responsible for managing their tax affairs and fulfilling with their tax liabilities. Palil (2010: 55) asserts that "there is an association between complexity and compliance", and that there is also a positive association between complexity and non-compliance, whether intentional or non-intentional.

The South African government has "recognised the complexity of the system and therefore introduced the turnover tax system in an attempt to alleviate this burden" (Pretorius 2015: 55). Pretorius (2015: 55) calculated that in South Africa, SMEs have "to comply with at least 17 taxes and levies depending on the formal structure of the business". These include income tax, provisional tax, dividends tax, employees' tax, capital gains tax, estate duty, skills development levies, unemployment insurance fund, environmental levies, property tax, business licenses and occupational injuries and disease fund (Pretorius 2015: 56).

A good SAS should be simple to make for a satisfactory level of tax compliance among taxpayers (Mas'ud 2014: 5). Frequent changes of tax laws, the complexity of tax systems, the existence of

different tax administrations, the language of tax laws, including incomprehensible forms, the cost of tax consultants and short and inflexible deadlines for tax payments are the main reasons for increasingly higher tax compliance costs of small businesses (Akinboade 2015: 396). The overall complexity of tax laws poses much of a challenge for small businesses (Kicher 2013: 34).

Masarirambi (2013: 34) elucidated that the increase in the tax compliance problem is the result of creating a complicated tax system that taxpayers are not able to analyse and interpret. Kicher (2013: 26) added that the current tax systems could be quite oppressive especially on SMEs. Smulders (2013: 22) described three main elements of the tax burden. These include the process of the tax implementation, the costs incurred because of compliance known as compliance costs due to the payment of taxes, and the expenditures related to a particular tax system which are the costs of complying with tax laws. Authors (Palil 2010: 55; Kicher 2013: 34) have argued that consistent tax laws which are constant in enactment and presentation will result in a less complex tax system and will encourage tax compliance. Coolidge (2010: 55) asserted that a simplified tax system would encourage compliance because taxpayers have different levels of tax knowledge and backgrounds. Tax authorities should consider introducing a modest tax system that results in easier submission of tax returns to enhance taxpayers' compliance (Masarirambi 2013: 34).

2.7.2 Knowledge of the system by taxpayers

It is crucial that taxpayers have the tax knowledge that will enable them to comply with tax law (Sapiei and Kasipillai 2013: 78). Tax knowledge is required for enhancing the compliance level and will assist in business record keeping as well as in creating a favourable business environment which enables the businesses that are compliant to operate easily. Ramharak (2016: 36) suggests that business owners and managers could increase their level of tax compliance if they have relevant tax knowledge. She emphasised that the only way to improve the tax compliance of businesses and individuals is through an improvement in tax education. Kicher (2013: 33) also concluded that the reason for the low tax compliance rate in Africa is because of the lack of tax education and that if tax education is improved, the level of tax compliance would also improve.

Palil and Mustapha (2011: 12865) clarified that tax knowledge has a positive impact on compliance. Palil and Mustapha (2011: 12865) argued that the provision of tax education to taxpayers and by making them aware of their social responsibilities can enhance tax compliance

thereby influencing them to comply. They further explained that "tax compliance is influenced by public cooperation and there are many merits associated in helping taxpayers to meet their tax liability through making significant improvements to the information provided or providing more tax knowledge to them", of which one could be through television campaigns. This equips the taxpayers to become citizens who are more responsible and may result in an increase in tax revenue rather than to use the money on enforcement activities.

Tax knowledge is an effective tool to encourage taxpayers to be more compliant. There is a significant positive relationship between tax knowledge and tax compliance (Ramharak 2016: 36). This indicates that the higher the level of tax knowledge the higher the voluntary compliance. These results also suggest that tax knowledge and awareness play an important role among taxpayers and affects their level of compliance. Kassim (2013: 64) argued that if taxpayers were equipped with the relevant tax knowledge this would increase their willingness to comply and would result in them meeting their tax obligations when due. He concluded that tax compliance can be improved through the provision of relevant tax education and it will reduce the inclination to evade taxes.

Palil and Mustapha (2011: 29) found that tax compliance is positively affected by knowledge, but the level of tax knowledge varies significantly among respondents. Therefore, taking more measures to provide tax knowledge to a greater part of society assists in the prevention of the tax evasion and results in the promotion of voluntary tax compliance. Conversely, poor tax knowledge is associated with a negative attitude towards taxation and increases the tendency to evade tax. Tax knowledge usually relates to the taxpayer's ability to comprehend and comply or not comply with tax laws. Saad (2012: 66) divided tax knowledge into two elements which are the specific degree of fiscal knowledge in relation to opportunities of tax evasion and the general degree of fiscal knowledge. He also emphasised that through the improvement of general tax knowledge, attitudes of the taxpayers are enhanced, and this results in the creation of a positive attitude towards tax that results in improving tax compliance. Making the taxpayers conscious of how they can manipulate tax legislation will harm tax compliance because it assists in increasing the level of non-compliance (Saad 2012: 39).

In general, tax knowledge has an impact on complying with the tax legislation (Mungwana-Zake 2018:5). Moreover, this creates a positive relationship between tax compliance and tax knowledge.

Koster (2012: 55) found higher adherence to tax policies in people who are well equipped with tax knowledge and that knowledge on taxation has an impact on tax compliance. He, therefore, concluded that because of adequate tax knowledge, knowledgeable taxpayers are the ones who file their tax returns on time in contrast to uneducated taxpayers (Koster 2012: 55). Previous studies suggest that tax knowledge has a positive effect on tax compliance (Palil and Mustapha 2011: 12872; Saad 2012: 66). The higher level of tax awareness is also important, as it would also result in a high level of tax compliance rate and vice versa. Thus, general tax knowledge is important as a basis of understanding tax law and the regulations so as to comply with them.

2.7.3 Understanding of the tax laws by taxpayers

Richardson (2016: 63) explained that it is imperative for individuals to understand tax law because it shapes their inclination to comply. He also explained that the law is viewed as complex; this results in taxpayers becoming unwilling to try to understand the tax legislation. Many individuals find it difficult to understand the requirements contained in the tax laws; their better level of comprehension relies on tax knowledge that a person has (Saad 2012: 49). Elaborating further, the author explained that people with a high level of qualifications, in general, can interpret the tax legislation in a better way and this positively influences tax knowledge (Saad 2012: 49). He further stated that the result of being unable to understand tax law ultimately leads to non-compliance amongst taxpayers. He advised that tax revenue authorities should endeavour to simplify tax laws through rewriting tax legislation into language that could easily be understood by taxpayers.

The complexity of the tax legislation poses a challenge through the uncertainty in interpreting tax legislation resulting in a high level of non-compliance (Palil and Mustapha 2011: 12866). Kasipillai (2010: 55) concluded that the level of tax compliance could be affected when taxpayers are oblivious of the number of non-compliant acts to be detected by the relevant tax authorities in carrying out their tax audits. Due to lack of adequate tax knowledge, most business operators and other taxpayers make use of tax practitioners and lawyers in preparing their tax returns. This results in high compliance costs that may deter taxpayers from complying (Kassim 2013: 63).

Therefore, equipping taxpayers with tax knowledge will reduce the level of non-compliance and result in more taxpayers being compliant. Inadequate tax knowledge and the uncertainty of tax

laws results in taxpayers applying wrong tax provisions in the preparation of their tax returns (Richardson 2016: 63). Other authors noted that if taxpayers are equipped with the relevant tax knowledge this will increase their willingness to comply. Palil and Mustapha (2011: 12866) asserted that tax compliance can be improved through the provision of the relevant tax education and it will reduce the inclination to evade taxes.

2.7.4 Cost of tax compliance

Tax compliance costs are the internal or external costs that taxpayers incur to comply with the tax legislation in force (Eichfelder and Schorn 2012: 205). They include not only the hiring of human resources, material and information technology needed to comply with such legislation, but also the time spent in obtaining the information, guidance and assistance needed to be tax compliant (Smulders *et al.* 2012: 189).

Tax compliance costs also include on-going costs that businesses would need to deal with in order to comply with regulations (Naicker and Rajaram 2019:108). Rahim (2015: 47) identifies the following as the compliance cost burden:

- the required time for filing, completing returns and dealing with SARS related queries, and
- acquiring the knowledge required to comply in a complex environment.

Smulders and Naidoo (2013: 35) found that small businesses have a higher percentage of tax compliance costs as compared to larger businesses. Thus, it is reasonable to argue tax compliance costs would influence the intention of SMEs to comply with tax laws and regulations. Higher compliance costs such as costs the taxpayer has to bear to gather the necessary documents and fill out the returns can be an additional reason for tax evasion and avoidance. Akinboade (2015: 393-394) states that SMEs suffer from high compliance costs with VAT being perceived as the most onerous.

Ndlovu, Blumenthal and Papageorgiou (2015: 693) support the statement by Akinboade (2015) that VAT is perceived to be the most challenging tax type to comply with and more time is spent on VAT compliance as opposed to the other tax types such as PAYE, income tax and provisional taxes. This results in more hours spent on VAT compliance which increases as the size of the business increases.

High compliance costs can influence taxpayers to avoid tax and indirectly promote tax fraud and inhibits investment by way of reducing the competitiveness of the country in terms of taxation attractiveness (Mwangi 2014: 44). The use of tax experts improves tax compliance, but increases the cost of compliance. SME South Africa (2014: 01) argues that small businesses can afford to pay tax specialists and even set up in house tax departments. Other authors argue that small businesses may not have the financial resources to carry the cost of engaging specialists (Eichfelder and Schorn 2012: 205).

Rahim (2015: 55) agrees that the use of professional tax service providers is one of the main costs contributing to the cost of complying with taxation legislation. Taxpayers engage tax practitioners as they do not have time to prepare their returns or fear that the revenue authorities may audit their returns (Rahim 2015: 48). Taxpayers would normally engage in hiring a tax practitioner or use practitioner services if the cost of preparing their tax returns, measured in time or money, exceeded the cost of hiring practitioners (Mahomed 2013: 33).

Tax compliance studies have shown that compliance costs are huge and regressive but the relationship between the tax compliance costs and tax compliance is often ignored (Mogeni 2012: 21).

SMEs often make a variety of costly mistakes, including inaccurate bookkeeping and expenditure on matters not qualifying for a tax deduction. Costly mistakes can be avoided through several preventative measures, including preparing monthly cash flow plans, annual business forecasting and hiring a competent bookkeeper (Marron 2014: 43). Government has initiated several incentives to reduce the cost of preparing and time for filing and paying of taxes. Pretorius (2015: 66) found that small businesses owners are ignorant of the tax incentives available to them. The objective of the SAS was to improve voluntary compliance, reduce tax the authority's burden of assessing tax returns and increase tax collection efficiency (Osebe 2013: 8). SAS has achieved its goal. However, voluntary compliance is still an issue in South Africa.

Small businesses are more likely to underpay their taxes as they often deal in cash and engage in cash transactions (Marron 2014: 44). They may engage in transactions that are not reported in revenue and overstate their expenses, thus underpaying their taxes (Pretorius 2015: 68). Some underpayments are accidental, reflecting the difficulty of complying with complex tax codes, and some are intentional (Masarirambi 2013: 34). High compliance costs disadvantage responsible

small businesses, while the greater opportunity to underpay taxes advantages less responsible ones (Marron 2014: 44).

2.7.5 Efiling system usage

Efiling is the submission through the internet of tax returns and supporting documents by and large without the need to present any paper returns (Muturi and Kiarie 2015: 286). Efiling of taxes has been introduced in numerous nations to enhance voluntary tax compliance (Mongwaketse 2015: 24). Efiling of taxes was introduced in the USA in 1986 (Lai and Choong 2010: 564). Since then, various nations have introduced an electronic system of filing taxes. For instance, in Kenya, efiling was through the execution of the Integrated Tax Management System (ITMS) in 2013 (Gwaro, Maina and Kwasira 2016: 85). In South Africa, efiling has been in use since 2001 (Mongwaketse 2015: 15).

According to the research conducted by Keen (2013: 20) in Kenya, taxpayers with certain characteristics are more likely to use efiling. His study revealed that larger businesses are more likely to use efiling compared to smaller businesses. In addition, his results showed that "capability in computer usage, knowledge about the process and awareness of efiling" are important factors in taxpayers' decisions to use efiling. Furthermore, the results also revealed that technological knowledge influences the acceptance of efiling and compliance among SMEs.

Mongwaketse (2015: 15) noted that efiling is used by over two million South Africans, making it easier for taxpayers to file their returns as many of the fields, including IRP5s, are now pre-populated on the ITR12 return. It also provides the taxpayer with a deeper understanding of his or her own financial situation and helps in understanding on how to minimise the tax burden. Berger (2011: 40) affirmed that South Africa improved its position on tax payments due to the success of efiling and the way in which returns are filed.

Collen (2020: 02) revealed that basic tax knowledge was common among the majority of his respondents although several respondents still preferred using a tax consultant. The study also showed that though most taxpayers had good experiences with efiling, most taxpayers would rather visit the SARS offices to physically file their returns resulting in managerial and coordination

challenges. Bornman and Ramutumbu (2019: 823) argue that taxpayers firstly require adequate tax knowledge to file the tax returns in accordance tax legislation. The awareness and intension to use efiling does not guarantee that the taxpayer will complete the returns properly if they do not have enough tax knowledge. It is therefore imperative that taxpayers have enough tax knowledge to become compliant.

Taxpayers require tax software, access to a computer, knowledge on how to utilise efiling and a reliable internet connection. Lack of understanding of the type of information required by efiling and the ability to use the system forces the taxpayers to engage third parties or ignore tax obligations (Akinboade and Kinfack 2012: 937). As indicated by Bird (2014: 46), there is a significant relationship between tax knowledge, computer literacy and tax compliance knowledge. Edward and Ambrose (2017: 45197) affirmed that SMEs lack confidence in their ability to correctly calculate the tax payable causing them to hire tax experts to file for them at a cost. Gupta (2015: 78) argued that the motivation behind utilising a tax advisor or a tax practitioner's services is to get the advantage of tax knowledge and skills as their insight into tax laws and methods is much better than that of an ordinary individual. Smulders (2013: 22) noted that tax practitioners need to be up to date with all the changes in the legislation as due to its nature, changes are inevitable.

The previous section discussed the challenges associated with tax complexity. The studies found that tax complexity affects the tax knowledge of taxpayers and therefore it is either directly or indirectly a possible cause of non-compliance by SMEs who may not be well-versed in the tax laws and regulations in the jurisdiction in which they operate.

2.8 CONCEPTUAL FRAMEWORK

This study seeks to examine the relationship between tax knowledge and tax compliance. From the literature review conducted, authors have indicated that tax knowledge has an impact on tax compliance. As the levels of tax knowledge have not been probed in SMEs in the Durban area, and studies have indicated that poor knowledge is one factor, amongst others, that may lead to poor tax compliance, the fourth objective of this research was to establish whether or not a relationship exists between taxpayer knowledge in various areas and tax compliance. The study focused on tax knowledge in five specific areas. These were knowledge of taxpayer

responsibilities, payroll taxes, business income taxes, turnover tax knowledge and VAT. Figure 2.1 is a pictorial presentation of the model to be tested in this study.

```
┌──────────────────────────────────────────────────────────────────────┐
│                                                                        │
│    Independent variables                    Dependent variable         │
│    (Components of taxpayer                                              │
│    knowledge)                                                          │
│    ┌─────────────────────────────┐         ┌──────────────────────┐   │
│    │ Taxpayer responsibility     │         │                      │   │
│    │ Business income             │         │                      │   │
│    │ Payroll              ➔      │         │ Tax compliance       │   │
│    │ Turnover                    │         │                      │   │
│    │ Vat                         │         │                      │   │
│    └─────────────────────────────┘         └──────────────────────┘   │
│                                                                        │
└──────────────────────────────────────────────────────────────────────┘
```
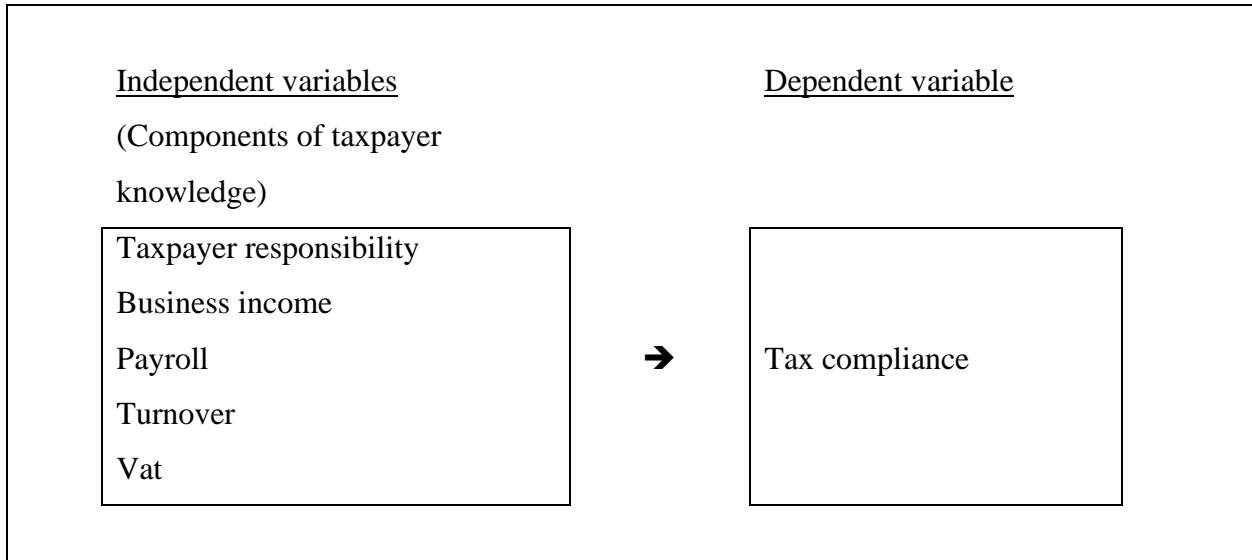
Figure 2. 1: Conceptual model

This study hypothesises that higher levels of taxpayers' knowledge of taxpayer responsibility, business income, payroll taxes, turnover taxes and VAT, has a positive relationship with tax compliance. In other words, more knowledge in the different components of tax knowledge would result in more compliance by taxpayers.

2.9 SUMMARY

The examination of the literature relevant to the research objectives has provided evidence that SARS is looking at the SME sector very carefully as this sector displays various issues of tax non-compliance. In the current economic climate, it is difficult for an SME to survive in South Africa, and the high cost of tax compliance compounds the problem. SMEs are an important part of the country's economy as they stimulate the creation of jobs. Therefore, the growth of the SME industry is crucial to healthy economic growth. The level of tax knowledge and complexity of tax laws in the SAS makes it difficult for a small business owner to comply with tax requirements accurately. Equipping small business owners with the necessary tax knowledge and education may positively affect their tax compliance. The next chapter provides a discussion on the research methodology of the study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 INTRODUCTION

Chapter Two reviewed the literature on this topic. This chapter presents the research methodology used in this study to meet the research questions, which are: (1) what is the level of tax knowledge of SME owners? (2) what are the barriers to tax knowledge and tax compliance? (3) what is the level of tax compliance of SMEs? and (4) is there a relationship between tax knowledge and tax compliance? This chapter explains the research design, population, sample and sampling techniques, data collection and analysis. It also covers the instrument used to collect data and methods applied to ensure the reliability and validity of the research. The chapter also describes the ethical matters considered in the study.

3.2 RESEARCH DESIGN

Saunders, Thornhill and Lewis (2012: 160) refer to research design as the method of scientific enquiry that seeks to probe a natural phenomenon.   As such, research design guides the study by articulating what is needed, what methods are suitable for data collection, and the technique for data analyses with a view of providing answers to the research question (Polit and Beck 2010: 74).

To design an effective process for conducting a research study, Saunders *et al.* (2012: 160) developed a research strategy called the research 'onion'. In this process, the researcher begins with the research philosophy and moves through each of the layers (research approach, research strategy, time horizon) to determine the data collection method. This study adopts the research 'onion' model as illustrated in Figure 3.1 below.
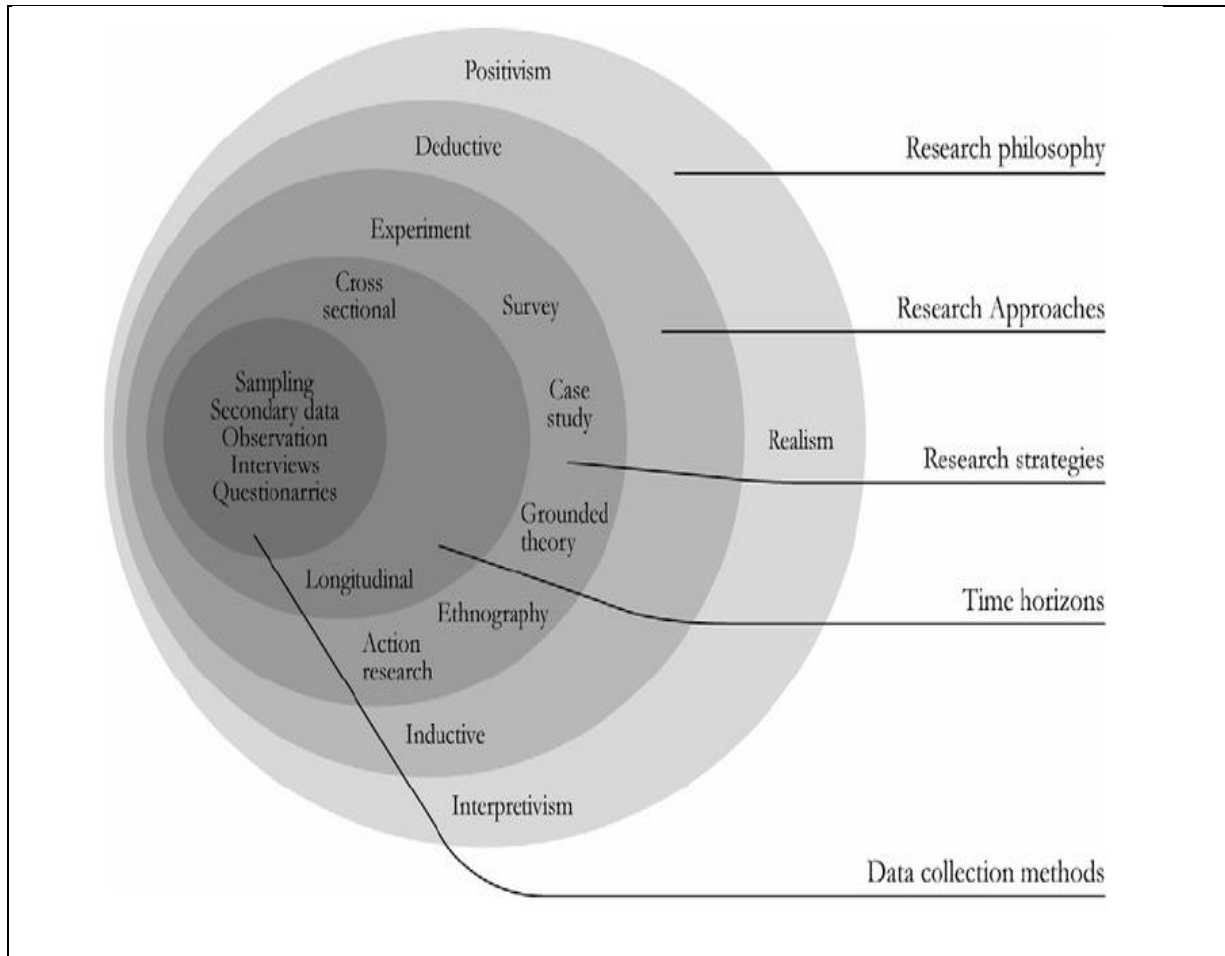
Figure 3. 1: The research 'onion' (Source: Saunders *et al.* 2012: 85)

3.2.1 Research philosophy

Research philosophy is described as a hypothesis and belief about the advancement of knowledge. It is defined as the broad philosophical orientation to the world and knowledge that informs the research design (Coe, Waring, Hedges and Arthur 2017: 6). There are two common research philosophies, namely, positivism and interpretivism.

According to Swain (2017: 57), positivism is premised on the fact that only "factual" knowledge gained through observation, including measurement, is trustworthy. For the positivist, "knowledge is obtained by observation and finding event regularities, which are based on causal, law-like and functional relations" (Swain 2017: 57)**.** Swain (2017: 57) refers to positivism as when

the researcher is logical and unbiased, as this is a way to eradicate all form of bias in the study. The research findings are usually obvious and measurable, and according to Sekaran and Bougie (2016: 28), lead to statistical analysis.

Interpretivism, on the other hand, is connected with the study and analysis of the elements of human behaviour and actions (Collins 2010: 38). Insight and interpretation of the world from the viewpoint of the members is the central premise of the interpretivism philosophy. As such, this research philosophy is more appropriate for research studies whose major objective is to solve a problem. The nature of this approach varies and there is room for bias on behalf of the researcher (Myers 2013: 39).

In this study, the positivism approach is used because the research aimed at eradicating all forms of bias in how the data was gathered and analysed. Positivism research uses deductive reasoning to generate a theory from which specific hypotheses evolve and are tested by the researcher.

3.2.2 Research approach

The research approach is another vital element of the research methodology that influences the choice of certain research methods. The research approach can be either inductive or deductive. An inductive approach is used when a researcher decides to find an answer to a specific research question(s) articulated at the start of the research process. It is more applicable to a phenomenological research philosophy as it seeks to confirm or reject an existing theory (Krippendorff 2013: 485). Sekaran and Bougie (2013: 26) explain that in this approach "the research starts with observation and data collection, moving to description and analysis in order to form a theory".

The deductive or empirical approach, on the other hand, draws conclusions premised on a theory that is logically derived. Swain (2017: 38) added that the conclusion drawn from the study is true when all the premises are true. If a researcher chooses to achieve his or her research objectives(s) via testing hypotheses, "the research approach can be specified as deductive" (Sekaran and Bougie 2013: 26).

In a deductive approach, and as explained by Sekaran and Bougie (2013: 26), the researcher starts with an existing theory, and thereafter formulates a research question or hypothesis. The formulated hypothesis is tested using a statistical method, and thus makes it easier for the researcher to accept or reject it. Unlike the inductive approach where a researcher aims to develop a theory in a field with little research knowledge on the topic of interest, this study adopted a deductive research approach. The choice of this approach works with the premise that the deductive reasoning leads to logical conclusions.

3.2.3 Research strategy

According to Saunders *et al.* (2012: 160), a research strategy is a continuous plan of action that guides the researcher's thoughts and effort. Thus, it facilitates an organised conduct of the research to deliver excellent results and a comprehensive report (Saunders *et al.* 2012: 160). The research strategy details the process of conducting the research. Swain (2017: 57) lists various strategies each with its own distinctive characteristics that a researcher could follow. This includes a case study, ethnography, grounded theory, survey, experiment and action research, (Swain 2017: 57). A survey was adopted for this study.

The survey research strategy was used to address the research questions. Sekaran and Bougie (2013: 45) explain that in survey research, the researcher collects information from an individual's responses to the questions posed to them. As such, the survey allows the researcher to utilise different techniques in their recruitment of participants and collection of data. Accordingly, the survey is the main instrument for data collection, particularly in a research study that is descriptive in nature (Lodico, Spaulding and Voegtle 2010: 204). In this study, a questionnaire was used to investigate the level of tax knowledge of SME owners and the relationship between their tax knowledge and tax compliance.

3.2.4 Time horizon

According to Bhattacherjee (2012: 6), the time horizon of a study can be either cross-sectional or longitudinal. A cross-sectional study deals with data collection from the participants at a specific point in time whereas a longitudinal study deals collection of the data from the participants repeatedly over a period of time (Kumar 2014: 19). The study followed a cross-sectional approach

based on its assigned subgroup at one certain time. Bhattacherjee (2012: 6) is of the opinion that a cross-sectional study has to do with the researcher taking a cross-section of the research population solitarily and conducting research on them. This method is relevant in this study because the researcher is looking at the level of tax knowledge and its influence on the compliance of SMEs at a certain point in time.

3.2.5 Data collection methods

The research methodology is a way to logically solve a research problem. It can also be referred to as a science of studying how research is done (Bhattacherjee 2012: 5). Research is not just a procedure of information collection; it also answers and creates that which does not currently exist (Leedy and Ormrod 2013: 39). There are two main research methods, namely qualitative and quantitative research. A third methodology is the mixed research method explained as a research method that can employ both a qualitative and a quantitative approach (Griffin and Museus 2011: 32). It is a blend of the two methods which is gaining acceptance as a way to enhance and corroborate research findings. The choice of methodology is influenced by the research questions (Kumar 2014: 19). The choice of either a quantitative approach or a qualitative approach guides the choice of the data collection method. Table 3.1 describes the differences between the quantitative and qualitative research approaches.

Table 3.1: Differences between quantitative and qualitative research approaches		
Factor	Qualitative	Quantitative
Type of data	Mainly soft and in-depth, and rich in context	Hard in nature, precise and very specific to the research objectives
Techniques for data collection	Both participants and researcher engaged an active interaction	The techniques for data collection are usually passive using instruments like the questionnaire and/or experimentation
Sample frame	Mostly small	Mostly large and representative of the entire population under study
Variables	Unstructured and large in numbers	Structured and concise
Relationship	Long term and intimate with subjects	Short term and detached from subjects
Context of the research	Uncontrollable	Highly controlled
Method of analysing data	Textual/ interpretive	Numerical using statistical techniques
Research findings	Inductive using creativity and criteria reflection	Deductive through inferences from data
Instruments	The researcher is the instrument	Equipment and or questionnaires
Tools	Interview guide, tape recorder, transcriber, computer software, etc.	Computer software, calculators
Results interpretation	Subjective	Objective
Strategies	Case studies, ethnography, phenomenography, hermeneutics, etc.	Descriptive, experimental, correlational, comparative, etc.
Focus	Mainly focused on theory generation	Premised on testing hypothesis
Reliability	Low	High
Validity	There is no validity but rather credibility and trustworthiness.	Validity can be content, criterion face, or construct
Generality	Cannot be generalised	Generalises from sample to population
Source: Adapted from Sugunro (2002: 5)		

This study sought to obtain a suitable research outcome by adopting a quantitative research approach.

3.2.5.1 Quantitative research method

Leedy and Ormrod (2010: 12) refer to quantitative research as the method of examining identified theories by finding and specifying hypotheses and gathering data to accept those hypotheses. Quantitative methods depend on research and surveys to collect assessable data such that statistical processes can be applied, and the results are usually generalisable to large populations. Finlay (2012: 3) clarifies that a commonly used way of conducting quantitative research is by using a survey, which usually involves a questionnaire. The research design used in this study is a quantitative research method using a questionnaire survey.

The quantitative research approach was chosen as the methodology because this approach allows for a larger study involving a bigger number of participants and can allow for better impartiality and precision of results. The research outlined in this study was conducted by administering questionnaires to respondents to collect data. The advantages and disadvantages of a quantitative approach are highlighted in Table 3.2.

Table 3.2: Advantages and disadvantages of a quantitative research approach	
Advantages	Disadvantages
More suitable to test hypothesis in an experimental research design. This is attributed to tendency to measure collected data using statistical methods. Hence, quantitative method is statistical driven and thus is useful to provide a lot of information.	Results are presented in limited format using tables and figures, and thus lack a detailed narrative analysis.
Participants' knowledge and skills are provided objectively.	Research is often conducted away from a real-world scenario to gain a level of control. Hence, there are possibilities of unnatural outcomes due to limited control by the researcher.
The technique can generate lots of information owing to the ability to carry out the study in a large scale over many different topics.	From the perspective of social and cultural context, particularly on a contemporary phenomenon, there is lack of in-depth information on the subject.
Data collected is easily analysed and compared with other studies.	For researchers who are not familiar with statistics, this technique can be difficult and time-consuming.
Source: Adapted from White and McBurney (2012: 429)	

Having explained the research method adopted for this study, the research population and sampling aspects of the study are discussed next.

3.3 THE TARGET POPULATION

For every scientific research, there is always a selected audience that the researcher aims at studying, and these sets of people are called the target population. These audiences are a very essential part of the research as they provide the researcher with the data needed for the research to make its final conclusions (Bryman 2015: 47). Guthrie (2010: 69) describes the target population as the total number of people or groups that the study aims at drawing its statistics from; also, the target population is the unit for which the findings of the survey are meant to generalise. The target population for this study were SMEs in the Durban area. However, obtaining a list of all SMEs in Durban proved problematic as SMEs are not required to register with any specific organization. If they are above the tax threshold, they would be registered with SARS; however, SARS does not provide access to their taxpayers. A decision was made to use the entire population of businesses in the Durban Chamber of Commerce's (DCC) 2018 Directory. To identify only SMEs in the directory, judgement was used to remove large businesses, lawyers, accounting firms and any other firms which were linked to companies listed on the Johannesburg Stock Exchange from the population. Banks and municipalities were also removed from the population. This left 2 358 SMEs as the target population. Using SMEs on this register may have ensured that these SMEs were not micro-businesses as they all had business addresses and websites. This could also be an indication that these SMEs were registered for efiling or as taxpayers as having websites and email addresses could be perceived as some indication that the SMEs were computer literate and had the requisite knowledge to be able to efile at least some of the necessary tax returns.

3.4 SAMPLING

There are various obstacles that can prevent a researcher from studying the entire population; these limitations include time, cost of the study and manpower that will be needed for the process. As a result of these limitations, the researcher only uses some of the target population and makes a generalised conclusion on the population instead of studying the entire population. This small group of the entire or target population that is studied is referred to as the sample (Marlow 2010:

140). Sampling is thus the process of directly observing only a portion of the population (Mugo 2011: 56).

Johnson and Christensen (2012: 257) classified sampling techniques into two types; these are probability samples and non-probability samples. An example of a probability sampling technique includes (i) systematic random samples, (ii) simple random samples, (iii) stratified random samples, and (iv) cluster random samples. Non-probability sampling techniques, on the other hand, include convenient samples, snowball samples, accidental samples, purposive samples, quota samples, and self-selection samples (Johnson and Christensen 2012: 257).

According to Johnson and Christensen (2012: 257), different from the non-probability techniques, probability-sampling techniques have an edge in that the researchers can decide the probability that any member of the population could be present in the sample. Similarly, the sampling error, which is the nonappearance of an appropriate link between the sample and the population, can be projected with probability sampling (Johnson and Christensen 2012: 257). It is important to note that the sampling error is helpful in determining whether the characteristics of the sample selected is the same or different from that of the population. This, however, cannot be estimated using non-probability sampling (Johnson and Christensen 2012: 257).

In this study, random sampling was used because it enables the researcher to make accurate generalisation from the sample to the population under investigation. Furthermore, each member of the subgroup carries an equal opportunity of being chosen as a part of the sampling process (Johnson and Christensen 2012: 257).

A sample selected randomly is expected to be a fair representation of the total population (Brough, 2018:212). The sample was chosen by selecting ten businesses per page in the directory book and in that way, every business had an equal chance to be selected.

The sampling table by Sekaran (2013: 249) was used in ascertaining the sample size. Using this table, for a population size of 2 358, the appropriate sample size is 327. Based on the population of 2 358 SMEs on the Durban Chamber of Commerce database and the required confidence level of 95% and margin of error of 5%, a sample size of n = 327 respondents was needed. The

researcher decided to send the questionnaires to 500 SMEs, which is more than a sample size of 327 to increase the number of respondents to allow for non-responses.

3.5 NATURE OF THE STUDY

The nature of this study is descriptive. Descriptive research involves observing and describing the conduct of a subject without manipulating it in any way (Babbie 2010: 93, 94). In a descriptive study, the researcher adopts a descriptive design when describing the characteristics of the study population. According to Babbie (2010: 93, 94) descriptive design is useful in explaining the where, how, when and what of the research. The participants in this study were selected based on the variables of interest. Descriptive research was used to deliver the required results as to whether tax knowledge plays a role in tax compliance.

The data gathering procedure used in this study is described next.

3.6 DATA COLLECTION INSTRUMENT

The data collection instrument used in this study was a questionnaire. The composition of the questionnaire is discussed next.

3.6.1 The questionnaire

The main means of data gathering was the questionnaire survey which was administered to SME owners in Durban. Table 3.3 summarises the advantages and disadvantages of using questionnaires.

Table 3.3: Advantages and disadvantages of using questionnaires	
Advantages	Disadvantages
A great number of people can be reached at a reasonable cost (postal and telephone).	Fewer people will agree hence making the active response rate less and refusal rate high.
The target population can be reached no matter their geographical location.	The researcher cannot ascertain that everyone who got the questionnaire responded to it which can lead to bias.

Table 3.3: Advantages and disadvantages of using questionnaires	
The researcher or other persons can administer the questionnaire with limited affect to its validity and reliability.	There is no way to tell how truthful a respondent is being.
After the data has been quantified, it could be used to compare and contrast to other research and could also be used to measure change.	A questionnaire is not very helpful in finding information about complex emotional subjects.
Source: Adapted from Kumar (2014:178)	

3.6.2 Layout of the questionnaire

Questionnaires are an essential aspect of gathering information in research. Ensuring that the questionnaires are eye-catching, easy to read and comprehend is very important. Creswell (2011: 25) stated that the first thing that the respondent looks at is the cover page. Hence the cover letter of a questionnaire must be attractive as this will play a motivation for the prospective audience in their decision to complete the questionnaire.

3.6.2.1 Closed and open-ended questions

According to Kumar (2014: 28), using closed-ended question is a good approach as this "provides the person taking the survey with a range of response options that he/she can select from to indicate his/her responses". Also, closed-ended questions allow only a limited number of answers thereby not allowing additional information to be offered. Thus, they require only reading the question and making a choice from among the answer options. In this study, closed questions were used in Section A of the questionnaire, which focused on background details.

Open-ended questions place a greater burden on the respondent than does selecting a response category in closed-ended questions (Sekaran and Bougie 2013: 12). The answer should be expressed in the respondent's own words which requires not only a readiness to answer but also the ability to supply a coherent answer. As a result, respondents do not usually respond as readily to an open-ended question as they might respond to a closed-ended question in the research questionnaire (Creswell 2011: 32). Open-ended questions may also result in respondents providing unconventional answers which are not always understood by the researcher (Kumar 2014: 28).

Open-ended questions were used mainly in Sections B and Section C to get respondents to substantiate their tax knowledge and opinions regarding tax compliance. The entire questionnaire is shown in Appendix E.

3.6.3 Measuring scales

Using the information gathered through the literature study, the closed-ended questions were developed with a mix of five-point Likert-type scales, multiple-choice and dichotomous questions. The Likert scale is designed to examine how strongly subjects agree or disagree with statements along a continuum of five points (Sekaran and Bougie 2010). It allowed for responses on a continuum from strongly disagree (1), disagree (2), neutral (3), agree (4) and (5) strongly agree. The Likert-type scale was coded from one to five to indicate the degree to which respondents agreed or disagreed with certain statements put to them, while the multiple-choice questions were coded between one and five to enable the respondents to choose the appropriate answer. The dichotomous questions with a Yes or No response required were coded 1 or 2.

3.6.4 Questionnaire design

In this study, the questionnaire comprised the following sections:

Section A - Background information

There were six questions in this section and the main objective of these questions was to get each respondent's background information. The section contained closed-ended questions which included the gender of the owner, the form of business ownership, the number of years the business has been trading, turnover levels, and the level of education of the owner. These background questions allowed for a more in-depth analysis of the results and also ensured that the respondents were indeed SMEs.

The background questions were as follows.

Respondents were asked to indicate their answers by placing an X in the box.

1. Please specify your gender.

Male	
Female	

2. What is the form of ownership of your business?

Sole trader	
Close corporation	
Private company	
Partnership	
Personal liability company	

3. For how many years has the business been in operation?

Number of years	
1 – 5 Years	
6 – 9 Years	
10 – 14 Years	
15 – 19 Years	
More than 20 Years	

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

Turnover (Rands)	
0 – 500 000	
500 001 – 1000 000	
1000 001 – 1500 000	
1500 001 – 2 000 000	
2 000 001 and above	

5. What is your highest level of education?

Qualification	
Matric / National Senior Certificate (NSC)	
Undergraduate diploma/ certificate	
Honours or postgraduate diploma	
Masters	
PhD	
Other	

6. Do you have a qualification that involved taxation as part of your studies?

Yes	
No	

Section B - Tax knowledge

Section B contained 12 questions. The aim of questions 7 to 11 was to ascertain the level of tax knowledge of SME owners (research question 1). More specifically, the aim was to determine the extent of SMEs' owners' tax knowledge of taxpayers' general responsibilities, business income, payroll, turnover and VAT. Additional questions posed to provide a deeper analysis of the results were on tax education and training (question 12), the use of either and accountant or a tax practitioner (question 14), whether or not the taxpayer had defaulted on any returns, and knowledge of efiling (question 15).

Respondents were asked to please read each statement carefully and answer (tick) according to their knowledge.

For each question in this part, respondents were asked to tick whether the statement is:

1. **True**

2. If you are **not sure**.

3. **False**.

Taxpayer General Responsibilities

7. Taxpayer is responsible to:

	Statements	True	Not sure	False
A	Inform and declare actual income received from all sources to the tax authority (SARS).			
B	Keep records/documents pertaining to income and expenditure for a period of 5 years after submission of the tax return.			
C	Pay taxes due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period.			

Business Income

8. The following expenses shall be deductible from the income when calculating taxable business income.

	Statements	True	Not sure	False
A	The direct cost of producing the income such as the direct cost of manufacturing, purchasing and selling costs.			
B	Commission paid for services rendered to the business.			
C	Personal expenses of the business owner.			

9. Payroll

	Statements	True	Not sure	False
A	A micro business is still required to withhold payroll taxes (if voluntarily registered as an Employer).			
B	SMEs may be required to withhold and pay PAYE on behalf of its employees in terms of part two of the fourth schedule of the Income Tax Act (No. 58 of 1962).			

		True	Not sure	False
C	The employer is responsible for calculating the PAYE amounts payable to SARS.			

10. Turnover Tax

	Statements	True	Not sure	False
A	Turnover tax replaces all other taxes such as VAT, provisional tax, capital gains tax and dividend tax if the business has a qualifying annual turnover of R1 million or less.			
B	Small businesses are not taxed at a flat rate of 28% but on a progressive rate of tax according to their taxable income.			
C	Qualifying Small Business Corporations will not pay tax on the first R 75 750 from 01 March 2018 to 28 February 2019.			

11. Value-added Tax

	Statements	True	Not sure	False
A	The business is not legally required to register for VAT if the turnover is less than R1 million.			
B	A VAT registered business shall maintain accounting records, original tax invoice received by the person and copies of all tax invoices issued by the business for 5 years.			
C	It is compulsory for an entity that makes taxable supplies exceeding R1 million to register as a VAT vendor in terms of section 23 of the VAT Act.			

12. Tax education and training

	Statements	True	Not sure	False
A	I have attended formal education and tax training about taxation.			
B	Trainings arranged and given by SARS was relevant and practical to know about tax.			

		Yes	No	
C	Taxpayer education has enhanced my level of understanding of various tax regimes.			
D	It easier to file tax returns than before.			

13. The use of either an accountant or a tax practitioner

	Statements	Yes	No
A	Does your business use an internal accountant?		
B	Does your business use an external accountant?		
C	Does your business use an internal tax practitioner?		
D	Does your business use an external tax practitioner?		

If you answered yes, please place an X against the reasons given below which are relevant to your decision to use an accountant or a tax practitioner.

	Statements	
A	Lack of tax knowledge	
B	It's faster	
C	I don't have time to submit myself	
D	To ensure that correct returns are filed	
E	I believe they understand tax laws better than I do	
F	Other reasons (please specify)	

_____

_____

14. Have you ever defaulted on your tax returns such as Income tax, Provisional tax, PAYE, Vat etc.?

Yes	
No	

If yes, why did you default on your submission? Please place an X against all the reasons, which are applicable to you

	Statements	
A	I did not manage to submit the returns on time	
B	I did not know how to complete the returns	
C	I did not want to pay any taxes	
D	I did not declare the correct income	
E	Other reasons (please specify)	

_____

_____

15. Please indicate your knowledge about the use of efiling.

For each of the following given statements please tick:

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	I know and understand how to use efiling					
B	Efiling is easy, simple to understand and I can use it without assistance					
C	Efiling encourages me to be tax compliant because it's easy to use or access					
D	The use of efiling has improved my level of tax compliance with SARS legislation					
E	I can pay my liability faster and easier since I started using efiling					
F	The use of efiling to submit my tax return(s) has assisted me to declare income accurately					

_____
_____

The next section of the questionnaire addressed research question 2, which was aimed at determining whether the respondents had any barriers to tax knowledge. In order to provide a deeper analysis of the results, questions were also posed on strategies to improve knowledge and the tax education programmes of SARS.

Section C - Barriers to tax knowledge

16. Do you have any barriers to tax knowledge?

Yes	
No	

If yes, what are your barriers to tax knowledge?

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	Frequent changes on tax makes it difficult to understand tax (complexity of tax laws)					
B	My school offered accounting in high school, but I did not choose it					
C	I do not have background knowledge in accounting					
D	I do not have background knowledge in tax					
E	Tax is too technical					
F	Tax authority (SARS) does not provide enough seminars and workshops					
G	I am not aware of the tax workshops and seminars provided by SARS					

17. Which of the following strategies contribute in improving a taxpayer's knowledge and so closes the barrier to tax knowledge?

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	Seminars provided by SARS					
B	More public awareness campaigns by SARS on the importance of taxation					
C	More use of social media platforms by SARS on the importance of taxation					
D	Introduction of tax education in secondary schools					
E	Other (please specify)					

18. Taxpayer education awareness

Are you aware of any taxpayer education programmes conducted by SARS?

Yes	
No	

If yes, have you attended any of the following taxpayer education programmes? Please tick the ones that you have attended.

	Statements	
A	Dividends Tax and Corporate Distributions	
B	VAT and Payroll taxes	
C	Corporate Transactions	
D	Small Business Incentives	
E	Other programmes that you felt relevant to your business	

Section D - Tax compliance

This section consisted of six open-ended questions aimed at answering research question three which sought to determine the SMEs' level of tax compliance (research question 3).

19. Is your business registered for the following? Please place an X against all the relevant taxes and indicate by Yes or No.

	Tax Types	Yes	No
A	Income tax		
B	Provisional tax		
C	PAYE		
D	VAT		
E	UIF		
F	Skills development levy		
G	Other (Specify)		

20. Do you think being compliant is an advantage to South Africa?

Yes	
No	

If you answered no, please give reason(s) for your answer.

_____

_____

21. What motivates you to ensure that your business is compliant? Please place an **X** against all the reasons, which are applicable to your business.

	Statements	
A	Tax Clearance Certification	
B	Business Formalisation	
C	Avoid Interest and Penalties	
D	Tender Application	
E	Refund from SARS	
F	Other (Specify)	

_____

_____

22. For each of the following given statements, please indicate your opinion on the following statements influencing tax compliance.

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	SARS has limited capacity to investigate all income reported to them and taxpayers have an opportunity not to report their exact income.					
B	The probabilities of being detected by SARS for not					

		Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
	declaring the exact income are low.					
C	Since supporting documents do not need to be sent to SARS and if not selected for an audit, the figures in the tax return can be manipulated.					
D	Serious enforcement and penalty by SARS may result if a taxpayer does not comply.					

23. For each of the following statements, please indicate <u>your personal reasons</u> for being tax compliant.

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	I would feel guilty if I excluded some of my income when completing my tax return.					
B	I feel morally obliged to declare all my tax liabilities.					
C	I would not feel guilty if I excluded some of my income when completing the tax return.					
D	I believe that other people especially the poor will get the benefit if I comply.					

24. How important is it to you, as a taxpayer, that the South African Revenue Service does each of the following to ensure that all taxpayers honestly pay what they owe?

	Statements	Not at all important 1	Not very important 2	Neutral 3	Somewhat important 4	Very important 5
A	Ensures low-income taxpayers are reporting and paying their taxes honestly					
B	Ensures small businesses are reporting and paying their taxes honestly					
C	Ensures high-income taxpayers are reporting and paying their taxes honestly					
D	Ensures corporations are reporting and paying taxes correctly					

25. How much influence does each of the following factors have on whether you report and pay your taxes honestly?

	Statements	Not at all an influence 1	Very little influence 2	Neutral 3	Somewhat influence 4	Great deal of influence 5
A	Fear of an audit					
B	Belief that your neighbours or colleagues are reporting and paying honestly					
C	Third parties reporting your income (e.g., salary, interest, dividends) to the SARS					
D	Your personal integrity					
E	Tax practitioner involvement in filing the returns					
F	Accountant's involvement in filing the returns					

	Statements	Not at all an influence	Very little influence	Neutral	Somewhat influence	Great deal of influence
G	Fear of paying more interest and penalties at a later stage should SARS detect that the information submitted is not correct					

The questionnaire ended with thanking the respondents for their time.

3.6.5 Pre-testing of the questionnaire

Before this questionnaire was sent out, it was reviewed to ensure that it was both accurate and conveyed the desired questions and meanings (Sekaran and Bougie 2016: 63). Ten SMEs in the Durban area were used to preview these questionnaires. These 10 SMEs were not part of the targeted population. Five tax lecturers in the Department of Auditing and Taxation at the Durban University of Technology were also used for the pre-testing. The questionnaire was further examined by a faculty member who was experienced in questionnaire design. The pre-testing of the questionnaire was conducted to determine its strengths and weaknesses regarding the format of the questions, relevance, reliability, wording, and order. The purpose of the pre-testing was also to ensure that the questionnaire was easy to comprehend and that the right questions were being asked to address the research objectives and that no insensitive questions were being asked. Tax knowledge and tax compliance could be considered areas where respondents could be uncomfortable with expressing their opinions. None of the participants to the pre-testing suggested any amendments to the questions. A statistician also checked the questionnaire to ensure that any data collected could be statistically analysed and that the responses obtained would be relevant to answer the research questions.

The questionnaire was uploaded to the Survey Pro system and was thoroughly checked multiple times to ensure that it was exactly the same as the hardcopy questionnaire which had been pre-tested.

3.6.6 Administration of the questionnaire

After receiving ethical clearance from the Faculty of Accounting and Informatics' Faculty Research Ethical Committee, participants were first sent a letter outlining the purpose of the study and asking for their informed consent to participate in the study. The questionnaires were sent via email to 500 SMEs companies using a link from the electronic Survey Pro system that they could use to complete the questionnaire online in the privacy of their home or office and once finished, the information uploaded to the system.

Having gathered the data by administering the questionnaire using the described data collection procedures, the response rate is discussed next.

3.7 RESPONSE RATE

Table 3.4 shows the response rate of the SMEs that were the targeted sample. A total of 500 questionnaires were administered to achieve 327 responses. Out of this number, 96 (29%) were returned on the first run. However, 28 out of the 96 could not be used as they were only partially completed. A second run of the questionnaires was sent out to increase the response rate. However, only 25 (7.6%) responses could be used for analysis. Therefore, in total only 93 (28%) responses were considered usable.

Table 3.4: Achieved response rate					
	Administered	Planned sample	Achieved	Rejected	Usable
First run	327	327	96	28	68 (21%)
Second run	173	173	60	35	25 (7.6%)
Total	**500**				**93 (28%)**

Conducting surveys online has become the predominant method of targeting people to participate in academic research because it is much easier and faster to get responses and more convenience for both the researchers and the participants. According to Fan and Yan (2010: 136), less people respond to an online survey when the questionnaires are sent to them and this has become a major

concern for most researchers. Morton, Bandara, Robinson and Poll (2012: 107) however, argued that low response rates, even as low as 20%, yield accurate results.

3.8 DATA ANALYSIS AND INTERPRETATION

Bhattacherjee (2012: 99) describes data analysis as the procedure of translating collected data into numerical form for ease of interpretation and understanding and this involves the use of statistical analysis that is easily interpreted and understood. This procedure helps to study, test, explain, find meaning and draw a conclusion about research problems, and obtain answers to the research questions. Through the statistical analysis, the numerical data can be organised, classified, tabulated and summarised to attach meaning to the data collected. In short, quantitative analysis helps to draw meaningful patterns of relationships from the raw data (Bhattacherjee 2012: 99).

Swain (2017: 141) is of the opinion that data can only be useful and be used to make valid decisions when all the information is collected, summarised, and presented. Sekaran and Bougie (2013: 26) noted that that data analysed and presented must be accurate and make sense and should be able to answer the main points of the study. The data collected from this study were analysed using Version 26.0 of the Statistical Package for Social Sciences (SPSS).

Both descriptive and inferential statistics were used. Descriptive statistics involved the calculation of the means for the statements which were to be answered using the Likert-scale responses. Inferential statistics included the use of a chi-square test (to test for significance between the respondents' scoring of the statements) and Pearson's correlation coefficient (to test for association between the variables).

As validity and reliability are important aspects of scientific research, these were built into the research processes. The importance of these terms is explained in the following paragraphs.

3.9 VALIDITY AND RELIABILITY

Kumar (2014: 19) explains that validity and reliability help to "establish and communicate the accuracy of research processes and the trustworthiness of the research findings" He adds that "validity and reliability are crucial elements of research, as the research should not misinform or

mislead those who use it". The trustworthiness of the research depends on several research aspects such as the initial research question(s), data collection (how, when and from whom), the data analysis, as well as the conclusions drawn (Kumar 2014: 19). Validity and reliability are discussed in the sub-sections that follow.

3.9.1 Validity

Validity "is concerned with the truthfulness of scientific findings" (Heale and Twycross 2015: 66). A valid study should confirm what exists with the use of a valid instrument (Heale and Twycross 2015: 66). There are two important sections which fall under validity, mainly content validity and construct validity. Content validity refers to the "degree to which an assessment instrument is relevant to, and representative of, the targeted construct it is designed to measure"; on the other hand, construct validity relates to how well the results obtained from the use of the measure fit the theories around which the test is designed (Bowman and Goodboy 2020: 225).

Content validity was ensured by pre-testing the questionnaire and being consistent in administering the questionnaires. The questions were framed in simple language for clearness and ease of understanding. Construct validity was ensured by confirmatory factor analysis which was applied to test the level of convergent and discriminant validity. This is particularly critical in establishing necessary validity evidence for a scale. The results of the factor analysis are shown in section 3.9.3.

Validity establishes that the instrument used in the study measures what it is expected to measure. Heale and Twycross (2015: 66) state that, "in quantitative data, validity can be attained through careful sampling, appropriate data collection techniques, and suitable statistical analysis of the data". Research cannot be "100 per cent valid in quantitative research as it possesses an inbuilt measure of standard of error. Hence, the best approach is to strive for minimum invalidity and maximum validity" (Heale and Twycross 2015: 66).

3.9.2 Reliability

Reliability addresses the consistency, stability, and repeatability of the study as well as the researcher's ability to gather and record information accurately. It is important to ensure reliability

to enable the researcher to collect accurate information (Heale and Twycross 2015: 66). The questionnaire was administered online thereby avoiding data collector bias.

Reliability in quantitative research represents precision, accuracy, trustworthiness, uniformity and repeatability over time, over instruments and the research population (Bhattacherjee 2012: 65). Cronbach's α coefficients were used to determine the internal consistency of the sub-sections of the questionnaire. Tavakol and Dennick (2011: 53) note that an alpha value above 0.6 is seen as desirable. As shown in Table 3.5, the reliability coefficient measured in each subsection in the questionnaire was above the acceptable Cronbach's α score. This suggests a degree of acceptable, consistent scoring for the various sections of the research instrument.

Table 3.5: Reliability coefficient			
Section	**Sub-sections**	**Number of items**	**Cronbach's Alpha**
Tax knowledge	Knowledge about the use of efiling	6	0.948
Barriers to knowledge	Barriers to tax knowledge	7	0.863
	Improving taxpayer's knowledge and to closes the barrier to tax knowledge	5	0.890
Tax compliance	Influencing tax compliance in general	4	0.756
	Personal reasons for being tax compliant	3	0.672
	South African Revenue Service strategies to ensure that all taxpayers honestly pay what they owe	4	0.799
	Factors influencing whether you report and pay your taxes honestly	7	0.843

3.9.3 Factor analysis

According to Blumberg *et al*. (2014: 657), factor analysis is a statistical test which aims to establish if there is a fundamental combination of original factors outlining the original structure. Using the guidelines proposed by Pallant (2016: 319), factor analysis was used as a means to validate the survey instrument (Table 3.6).

Table 3.6: Factor analysis						
	Question	BTK	FTC	ITK	KEF	TC
Barriers to tax knowledge (BTK)	15a				0.871	
	15b				0.959	
	15c				0.976	
	15d				0.955	
	15e				0.939	
	15f				0.952	
Factors improving tax compliance (FTC)	16a	0.685				
	16b	0.666				
	16c	0.683				
	16d	0.763				
	16e	0.791				
	16f	0.700				
	16g	0.708				
Improving tax knowledge (ITK)	17a			0.914		
	17b			0.895		
	17c			0.891		
	17d			0.712		
	17e			0.748		
Knowledge of efiling (KEF)	23a					0.895
	23b					0.884
	23d					0.575
Tax compliance (TC)	24a		0.689			
	24b		0.723			
	24c		0.887			
	24d		0.847			

Standardised factor loading with a value of 0.50, or higher, provides strong evidence of convergent validity (Hair *et al.* 2014: 139).   All the items loaded strongly in their various latent constructs, which suggests construct validity. In support of the exploratory factor analysis, confirmatory factor analysis (CFA) was applied to test the level of convergent and discriminant validity (Table 3.7).

Table 3.7: Reliability and validity values				
	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
BTK	0.860	0.837	0.879	0.511
FTC	0.802	0.830	0.869	0.625
ITK	0.889	0.910	0.920	0.699
KEF	0.975	0.994	0.980	0.889
TC	0.699	0.756	0.836	0.638

According to Li (2016: 936), CFA is used to evaluate how well the latent variables are measured by the observed variables. As shown in Table 3.7, the average variance extracted (AVE) for all the constructs have values above the recommended value, which suggests adequate convergent validity. In addition, the Cronbach's alpha score for all the construct except tax compliance (TC) were above the recommended value of 0.70. The composite reliability shown in Table 3.7 measured for all the constructs were above the recommended value of 0.70. This suggests that the constructs have a good reliability. Table 3.8 provides further evidence of discriminant validity. Voorhees *et al.* (2016: 123) note that "a low correlation between variables signifies discriminant validity".

Table 3.8: Discriminant validity (Fornell-Larcker criterion)					
	BTK	FTC	ITK	KEF	TC
BTK	0.715				
FTC	0.164	0.791			
ITK	0.367	0.172	0.836		
KEF	0.183	0.130	-0.063	0.943	
TC	0.290	0.721	0.267	0.189	0.799

3.10 VALIDATING THE RESEARCH CONSTRUCTS

To ensure that the study's research objectives were met by an analysis of the relevant literature, an appropriate research instrument which was valid and reliable, and that appropriate statistical tests were used, Table 3.9 was prepared.

Table 3.9: Research consistency matrix						
Themes covered in the literature review	Research questions	Research instrument	Variable type	Valid and reliable	Analysis	Sample size
General: Importance of tax compliance for South African economy (2.3)		Survey instrument:	Categorical:	Pretesting Cronbach's Alpha Exploratory factor analysis Confirmatory factor analysis		For a population size of 2 358, a sample size of n = 327 respondents was needed. Only 93 useable responses were received. This has been noted as a limitation.
Definition of an SME (2.2);		Section A: Background questions 1 - 6	Yes/No questions represented binary variables; Likert scale type questions represented ordinal data; all the other questions represented nominal variables.		Descriptive analysis Crosstabulations	
Tax knowledge (2.4) Taxpayer responsibility, Business income, Payroll, Turnover, and VAT.	Research question 1: What is the level of tax knowledge of SME owners?	Section B: Tax knowledge Questions 7 - 15	Yes/No questions represented binary variables; Likert scale type questions represented ordinal data; all the other questions represented nominal variables		Descriptive analysis Crosstabulations Chi-square testing	
Tax knowledge (2.4)	Research question 2: What are the barriers to tax knowledge?	Section C: Barriers to tax knowledge Questions 16 - 18	Yes/No questions represented binary variables; Likert scale type questions represented ordinal data; all the other questions represented nominal variables		Descriptive analysis Crosstabulations Chi-square testing	
Taxpayer compliance and	Research question 3:	Section D: Tax compliance Questions 19 - 25	Yes/No questions represented binary		Descriptive analysis Crosstabulations Chi-square testing	

Table 3.9: Research consistency matrix						
Themes covered in the literature review	Research questions	Research instrument	Variable type	Valid and reliable	Analysis	Sample size
awareness in the SAS (2.5) Enforcing and enhancing tax compliance (2.6) Challenges associated with tax compliance (2.7)	What is the level of tax compliance of SMEs?		variables; Likert scale type questions represented ordinal data; all the other questions represented nominal variables			
Conceptual framework (2.8)	Research question 4: Is there a relationship between tax knowledge and tax compliance in the following areas: Taxpayer responsibility, Business income, Payroll tax, Turnover tax and VAT.	Section B and Section D	The level of tax knowledge in the five areas was measured using an analysis of the responses to question 7 (taxpayer responsibilities), question 8 (business income), question 9 (payroll), question 10 (turnover tax) and question 11 (VAT). Tax compliance was measured using an analysis of the responses to question 23.		Pearson's Correlation	

3.11 ANONYMITY AND CONFIDENTIALITY

Anonymity is where the identity of the respondents is protected. As such, the respondents cannot be linked to the research by their response. Bhattacherjee (2012: 136) explains that anonymity means not making known the respondent's information which is on the questionnaire and research reports and by ensuring the consent form cannot be linked to the questionnaire. Hence, a respondent's privacy is important when it comes to research (Bhattacherjee 2012: 136). In this study, confidentiality was maintained by keeping the collected data confidential and not revealing the subjects' identities in the study. Confidentiality and anonymity were also ensured by not disclosing the names of the individuals to whom the questionnaires were sent.

3.12 ETHICAL CONSIDERATIONS

Researchers should follow the ethics that guide the research study (Bhattacherjee 2012: 147). Research ethics, in this context, involves researchers adhering to the ethical guidelines by ensuring they take adequate responsibility in ensuring that the research is properly conducted and is not against the ethical standards and the target population who have a basic right to be protected. The taxpayers who were part of the study were treated with respect. Written permission to conduct the research study was obtained from the Faculty Research Ethics Committee of the Faculty of Accounting and Informatics at the Durban University of Technology. The participants' consent was also obtained before the administering of the questionnaires. In addition, a gatekeeper's letter was provided by the Durban Chamber of Commerce which allowed access to their data base (see Appendix C).

This study did not cause harm to the target audience. The questionnaire took only 15 minutes to complete. Participants were not in any duress to participate as they willingly participated. Questions on the tax compliance of the respondents may have been perceived as being sensitive; however, participants had the option of opting out of the survey at any time for any reason(s). Participants were also were informed that participation in the study was voluntary and that confidentiality would be maintained in relation to the information collected. The information given by them would be used for research purposes only. All this was explained in the information letter to the participants.

3.13 SUMMARY

This chapter presented and justified the choice of the research method used in this study. The study used a quantitative approach. The research 'onion' design was introduced, and the various steps in it were explained and linked to this study. An explanation of the population and sample size was given. Questionnaires were administered to collect the data from the sample of 327 SMEs in Durban. The questionnaires contained open-ended and closed-ended questions. The statistical techniques involved in the quantitative data analysis were introduced as well as how the quantitative data analysis was conducted. Finally, the importance of validity and reliability in scientific research was discussed.

The next chapter presents and discusses the results of this study.

CHAPTER FOUR: PRESENTATION AND DISCUSSION OF THE RESULTS

4.1 INTRODUCTION

The research methodology described in the previous chapter provided the framework for the data gathering. This chapter presents and discusses the findings obtained from the questionnaires. In this study, the questionnaire was the primary tool that was used to collect data and was distributed to owners of SMEs in Durban, South Africa. The data collected from the responses were analysed with SPSS (version 25®) in relation to the objectives outlined in Chapter One. To recap, the research questions of this study are as follows:

- What is the level of tax knowledge of SME owners?
- What are the barriers to tax knowledge of SMEs?
- What is the level of tax compliance of SMEs?
- Is there a relationship between SMEs' tax knowledge and tax compliance?

This chapter first describes the background characteristics of the respondents. Thereafter, the data is analysed in order to answer the research questions.

4.2 BACKGROUND CHARACTERISTICS

This section describes the background characteristics of the respondents.

4.2.1 Gender

The gender of the respondents is shown in Table 4.1.

Table 4.1: Gender		
	Number	Percent
Male	53	57.0
Female	40	43.0
Total	93	100.0

Table 4.1 indicates that more of the respondents (n=53; 57.5%) were male as there were only 40 female respondents (43.0%). This could mean that even though females are now business

owners, males are still the majority business owners. Although the male gender was in the majority, this was not considered to influence any of the parameters examined in the study.

4.2.2 Form of business ownership

The questionnaire next asked the respondents to indicate their form of business. These results are shown in Table 4.2.

Table 4.2: Forms of business ownership		
	Number	Percent
Sole trader	41	44.1
Close corporation	11	11.8
Private company	28	30.1
Partnership	9	9.7
Personal liability company	4	4.3
Total	93	100.0

As shown in Table 4.2, more than half of the respondents' (n=41; 44.1%) form of business was that of a sole trader, 28 (30.1%) respondents indicated they were registered as a private company, 11 (11.8%) were registered as a close corporation, nine (9.7%) respondents were in partnerships, and four (4.3%) respondents were registered as a personal liability company. Table 4.2 shows a spread of the types of businesses indicating that respondents who could be categorised as SMEs answered the questionnaire. This is confirmed in Table 4.4, which shows that the level of turnover of all the businesses was less than R1 000 000.

4.2.3 Number of years in operation

The questionnaire next asked respondents to indicate their number of years in operation. This question was important because the number of years the business has been in operation may influence their level of compliance or non-compliance to tax.

Table 4.3: Number of years in operation		
Years	Number	Percent
1 – 5	68	73.1
6 – 9	16	17.2
10 – 14	4	4.3
15 – 19	5	5.4
Total	93	100.0

Table 4.3 shows the number of years the business has been in operation. Most of the respondents (n=68; 73.1%) have operated for between 1-5 years, 16 (17.2%) between 6-9 years, five (5.4%) between 15-19 years, and four (4.3%) between 10-14 years. Overall, many businesses are still very new. This may account for the low levels of turnover shown in Table 4.4.

4.2.4 Average yearly turnover/ sales of the business

The questionnaire next asked respondents to indicate the average yearly turnover of the business. This question was posed because sales are indicative of the market size of the business, and thus, crucial as a source of revenue generation for the government to carry out their civic responsibilities.

Table 4.4: Average yearly turnover/sales of the business		
Turnover (Rands)	Number	Percent
0 - R500 000	78	83.9
R500 001 - R1 000 000	15	16.1
Total	93	100.0

Table 4.4 shows that the majority of the respondents (n=78; 83.9%) indicated an average yearly turnover/sales of between 0 - R500 000 while 15 (16.1%) respondents had between R500 001 - R1 000 000 turnover/sales. The above results indicate that the respondents had relatively small businesses. Turnover is one of the factors used to indicate the size of the business. The lower turnover suggests that the market size is small for these SMEs, which may have contributed to the low revenue generation.

Although the criteria for business size as given by the National Small Business Act (1996) includes number of employees and gross assets in its criteria (and different criteria for different types of businesses), these aspects were not probed by the questionnaire. However, it is unlikely that a business with a low turnover would have many employees or have a high value of gross assets. Table 4.4 shows that all the respondents in this survey represented small SMEs.

4.2.5 Educational level

Two questions were posed involving education. The first one enquired about the respondents' level of education, whereas the second one asked whether the respondent had a specific taxation qualification. These results are shown in Tables 4.5 and 4.6.

Table 4.5: Level of education		
	Number	Percent
Matric / NSC	15	16.1
Undergraduate diploma/ certificate	27	29.0
Honours or postgraduate diploma	34	36.6
Masters	11	11.8
Other	6	6.5
Total	93	100.0

The respondents' level of education is shown in Table 4.5. Thirty-four respondents (n=34; 36.6%) held honours or postgraduate diplomas, 27 (29.0%) respondents reported that they had undergraduate diplomas/certificates, while 15 (16.1%) respondents had a matric or NSC, and 11 (11.8%) respondents had a master's degree. Six (6.5%) respondents indicated that they held other qualifications. Among other qualifications listed were a BTech Industrial Engineering, an N6 Electrical Engineering, an MBA and a chartered accountant. The education levels given suggest that the respondents were drawn from a population that could be considered knowledgeable for the study as 83.9% of the respondents have an educational level which exceeds matric or NSC. This may also indicate that the respondents were employed elsewhere, as their income earned from the SME was not likely to match what they could earn elsewhere with their high qualifications.

4.2.6 Qualification on taxation

The final question asked respondents if they had a qualification that involved taxation. These results are shown in Table 4.6.

Table 4.6: Respondents with a qualification that involved taxation		
Taxation qualification	Number	Percent
Yes	31	33.3
No	62	66.7
Total	93	100.0

As shown in Table 4.6, many of the respondents (n=62; 66.7%) had no qualification that involved taxation as part of their studies whilst 31 (33.3%) of them indicated that they do have a qualification that involved taxation. The fact that 31 respondents are knowledgeable about taxation is encouraging as it means that at least a third of the respondents will give well-considered answers to the questionnaire while, as shown in Table 4.5, most respondents (83.9%) had a post-matric or NSC qualification.

4.3 TAX KNOWLEDGE

This section examines the tax knowledge of the respondents. This section addresses the first research question, which was *"What is the level of tax knowledge of SME owners?"* The respondents' tax knowledge was assessed in several areas. These areas were knowledge of taxpayers' general responsibilities, business income, payroll, turnover tax, and value-added tax. The results are summarised below.

4.3.1 Taxpayer general responsibilities

Table 4.7 shows the results of the questions which were asked to determine the respondents' level of knowledge of taxpayers' general responsibilities. Respondents could answer indicating either that the statement was false or true, or they could indicate that they were not sure of the answer.

Table 4.7: Respondents' knowledge of taxpayers' general responsibilities								
Knowledge of taxpayers' general responsibilities	False		Not sure		True		Total	Chi-square
	No.	%	No.	%	No.	%		p-value
Inform and declare actual income received from all sources to the tax authority (SARS)	3	3.5	7	8.1	76	88.4	86	0.000***
Keep records/documents pertaining to income and expenditure for a period of 5 years after submission of the tax return	4	4.7	17	20.0	64	75.3	81	0.000***
Pay taxes due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period	3	3.5	6	7.1	76	89.4	85	0.000***
Notes: Not all 93 respondents responded to the above statements. p value - significant at <1%***								

When asked if a taxpayer's general responsibilities include to inform and declare actual income received from all resources to the tax authority (SARS), most of the respondents (n=76; 88.4%) indicated that it is true (Table 4.7). Similarly, many of the respondents (n=64; 75.3%) indicated that keeping records/ documents pertaining to income and expenditure for a period of 5 years after submission of the tax return was part of a taxpayer's general responsibilities is true (Table 4.7).

Finally, most of the respondents (n=76; 89.4%) indicated that paying taxes due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period was also part of a taxpayer's general responsibilities is true (Table 4.7). The second statement showed that a few respondents were unaware of the requirement to the keeping of records as 20% of them indicated that they were not sure of this requirement.

As indicated by the level of significance, the chi-square test in Table 4.7 suggests that the respondents' scoring patterns with regards of their knowledge of a taxpayer's general responsibilities were statistically different (p<0.01); however, most of the responses were in the 'true' category implying that respondents have good knowledge about a taxpayer's general responsibilities.

To establish the level of tax knowledge, the respondents' scoring of the sections that addressed a taxpayer's general responsibilities were further typified as good or poor depending on the correct or incorrect scoring. The respondents who scored correctly in all the questions asked in Table 4.7 were typified as having good knowledge, those who answered correctly to one or two of the questions were typified as having fair knowledge while those who answered wrongly to all the questions asked were typified as having poor knowledge. Most of the respondents (67.7%) had a good knowledge of a taxpayer's general responsibilities, 17.2% had poor knowledge and 15.1% had a fair knowledge. These results are shown in Table 4.8.

Table 4.8: Level of knowledge of a taxpayer's general responsibilities		
	Number	Percent
Good	63	67.7
Fair	14	15.1
Poor	16	17.2
Total	93	100

It is possible that taxpayers with good knowledge about general responsibilities will be more likely to comply with taxes. Furthermore, a better understanding of taxpayer responsibilities may lead to more awareness of sanctions that will be posed for being non-compliant. Taxpayer consciousness also has a relationship with compliance. The more taxpayers know about their responsibilities, the higher the chance that their consciousness will encourage them to be compliant. Savitri and Musfialdy (2016: 268 -687) argued that consciousness is an element in human beings to understand reality and behave towards reality. Taxpayers' awareness may also be influenced by the attitudes of the taxpayers themselves.

4.3.2 Knowledge of business income

The scoring pattern of the respondents regarding their knowledge of business income is shown in Table 4.9.

Table 4.9: Respondents' knowledge of expenses deductible to calculate business income								
Expenses deductible from the income when calculating taxable business income	False		Not sure		True		Total	Chi-square
	No.	%	No.	%	No.	%		p-value
The direct cost of producing the income such as the direct cost of manufacturing, purchasing and selling costs	4	4.6	19	21.8	64	73.6	87	0.000***
Commission paid for services rendered to the business	6	7.1	21	25.0	57	67.9	84	0.000***
Personal expenses of the business owner	35	41.2	18	21.2	32	37.6	85	0.055*
Notes: Not all 93 respondents answered the above statements. p value - significant at <1% *** p value - significant at < 10% *								

Table 4.9 indicates that when asked if the direct cost of producing income, such as the direct cost of manufacturing, purchasing and selling costs, is part of business income, a significant number of the respondents (n=64; 73.7%) indicated that it is true (p<0.01). Similarly, a significant number of the respondents (n=57; 67.9%) indicated it is true that commission paid for services rendered to the business is part of business income (p<0.01). Thirty-five (41.2%) of the respondents believed it is false that personal expenses of the business owner were part of business income while 32 (37.6%) think it is true, and 18 (21.2%) were unsure. Table 4.9 shows also that the p-values for each statement were significant for each statement at either

<1% or <10%. This means that there were significant differences in the scoring patterns of the respondents.

It is possible that the reason why many of the respondents think they can deduct personal expenses as part of business income is due to the poor knowledge of tax laws (Table 4.10).

To establish the level of tax knowledge, the respondents' scoring of the sections that addressed business income were typified as good or poor depending on their correct or wrong scoring. The respondents who scored all the statements correctly in Table 4.9 was typified as having good knowledge, those who answered correctly to one or two of the statements were typified as having fair knowledge while those who answered wrongly to all the statements were typified as having poor knowledge. It was found that 38.7%% had poor knowledge of business income, 37.6% had fair knowledge while only 23.7% had good knowledge (Table 4.10).

Table 4.10: Level of knowledge of expenses deductible to calculate business income		
	Number	Percent
Good	22	23.7
Fair	35	37.6
Poor	36	38.7
Total	93	100.0

Table 4.10 shows some of the respondents (n=36) had poor knowledge of the expenses which can be deducted to calculate business income. It is possible that when taxpayers are not aware of what expenses are deductible that this may lead to unintentional tax avoidance. Belay and Viswanadham (2013: 629) found that poor tax knowledge among business taxpayers may result in unintentional non-compliance. Azrina Mohd Yusof *et al.* (2014: 238) noted that non-compliance might also include understatement or overstatement of income and or deductions. In this current study, some of the respondents might have understated or overstated their business tax income (Table 4.9). It is therefore advisable that when submitting a tax return, it is important to know which expenses are included in the taxable income and which are not included. The consequence of this is that if the taxpayer is not knowledgeable about how to calculate business tax, it leads to incorrect submissions of tax returns, which creates more audits and additional assessments being raised by SARS.

The questionnaire next focused on payroll knowledge.

4.3.3 Knowledge of payroll taxes

The scoring pattern of the respondents regarding the knowledge of payroll is shown in Table 4.11.

Knowledge of payroll taxes	False		Not sure		True		Total	Chi-square
	No.	%	No.	%	No.	%		p-value
A micro business is still required to withhold payroll taxes (if voluntarily registered as an employer)	8	9.6	24	28.9	51	61.4	83	0.000***
SMEs may be required to withhold and pay PAYE on behalf of its employees in terms of Part two of the Fourth Schedule of the Income Tax Act (No 58 of 1962)	5	6.1	39	47.6	38	46.3	82	0.000***
The employer is responsible for calculating the PAYE amounts payable to SARS	11	13.1%	18	21.4%	55	65.5%	84	0.000***

Table 4.11: Respondents' payroll knowledge

Notes:
Not all 93 respondents answered the above statements.
p value - significant at <1%***

Table 4.11 shows that more of the respondents (n=51; 61.4%) believed it is true that a micro business is still required to withhold payroll taxes and VAT if voluntarily registered as an employer while 24 (28.9%) were unsure, and 8 (9.6%) claimed it was false. On the contrary, 39 (47.6%) of the respondents were unsure that SMEs may be required to withhold and pay PAYE on behalf of its employees in terms of Part two of the Fourth Schedule of the Income Tax Act (No 58 of 1962) while 5 (6.1%) think it is false, and 38 (46.3%) believed it is true. Nonetheless, more of the respondents (n=55; 65.5%) believed it is true that the employer is responsible for calculating the PAYE amounts payable to SARS while 18 (21.4%) were unsure, and 11 (13.1%) claimed it was false.

The above results indicate that most of the respondents have good knowledge about payroll taxes. This may have a positive effect on the tax collection for SARS. Payroll taxes are the foundation of the taxes paid by individuals to SARS. The employer withholds the PAYE from the employee's gross salary and issues an IRP5, which is a supporting document for the employee's income tax return. If the employer does not have knowledge about payroll taxes,

this may negatively affect the PAYE paid by the business and the income tax return submitted by the employee.

Table 4.11 also shows that there were statistically significant differences in the scoring patterns of the respondents on their knowledge of payroll ($p<0.01$) indicating that the scoring pattern across the categories was uneven.

To establish the level of tax knowledge, the respondents' scoring of the sections that address payroll were typified as good or poor depending on their correct or wrong scoring. The respondents who scored all the statements correctly in Table 4.11 was typified as having good knowledge, those who answered correctly to one or two of the statements were typified as having fair knowledge while those who answered wrongly to all the statements were typified as having poor knowledge.

Table 4.12: Level of knowledge of payroll taxes		
	Number	Percent
Good	28	30.1
Fair	20	21.5
Poor	45	48.4
Total	93	100.0

Table 4.12 shows that 48.4% of the respondents had poor knowledge on payroll taxes, 30.1% good knowledge and 21.5% fair knowledge.

As highlighted in the BASA (2017) report, business owners are not aware of the tax laws, or they do not understand them. Consistent with this, the above findings on the knowledge of payroll suggest that many of the respondents had poor knowledge of payroll taxes (Table 4.12). Poor knowledge of payroll taxes among many of the respondents may negatively affect the operations of their business. This is because the payroll taxes or PAYE to be deducted from the employees' salaries and be paid to SARS will not be paid properly if there is not enough knowledge on payroll taxes. On the economic side, this may have a negative implication on the collection of tax revenue which governments rely on in the delivery of their social and welfare commitments (Marchbank 2012: 12).

4.3.4 Knowledge of turnover tax
The scoring pattern of the respondents regarding their knowledge of turnover tax is shown in Table 4.13.

Table 4.13: Respondents' knowledge of turnover tax								
Knowledge of turnover tax	False		Not sure		True		Total	Chi-square
	No.	%	No.	%	No.	%		p-value
Turnover tax replaces all other taxes such as VAT, provisional tax, capital gains tax and dividend tax if the business has a qualifying annual turnover of R 1 million or less	20	24.1	39	47.0	24	28.9	83	0.027**
Small businesses are not taxed at a flat rate of 28% but on a progressive rate of tax according to their taxable income	12	15.0	30	37.5	38	47.5	80	0.001**
Qualifying Small Business Corporations will not pay tax on the first R 75 750 from 1 March 2018 to 28 February 2019	7	8.6	44	54.3	30	37.0	77	0.000***
Notes: Not all 93 respondents answered the above statements. p value - significant at <1% *** p value - significant at <5% **								

Table 4.13 shows that while more of the respondents were unsure (n=39; 47.0) that turnover tax replaces all other taxes such as VAT, provisional tax, capital gains tax and dividend tax if the business has a qualifying annual turnover of R 1 million or less, 24 (28.9%) respondents believed it to be true, and 20 (24.1%) thought it was false.

Regarding the question "Small businesses are not taxed at a flat rate of 28% but on a progressive rate of tax according to their taxable income", 80 respondents believed it was true, 30 (37.5%) were unsure, and 12 (15.0%) claimed it was false. Despite this, 44 respondents (54.3%) were unsure whether qualifying small business corporations will not pay tax on the first R75 750 from 1 March 2018 to 28 February 2019 while 30 (37%) believed this is true, and seven (8.6%) claimed it was false.

All the statements in Table 4.13 were statistically significantly different regarding the scoring patterns of the respondents. This may indicate that with regards to these statements, the respondents were not aligned in their responses.

To establish the level of tax knowledge, the respondents' scoring of the sections that addressed turnover tax were typified as good or poor depending on their correct or wrong scoring. The respondents who scored all the statements correctly in Table 4.13 were typified as having good

knowledge, those who scored one or two of the statements correctly were typified as having fair knowledge while those who scored wrongly to all the statements were typified as having poor knowledge. These results are shown in Table 4.14.

Table 4.14: Level of knowledge of turnover tax		
	Number	Percent
Good	10	10.8
Fair	17	18.3
Poor	66	71.0
Total	93	100.0

Table 4.14 shows that the majority of the respondents (71%) had poor knowledge of turnover tax, 18.3% had fair knowledge while only 10.8% had good knowledge. A reason could be that they are not aware that the turnover tax exists. This corroborates research conducted by Schutte, Labuschagne, Georgescu, and Pop (2019: 60) who noted that "small businesses do not use the support programmes available to them" as they are not aware of the existence of these incentives. Schutte *et al.* (2019: 60) also highlighted that "small businesses do not optimally utilise incentives provided by the South African government". Pretorius (2015: 55) noted that turnover tax was introduced by SARS as a way of alleviating the burden of tax compliance, thereby reducing the complexity of the system. The finding on taxpayers' knowledge of turnover tax, however, suggests that many of the respondents do not have enough knowledge about turnover tax. SMEs need more knowledge and information about the incentives available to them to improve their level of compliance.

4.3.5 Knowledge of value-added tax
The scoring pattern of the respondents regarding their knowledge of value-added tax is shown in Table 4.15.

Knowledge of value-added tax	False		Not sure		True		Total	Chi Square
	No.	%	No.	%	No.	%		p-value
The business is not legally required to register for VAT if the turnover is less than R1 million	11	13.4	17	20.7	54	65.9	82	0.000***
A VAT registered business shall maintain accounting records, original tax invoice received and copies of all tax invoices issued by the business for 5 years	1	1.2	19	23.5	61	75.3	81	0.000***
It is compulsory for an entity that makes taxable supplies exceeding R1 million to register as a VAT vendor in terms of section 23 of the VAT Act	3	3.8	19	23.8	58	72.5	80	0.000***

Table 4.15: Respondents' scoring of their knowledge on value-added tax

Notes:
Not all 93 respondents answered the above statements.
p value - significant at <1%***

Most of the respondents (n=54; 65.9%) indicated that it is true that a business is not legally required to register for VAT if the turnover is less than R1 million while 17 (20.7%) were unsure, and 11 (13.4%) claimed it was false. Similarly, a majority of the respondents (n=61; 75.3%) believed it is true that a VAT registered business should maintain accounting records, original tax invoices received and copies of all tax invoices issued by the business for 5 years. In addition, many of the respondents (n=58; 72.5%) believed it is true that it is compulsory for an entity that makes taxable supplies exceeding R1 million to register as a VAT vendor in terms of section 23 of the VAT Act. Table 4.15 also shows that there was a statistically significant difference in the rating of the respondents' knowledge of VAT ($p<0.01$).

To establish the level of tax knowledge of VAT, the respondents' scoring was typified as good or poor depending on their correct or wrong scoring. The respondents who scored all the statements correctly in Table 4.15 was typified as having good knowledge, those who answered correctly to one or two of the statements were typified as having fair knowledge while those who answered wrongly to all the statements were typified as having poor knowledge.

Table 4.16: Level of knowledge of value-added tax		
	Number	Percent
Good	44	47.3
Fair	14	15.1
Poor	35	37.6
Total	93	100.0

Table 4.16 shows that 47.3% of the respondents had a good knowledge of VAT, 37.6% had poor knowledge, and 5.1% had fair knowledge.

One of the reasons why some of the respondents had poor knowledge of VAT may be related to the turnover size of their business (Table 4.4). The VAT Act requires that a business that has an excess of turnover over R1 000 000 be registered for VAT. It can therefore be assumed that many of the SMEs owners are not eligible as VAT vendors, hence their poor knowledge.

Contrary to Akinboade (2015: 393-394) who found that SMEs suffer from high compliance costs with VAT considered the most challenging, the above findings, however, suggest that almost half of the respondents (47.3%) have good knowledge about VAT. This may be attributed to the perceived high interest by the government in VAT as a major source of tax revenue generation. VAT was the largest contributor to the increase in tax revenue in South Africa (National Treasury 2018: 41-42). Given the importance of VAT to tax revenue, it is therefore advisable that either when the business is registered for VAT voluntarily or compulsorily, it is important to maintain accounting records and original invoices. This is because VAT is collected by the businesses on behalf of the government.

The next question asked respondents for their perceptions of tax education and training.

4.3.6 Perceptions of tax education and training
The scoring patterns of the respondents on their perceptions of tax education and training is shown in Table 4.17.

Knowledge of tax education and training	False		Not sure		True		Total	Chi-square
	No.	%	No.	%	No.	%		p-value
I have attended formal education and tax training about taxation	51	60.7	6	7.1	27	32.1	84	0.000***
Trainings arranged and given by SARS was relevant and practical to know about tax	36	43.9	23	28.0	23	28.0	82	0.127
Taxpayer education has enhanced my level of understanding of various tax regimes	33	39.8	21	25.3	29	34.9	83	0.259
It easier to file tax returns than before	16	20.3	21	26.6	42	53.2	79	0.001**

Table 4.17: Respondents' scoring of tax education and training knowledge

Notes:
Not all 93 respondents answered the above statements.
p value - significant at <1% ***
p value - significant at <5% **

Table 4.17 shows that with reference to the statement "I have attended formal education and tax training about taxation" more than half of the respondents (n=51; 60.7%) indicated that they had not attended formal education and tax training about taxation while 6 (7.1%) were unsure if they had attended training, and 27 (32.1%) indicated that they have attended the training.

With regards to the statement "Training arranged and given by SARS was relevant and practical to know about tax", 36 respondents (n=36; 43.9%) disagreed that training arranged and given by SARS was relevant and practical to know about tax, 23 (28.0%) were unsure and 23 (28.0%) thought it was true. The statement "Taxpayer education has enhanced my level of understanding of various tax regimes" was considered false by 33 respondents, however, 21 (25.3%) were unsure and 29 (34.9%) believed it was true.

In terms of the statement "It easier to file tax returns than before", more than half of the respondents (n=42; 53.2%) believed it is true that it is easier to file tax returns than before while 21 (26.6%) were unsure, and 16 (20.3%) claimed it was false.

The above findings suggest that although many of the respondents had not attended training and education on tax knowledge, they, however, believed that such training is vital to know about tax.

Two of the above statements show statistically significant differences in the scoring of the respondents. These were the statements "I have attended formal education and tax training about taxation", and "It easier to file tax returns than before". This means that for these statements, the scoring pattern of the respondents was significantly different.

Even though SARS has implemented different tax workshops to educate SMEs about tax, Table 4.17 shows that many of the respondents are unaware of the training and workshops organised by SARS on tax. This may have contributed to the poor knowledge of tax among some of the respondents. To address this, it is vital that business owners avail themselves in attending workshops and training organised by SARS. This will help reduce any unintentional mistakes in their tax returns. Mascagni and Santoro (2018: 11) noted that tax training and workshops are the most widespread activities that revenue authorities organise to improve tax education.

The next section examines the relationship between the respondents' background variables such as gender, the form of ownership, number of years in business, turnover, qualification and their tax knowledge.

4.3.7 Association between background variables and tax knowledge
A Pearson Chi-test goodness of fit was used to test the level of association existing between the background characteristics and the respondents' level of knowledge of tax.

4.3.7.1 Association between background variables and taxpayer general responsibilities
The associations between the background variables and taxpayer general responsibilities are given in Table 4.18.

Table 4.18: Association between knowledge of taxpayer general responsibilities and background characteristics					
	Good	**Fair**	**Poor**	**X²**	**p-value**
Gender Male Female	 34 (64.2.5%) 29(72.5%)	 8(15.1%) 6(15%)	 11(20.8%) 5(12.5%)	 1.136	 **0.566**
Form of ownership Close corporation Partnership Personal liability company Private company Sole trader	 10(90.9%) 8 (88.9%) 3(75%) 7(25%) 27(65.9%)	 0(0%) 1(11.1%) 1(25%) 15(53.6%) 5 (12.2%)	 1(9.1%) 0(0.0) 0(0.0) 6(21.4%) 9 (22%)	 9.908	 **0.272**
Years in business 15 – 19 Years 10 – 14 Years 1 – 5 Years 6 –9 Years	 5 (100%) 3(75%) 41(60.3%) 0(0)	 0(0) 0(0) 14(20.6%) 14(87.5%)	 0 (0) 1(25%) 13(19.1%) 2(12.5%)	 8.777	 **0.187**
Turnover (Rand) 0 – 500 000 500 001 – 1000 000	 51(65.4%) 12(80%)	 13(16.7%) 1(6.7%)	 14(17.9%) 2(13.3%)	 1.388	 **0.500**
Highest qualification Matric / NSC Undergraduate diploma Honours or postgraduate Masters Other	 8(53.3%) 22(81.5%) 23(67.6%) 7 (63.6%) 3(50%)	 2 (13.3%) 2(7.4%) 5 (14.7%) 3 (27.3%) 2(33.3%)	 5 (33.3%) 3(11.1%) 6 (17.6%) 1(9.1%) 1(16.7%)	8.299	**0.405**
Qualification on taxation Yes No	 23(74.2%) 40(64.5%)	 3(9.7%) 11(17.7%)	 5(16.1%) 11(17.7%)	1.210	**0.546**

The chi-test suggests there was no significant relationship between the background variables of gender, level of education, years of business in operation, business turnover, the form of business ownership, taxation qualification, and knowledge of taxpayer general responsibilities (p>0.05). These findings support Williams and Horodnic (2016:1) who argued that irrespective of a taxpayer's background characteristics, they are all required to know their general responsibilities as a taxpayer.

4.3.7.2 Association between background variables and business income

The associations between the background variables and the knowledge of business income are shown in Table 4.19.

Table 4.19: Association between knowledge of business income and background characteristics					
	Good	**Fair**	**Poor**	**X^2**	**p-value**
Gender Male Female	12(22.6%) 10(25%)	22(41.5%) 13(32.5%)	19(35.8%) 17(42.5%)	0.806	**0.668**
Form of ownership Close corporation Partnership Personal liability company Private company Sole trader	7(63.6%) 8 (88.9%) 1(25%) 9(32.1%) 17(41.5%)	3(27.3%) 5(55.6%) 2(50%) 4(14.3%) 8 (19.5%)	1(9.1%) 3(33.3) 1(25) 15(53.6%) 16(39%)	16.530	**0.035**[**]
Years of business 15 – 19 Years 10 – 14 Years 1 – 5 Years 6 –9 Years	5 (100%) 3(75%) 26(38.2%) 9(56.3%)	0(0) 0(0) 11(16.2%) 3(18.8%)	0 (0) 1(25%) 31(45.6%) 4(25%)	27.152	**0.000**[***]
Turnover (Rand) 0 – 500 000 500 001 – 1 000 000	16(20.5%) 6(40%)	29(37.2%) 6(40%)	33(42.3%) 3(20%)	3.663	**0.160**
Highest qualification Matric / NSC Undergraduate diploma Honours or postgraduate Masters Other	2(13.3%) 6 (22.2%) 8(23.5%) 5 (45.5%) 1(16.7%)	7 (46.7%) 13(48.1%) 12 (35.3%) 2(18.2%) 1(16.7%)	6 (40%) 8(29.6%) 14 (41.2%) 4(36.4%) 4(66.7%)	7.870	**0.446**
Qualification on taxation Yes No	9(29%) 13(21%)	10(32.3%) 25(40.3%)	12(38.7%) 24(38.7%)	0.925	**0.630**
Notes: p value –significant at <5%** p value - significant at <1%***					

Table 4.19 indicates that there was no relationship between gender, average turnover, educational qualification, and taxation qualification and the respondents' knowledge of business income (p>0.05). However, there were statistically significant differences with respect to the respondents' form of business ownership (p=0.035), years of business (p=0.000), and their knowledge of business income.

Regarding the years of business, all the respondents that have been in business for longer (15-19 years) had good knowledge of business income (100%) (Table 4.19). In contrast, many of those respondents with a business that is still young (1-5 years) had poor knowledge of business income (45.6%) (Table 4.19). The finding agrees with Azrina Mohd Yusof *et al*. (2014: 226) who noted that although small start-up businesses may act in good faith, tax compliance is a burden to them.

Table 4.19 also shows that forms of business ownership has a relationship with the respondent's knowledge of business income ($p<0.01$). This finding supports Venter and Pretorius (2013: 1249) who found that the type of business has an influence on its tax compliance. For example, while many of the respondents who were in close corporations (63.6%) and partnerships (88.9%) had a good knowledge of business tax, their counterparts in private companies had a poor knowledge of business income (53.6%). According to Nur-Tegin (2010: 2), smaller companies have a greater opportunity to evade tax than larger companies do. The author argued that it is easier for a small business to hide income and be invisible. Perhaps, the ability of these smaller companies to evade tax might have contributed to their poor knowledge of income tax.

4.3.7.3 Association between background characteristics and knowledge of payroll taxes

The association between the **background** variables and the respondents' knowledge of payroll taxes is given in Table 4.20.

Table 4.20: Association between knowledge of payroll taxes and background characteristics					
	Good	**Fair**	**Poor**	X^2	**p-value**
Gender Male Female	6(17%) 10(25%)	18(34%) 11(27.5%)	26(49.1%) 19(47.5%)	1.792	**0.408**
Form of ownership of your business Close corporation Partnership Personal liability company Private company Sole trader	 6(54.5%) 5 (55.6%) 2(50%) 3(10.7%) 12(29.3%)	 1(9.1%) 1(11.1%) 1(25%) 9(32.1%) 8 (19.5%)	 4(36.4%) 3(33.3%) 1(25%) 16(57.1%) 21(51.2%)	12.677	**0.123**
Turnover (Rand) 0 – 500 000 500 001 – 1 000 000	19(24.4%) 9(60%)	18(23.1%) 2(13.3%)	41(52.6%) 4(26.7%)	7.607	**0.022****

Table 4.20: Association between knowledge of payroll taxes and background characteristics					
	Good	**Fair**	**Poor**	**X²**	**p-value**
Highest qualification				17.644	**0.024****
Matric / NSC	2 (13.3%)	0 (0%)	13 (86.7%)		
Undergraduate diploma	12 (44.4%)	7(25.9%)	8 (29.6%)		
Honours or postgraduate	8 (23.5%)	11 (32.4%)	15 (44.1%)		
Masters	4 (36.4%)	2(18.2%)	5(45.5%)		
Other	2 (33.3%)	0(0%)	4(66.7%)		
Qualification on taxation				2.068	**0.356**
Yes	12(38.7%)	7(22.6%)	12(38.7%)		
No	16(25.8%)	13(21%)	33(53.2%)		
Notes: p value - significant at <5%**					

Table 4.20 indicates that there was no relationship between gender, the form of business ownership, and taxation qualification and the respondents' knowledge of payroll (p>0.05). There were, however, statistically significant differences with respect to the respondents' years of business (p=0.039), average turnover (p=0.022), education qualification (p=0.024), and their knowledge of payroll taxes.

The respondents that have been longer in business were found to have good knowledge of tax payroll taxes (80%) when compared to those that businesses are still new (52.9%). As previously stated, the poor tax payroll knowledge of the respondents whose businesses are still young may be linked to the challenge start-up SMEs face in keeping up with the demands of tax. Equally important, it emerged that the amount of turnover influences the respondents' tax knowledge on payroll taxes. It was found that those with higher turnover (60%) have better knowledge about payroll taxes when compared to those with lower turnover (24.4%). These findings are in agreement with Pretorius (2015: 216) who found that businesses with higher turnover are more tax compliant when compared to those with lower turnover. The possible reason for the poor knowledge of payroll taxes among many of the respondents with lower turnover may be attributed to the number of years the business has been on an operation. Pretorius (2015: 158) points out that start-up businesses are less aware of their tax responsibilities, which may include payroll taxes.

In terms of the influence of education, McGee, Yanira and Adriana (2012: 451) reported that the higher the level of education, the less the chance of evading tax. The findings of this current study confirm McGee's assertion that tax knowledge increases with the level of education (McGee *et al.* 2012: 451). Most of the respondents with higher qualifications were more knowledgeable about payroll tax when compared to those with only a matric or NSC qualification. These results are also consistent with Pretorius (2015: 215) who found the highest knowledge of tax payroll among those with post-secondary education and the lowest knowledge was by those with post-primary education. Similarly to McGee *et al.* (2012: 451), a plausible explanation for why those with higher education have a better knowledge of payroll tax may be attributed to the fact that educated persons have more respect for the law. This factor may help increase their interest in tax laws and thus their compliance.

4.3.7.4 Association between background variables and value-added tax

The associations between the background variables and the respondents' knowledge of VAT are given in Table 4.21.

Table 4.21: Association between knowledge of value-added tax and background characteristics					
	Good	**Fair (n=85)**	**Poor (n=15)**	**X²**	**p-value**
Gender Male Female	6(11.3%) 4(10%)	10(18.9%) 7(17.5%)	37(69.8%) 29(72.5%)	0.084	**0.959**
Form of ownership of your business Close corporation Partnership Personal liability company Private company Sole trader	 2(18.2%) 0(0%) 0(0%) 2(7.1%) 6(14.6%)	 4(36.4%) 1(11.1%) 0(0%) 5(17.9%) 7 (17.1%)	 5(45.5%) 8(88.9%) 4(100%) 21(75%) 28(68.3%)	7.861	**0.447**
Years of business 15 – 19 Years 10 – 14 Years 1 – 5 Years 6 –9 Years	0(0%) 0(0%) 6(8.8%) 4(25%)	2(40%) 3(75%) 10(14.7%) 2(12.5%)	3 (60%) 1(25%) 52(76.5%) 10(62.5%)	15.049	**0.020**[**]
Turnover (Rand) 0 – 500 000 500 001 – 1 000 000	5(6.4%) 5(33.3%)	15(19.2%) 2 (13.3%)	58(74.4%) 8(53.3%)	9.504	**0.009**[***]
Highest qualification Matric / NSC	 8(23.5%)	 2 (59%)	 24 (70.6%)	14.722	**0.065**

Table 4.21: Association between knowledge of value-added tax and background characteristics

	Good	Fair (n=85)	Poor (n=15)	X^2	p-value
Undergraduate diploma	5 (45.5%)	0(0%)	6(54.5%)		
Honours or postgraduate	1(6.7%)	1(6.7%)	13 (86.7%)		
Masters	0(0%)	1(16.7%)	5(83.3%)		
Other	3(11.1%)	6(22.2%)	18(66.7%)		
Qualification on taxation				4.232	**0.121**
Yes	4(12.9%)	9(29%)	18(58.1%)		
No	6(9.7%)	8(12.9%)	48(77.4%)		
Notes: p value - significant at <5%** p value - significant at <1%***					

Table 4.21 shows no statistically significant relationships between gender, the form of business ownership, taxation qualification and the respondents' knowledge of business income (p>0.05). There were, however, statistically significant differences with respect to the respondents' years of business (p=0.020), average turnover (p=0.009), and their knowledge of VAT.

Regarding the influence of years of business and knowledge of VAT it was found that both older (60%) and younger businesses (76.5%) had poor knowledge on VAT. This may be attributed to the fact that VAT eligibility in South Africa is linked to the turnover of the business. More respondents with higher turnover (33.3%) had a good knowledge of VAT as compared to those with lower turnover (6.4%). As stipulated by the VAT Act, a person is liable to register for VAT if the total value of taxable supplies exceeds or is likely to exceed R1 million in turnover value (RSA VAT Act 1991). It can therefore be assumed that those who do not meet the eligibility criteria for VAT, based on their turnover, may show less interest in understanding VAT laws

Drawing from the above, although many of the respondents had a good knowledge of their general responsibilities as a taxpayer, their knowledge of business income, payroll, and turnover tax was poor. It was found that the level of their knowledge was to some extent influenced by their background variables such as the form of business ownership, number of years in operations, turnover value, and education. Given the low knowledge of tax among the respondents, the next section examines the importance of the use of experts in tax.

4.4 Use of accountant or tax practitioner

This section describes the respondents' use of professionals in tax. A question was posed to find out if the respondents used accountants or tax practitioners in their businesses. These results are shown in Table 4.22.

Table 4.22: Respondents' use of accountant or tax practitioners in their business						
Use of accountant or tax practitioner	Yes		No		Total	Chi-square
	Number	%	Number	%		p-value
Does your business use an internal accountant?	37	43.5	48	56.5	85	0.233
Does your business use an external accountant?	32	38.1	52	61.9	84	0.029**
Does your business use an internal tax practitioner?	28	32.9	57	67.1	85	0.002***
Does your business use an external tax practitioner?	40	48.2	43	51.8	83	0.742
Notes: Not all 93 respondents answered all the above statements. p value - significant at <1%*** p value- significant at <5%**						

As shown in Table 4.22, 48 respondents (56.5%) indicated that their business does not use an internal accountant while 37 respondents (43.5%) claimed otherwise. When asked if their business uses an external accountant, more of the respondents (n=52; 61.9%) indicated no, while 32 (38.1%) indicated yes.

Concerning the use of tax practitioners, many respondents (n=57; 67.1%) claimed that their business does not use internal tax practitioners, while 28 respondents (32.9%) affirmed that their business does use an internal tax practitioner. In terms of the use of an external tax practitioner, more than half of the respondents (n=43; 51.8%) indicated 'no' while 40 (48.2%) indicated 'yes'.

There was a statistically significant difference in the scoring pattern with respect to the statements "does your business use an external accountant", and "does your business use an internal tax practitioner".

Table 4.22 shows that most of the respondents indicated that they do not use accountants or tax practitioners. Even though the respondents may not have tax knowledge, the cost of hiring the accountants or tax professionals may be a burden for small businesses. This supports

Matarirano Chiloane-Tsoka, and Makina (2019: 4) who noted that small businesses incur compliance costs, which includes the cost of hiring tax and accounting professionals. Companies and close corporations rely heavily on tax practitioners for tax-related affairs compared to partnerships and sole proprietors that cannot afford the expertise of tax practitioners due to their small size and relatively small turnover (Ramharak 2016: 20). According to Junaid (2017: 1) from Tax Tim, "58% of small businesses do not get professional help when submitting their annual tax returns".

Table 4.23 shows the reasons the respondents provided when asked why they use either an accountant or a tax practitioner. A ranking of the reasons is also shown.

Table 4.23: Reasons for use of accountant and tax practitioner		
	Number	Rank
I believe they understand tax laws better than I do	35	1
Lack of tax knowledge	32	2
To ensure that correct returns are filed	30	3
I don't have time to submit myself	21	4
It's faster	19	5
Other	3	6

Table 4.23 shows that among those who indicated using an external accountant or tax practitioner for their business tax, the main reason was that they believed an accountant or a tax practitioner understood the tax laws better than the respondents do. The second reason was because of their own lack of knowledge of tax. In third place was the reason to ensure that correct returns are submitted, followed by that they do not have time to submit the tax themselves and lastly, because it is faster. Three other reasons were submitted by the respondents. These can be summarised as: *I prefer to support other small businesses,* and *only use them for AFS.*

The results show that respondents had different reasons for hiring accounting and tax experts. The two most supported reasons indicate that the respondents do not have enough knowledge to submit the returns themselves. These results are in line with Palil (2010: 44) where he argued that small businesses use tax professionals because of their lack of tax expertise. Palil (2014:44)

found that "small businesses generally require the assistance of tax practitioners because they have neither the time nor the expertise to perform the tax function themselves".

Given that lack of time and tax knowledge were mentioned as the reasons for the use of accountants and/or tax practitioners, the questionnaire next probed if the respondents have ever defaulted on their tax returns such as income tax, provisional tax, PAYE and VAT. This was a sensitive area to probe, as respondents may not have wanted to report their non-compliance with any tax matters. However, the purpose of the question was not to uncover tax evasion or any illegal activities, as the reasons given for defaulting were related to tax knowledge and timeous submission of the tax returns. Among those who responded (n=82), 38 (47.6%) acknowledged having defaulted on their income tax returns while 43 (52.4%) claimed never to have defaulted (Table 4.24).

Table 4.24: Respondents' defaulting of income tax returns		
	Number	Percent
Yes	39	47.6
No	43	52.4
Total	82	100.0

Table 4.24 shows that there are respondents who are not complying with the tax laws. It has a negative effect on tax revenue as SMEs are regarded as the highest contributors to tax revenues. Non-compliance causes tax leakages and this situation is detrimental to an economy (Ramharak 2016: 5). Ngigi (2015: 5) confirmed that tax compliance is still an issue for the South African tax authority and other tax authorities in different countries. To provide deeper insight into why some respondents indicated that they had defaulted on their income tax returns, a question was posed asking the respondents to give reasons.

Table 4.25 lists the reasons respondents gave for defaulting on their tax returns.

Table 4.25 Reasons for defaulting on tax returns		
Statements	Number	Percent
I did not manage to submit the returns on time	20	51.3
I did not know how to complete the returns	18	46.2
Other reasons (lack of time)	1	2.6
Total	39	100

Table 4.25 shows that 20 respondents (21.5%) stated that they did not manage to submit the returns on time, and 18 (19.4%) indicated that they did not know how to complete the returns. Only one respondent gave a different reason, which was lack of time to submit the returns.

Table 4.25 shows that late submission was one of the main factors that contributed to non-compliance (51.3%). This could be because they did not understand the full context of submitting the returns on time. The other reason was that they did not know how to complete the tax returns (46.2%). This implies that if you are running a business, it is important to hire an accountant or tax expert as they have a full understanding of tax laws. Junpath (2013: 81) found that the main reason for defaulting on tax returns was not knowing how to complete the tax returns. Promoting tax education and training by SARS would better equip taxpayers with knowledge, which will provide them with guidance in meeting their tax obligations. This may lead to an improvement in the level of tax compliance.

4.5 KNOWLEDGE ABOUT EFILING

A critical point emerging from the above discussion is that time, and lack of knowledge of tax returns was a determinant in the respondents defaulting on their tax returns. The next section sought to determine the respondents' knowledge of efiling. These results are summarised in Table 4.26.

Table 4.26: Respondents' knowledge of efiling								
Statements	Scale					No.	Mean	p-value
	Strongly disagree	Dis-agree	Neutral	Agree	Strongly agree			
I know and understand how to use efiling	23 (27.7%)	7 (8.4%)	19 (22.9%)	15 (18.1%)	19 (22.9%)	83	3.00	0.064*
Efiling is easy, simple to understand and I can use it without assistance	16 (19.3%)	6 (7.2%)	25 (30.1%)	17 (20.5%)	19 (22.9%)	83	3.20	0.022**
Efiling encourages me to be tax compliant because it's easy to use or access	17 (20.7%)	4 (4.9%)	21 (25.6%)	23 (28%)	17 (20.7%)	82	3.23	0.010**
The use of efiling has improved my level of tax compliance with SARS legislation	16 (19.8%)	4 (4.9%)	31 (38.3%)	14 (17.3%)	16 (19.8%)	81	3.12	0.000***

Table 4.26: Respondents' knowledge of efiling								
Statements	Scale					No.	Mean	p-value
	Strongly disagree	Dis-agree	Neutral	Agree	Strongly agree			
I can pay my liability faster and easier since I started using efiling	16 (19.3%)	3 (3.6%)	32 (38.6%)	16 (19.3%)	16 (19.3%)	83	3.16	0.000***
The use of efiling to submit my tax return(s) has assisted me to declare income accurately	16 (19.8%)	2 (2.5%)	26 (32.1%)	19 (23.5%)	18 (22.2%)	81	3.02	0.000***
Notes: p value significant at <1%*** p value significant at <5%** p value significant at <10%*								

Although between 16 and 19 respondents strongly agreed with all the statements, all the means are 3.00 or slightly greater than 3.00 (Table 4.26). This means that the respondents' answers for all the statements were closest to "neutral" indicating that they did not agree or strongly agree with most of the statements. The statements which had the most support were the second and third statements which referred to that efiling is easy, simple to understand, and I can use it without assistance (m=3.20), and efiling encourages me to be tax compliant because it's easy to use or access (m=3.23).

Overall, many respondents were neutral in their opinions that efiling makes it easier and faster to submit tax returns. This means that even though South Africa has moved to the SAS there is a lot that needs to be done to encourage taxpayers to use efiling when submitting tax returns. The number of taxpayers using efiling personally needs to increase and as such there should be measures implemented to increase this (Collen 2020: 07). Collen noted that the SARS' target is to get all taxpayers on efiling, but the number of taxpayers who are still preferring to go queue at a SARS office to file their returns is very high.

Based on the level of significance indicated in Table 4.26, the chi-square test indicated that the scoring pattern of the respondents was statistically significantly different.

4.6 TAX KNOWLEDGE BARRIERS

This section explores the perceived barriers to tax knowledge among the respondents and addresses the fourth research question: *what are the barriers to tax knowledge and tax compliance by SMEs?* The first question in this section asked the respondents if they thought there were any barriers to their tax knowledge. A 'yes' or 'no' response was required. These results are shown in Table 4.27.

Table 4.27: Respondents' perceptions on barriers to tax knowledge		
	Number	Percent
Yes	40	49.4
No	41	50.6
Total	81	100.0

Table 4.27 shows that of those who responded to the question (n=81), 41 (50.6%) indicated there were no barriers to their tax knowledge while 40 (49.4%) agreed that they do have barriers to tax knowledge.

Respondents who indicated that they do have barriers to their tax knowledge were asked to provide their reasons for these barriers. These results are shown in Table 4.28.

Table 4.28: Reasons for barriers to tax
Complexity and difficulty of tax (18)
It is not easy to understand tax
It's too complicated and it changes all the time
Tax is too technical and requires one to hire tax practitioners
Tax changes all the time and there is a lot to study every tax year
The nitty gritty details that change almost every new tax year, inadequate public awareness campaigns about tax laws and regulations
Lack of knowledge and understanding (20)
How to acquire training or necessary knowledge
I do not understand tax and all the changes they keep making
No free tax education provided by the government to help us as small business owners
I am clueless when it comes to tax

Table 4.28: Reasons for barriers to tax
Formal training or education are lacking
Access to free courses
I have never received formal training on taxation
Lack of time (2)
I do not have time to familiarise myself with tax studies

Table 4.28 shows that of the 40 respondents who indicated that they have barriers to their tax knowledge, 18 respondents referred to the complexity and difficulty of tax, 20 respondents attributed the lack of knowledge and understanding of tax to lack of free access to courses and training as barriers whilst two respondents indicated the lack of time to learn the tax.

To understand the perceived barriers to tax knowledge amongst the respondents, they were asked to indicate their opinions on several statements shown in Table 4.29 that best described the barriers to their tax knowledge.

Table 4.29: Barriers to tax knowledge	Scale						
	Strongly disagree	**Disagree**	**Neutral**	**Agree**	**Strongly agree**	**Mean**	**p-value**
Frequent changes on tax makes it difficult to understand tax (complexity of tax laws)	11 (13.8%)	7 (8.8%)	15 (18.8%)	21 (26.3%)	26 (32.5%)	3.55	0.006**
My school offered accounting in high school, but I did not choose it	21 (25.9%)	14 (17.3%)	9 (11.1%)	15 (18.5%)	22 (27.2%)	3.04	0.131
I do not have background knowledge in accounting	27 (34.2%)	12 (15.2%)	9 (11.4%)	13 (16.5%)	18 (22.8%)	2.78	0.014**
I do not have background knowledge in tax	18 (23.1%)	8 (10.3%)	15 (19.2%)	19 (24.4%)	18 (23.1%)	3.14	0.267
Tax is too technical	8 (10%)	10 (12.5%)	17 (21.3%)	27 (33.8%)	18 (22.5%)	3.46	0.007**
Tax authority (SARS) does not provide enough seminars and workshops	4 (5.1%)	9 (11.4%)	21 (26.6%)	24 (30.4%)	21 (26.6%)	3.62	0.001**
I am not aware of the tax workshops and seminars provided by SARS	9 (11.4%)	6 (7.6%)	17 (21.5%)	18 (22.8%)	29 (36.7%)	3.66	0.000***
Notes: p value - significant at<1%*** p value - significant at <5%** p value - significant <10%*							

Using the mean values shown in Table 4.26, it can seem that the mean values for the 1st, 6th and 7th statements are greater than 3.5. This means that the respondents "agreed" with the statements which referred to the frequent changes on tax that makes it difficult to understand tax (complexity of tax laws) (m=3.55), that the tax authority (SARS) does not provide enough seminars and workshops (m=3.62), and that the respondent was not aware of the tax workshops and seminars that are provided by SARS (m=3.66). On the other hand, the mean values measured for the 2nd (m=3.04) and 4th (m=3.14). The 5th (m=3.46) statements were closest to "neutral" indicating that they did not agree or disagree with these statements whilst the mean value for the 3rd statement indicates that the respondents "disagreed" with the statement "I do not have background knowledge in accounting" (m=2.78). Overall, however, 18 to 29 respondents strongly agreed with all the statements.

Based on the level of significant indicated in Table 4.29, the chi-square test indicated that there was a statistically significant difference in the scoring pattern for all the statements except for statements 2 and 4.

4.6.1 Strategies to improve taxpayers' knowledge and barriers to tax knowledge

It has been noted in the discussion above that there is a perceived barrier to tax knowledge amongst the respondents. This section, therefore, examines some of the strategies that could contribute to improving a taxpayer's knowledge and thus close the barriers to tax knowledge. A question was posed to ask which the strategies the respondents could suggest that could improve a taxpayer's knowledge and barriers to tax knowledge. These results are shown in Table 4.30.

Table 4.30: Strategies to improve a taxpayer's knowledge and barriers to tax knowledge							
	Scale					Mean	p-value
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree		
Seminars provided by SARS	8 (9.4%)	3 (3.5%)	18 (21.2%)	26 (30.6%)	30 (35.3%)	3.79	0.000***
More public awareness campaigns by SARS on the importance of taxation	5 (6.1%)	4 (4.9%)	11 (13.4%)	30 (36.6%)	32 (39%)	3.98	0.000***
More use of social media platforms by SARS on the importance of taxation	7 (8.3%)	3 (3.6%)	15 (17.9%)	26 (31%)	33 (39.3%)	3.89	0.010**
Introduction of tax education in secondary schools	6 (7.1%)	5 (6.0%)	12 (14.3%)	32 (38.1%)	29 (34.5%)	3.89	0.000***
Notes: p value - significant at<1%*** p value - significant at <5%**							

Table 4.30 shows that all the means are above 3.50. This indicates that the respondents' answers for all the statements were closest to "agree". The statements which had the most support were the 2nd, 3rd, and 4th ones which referred to more public awareness campaigns by SARS on the importance of taxation (m=3.98), more use of social media platforms by SARS on the importance of taxation (m=3.89), and the introduction of tax education in secondary schools (m=3.89). Overall, there were 29 to 33 respondents who strongly agreed with all the statements.

Based on the level of significant indicated in Table 4.30, the chi-square test indicates that there were statistically significant differences in how the respondents scored the statements.

The results indicate that a SARS intervention in providing tax knowledge through seminars and social media platforms will help to close the barriers to tax knowledge among the taxpayers. The introduction of tax education in secondary schools is also one of the methods that the respondents agreed would close barriers to tax knowledge. The research conducted by Shiya (2018: 68) recommended that the SARS' operations engagement should engage in frequent corporate taxpayer education, targeting small businesses.

4.6.2 Taxpayer education and awareness

The previous section suggested that awareness of tax is a significant strategy to improve a taxpayer's knowledge and a barrier to tax knowledge. Equally relevant and drawing from the above section, most of the respondents advocated for the introduction of tax education in secondary schools as a strategy to improve tax knowledge. Given the emphasis on education and awareness in tax knowledge, the respondents were asked if they are aware of any taxpayer education programmes conducted by SARS. These results are shown in Table 4.31.

Table 4.31: Awareness of taxpayer education programmes by SARS		
	Number	Percent
Yes	19	22.4
No	66	77.6
Total	85	100.0

Table 4.31 shows that among those who responded (n=85), 66 (77.6%), most respondents indicated that they had no awareness of the taxpayer education programmes by SARS while only 19 (22.4%) respondents indicated that they were aware of taxpayer education programmes conducted by SARS

Given the small number of respondents (19) who were aware of the taxpayer education programmes conducted by SARS, a question was posed asking if they had attended any of the SARS' organised programmes on tax. These results are shown in Table 4.32 and have been ranked according to the frequency of their attendance.

Table 4.32: Tax education programmes attended organised by SARS		
	Number	Ranking
VAT and Payroll taxes	12	1
Other programmes that you felt relevant to your business	10	2
Small Business Incentives	5	3
Dividends Tax and Corporate Distributions	4	4
Corporate Transactions	1	5

Table 4.32 shows that 12 respondents had attended VAT and payroll taxes, and ten respondents had attended other programmes they felt relevant to their business. The other tax education programmes had less support. This is possible because they are less relevant to SMEs.

To summarise, the results reveal that the majority of taxpayers are not aware of the SARS' education programmes (Table 4.31). This affects tax knowledge. If taxpayers are not aware of the tax education programmes, it decreases the level of tax knowledge which may increase the level of non-compliance. According to Ramharak (2016: 55), SARS announced that in 2020 it would engage all South Africans through various education and awareness initiatives. Tax workshops are one of the programmes implemented by SARS. However, even though tax education programmes have been implemented by SARS, many of the respondents in this study were not aware of the programmes.

4.7 TAX COMPLIANCE

This section sought to evaluate the level of compliance to tax amongst the respondents. This section examines the tax compliance of the respondents. This section addresses the third research question, which was *"What is the level of tax compliance of SMEs?"* Several questions were asked to address tax compliance. The results are summarised in the sections below

4.7.1 Types of business tax

The first question asked whether the respondents are registered for the various types of tax. These results are shown in Table 4.33.

Table 4.33: Business tax registered by the respondents						
	Yes		No		Total	Chi-square
	No.	%	No.	%		p-value
Income tax	66	79.5	17	20.5	83	0.000***
Provisional tax	41	52.6	37	47.4	78	0.651
PAYE	29	38.7	46	61.3	75	0.050*
VAT	24	33.3	48	66.7	72	0.005**
UIF	31	41.3	44	58.7	75	0.133
SDL	18	26.1	51	73.9	69	0.000***
Notes: Not all 93 respondents answered the above statements. p value - significant at <1% *** p value - significant at <5% ** p value- significant at <10% *						

Table 4.33 shows that most of the respondents are registered for income tax and provisional tax, but not for VAT, PAYE, UIF and the SDL. This is because it is compulsory that all businesses register for income tax and declare their income every year. They are required to submit income tax returns regardless of whether they have an income tax liability for the year of assessment. VAT and PAYE registrations are not compulsory, as there are requirements to be met before registration. PAYE, UIF and SDL registrations are compulsory when the business has employees. This could mean that the respondents did not have any employees. However, this could also mean they have employees but have not registered for PAYE. PAYE makes small businesses reluctant to hire employees (Olla 2016: 34). She further mentioned that business owners are so concerned about the paying of PAYE that they try to employ as few full-time staff as possible, which ultimately hinders the growth of their business. Table 4.33 also shows that the p-values for some of the statements were significant at either <1%, 5% <10%. This means that there were significant differences in the scoring patterns of the respondents.

4.7.2 Advantage of being tax compliant to South Africa

Given that majority of the respondents indicated that their businesses were not registered for some taxes such as PAYE, VAT, UIF and SDL, it was critical to know from the perspective of the respondents whether they thought being compliant is an advantage to South Africa. These results are shown in Table 4.34.

Table 4.34: Being tax compliant is an advantage to South Africa		
	Number	Percent
Yes	71	82.6
No	15	17.4
Total	86	100.0

Table 4.34 shows that most of the respondents (n=71; 82.6%) indicated that being tax compliant is an advantage to South Africa while a few respondents (n=15; 17.4%) did not agree. The reasons for not seeing any benefit of being tax compliant are shown in Table 4.35.

Table 4.35: Reasons against being tax compliant
A lot of companies are not submitting accurate amounts and are evading tax.
Because our money is not spent wisely to better our country as a whole. Too much is wasted on the gravy train.
Because people in government and SOEs think that government has a lot of money and they can use it anyhow. We must deprive them that, so that they can work hard like all of us and use limited resources to achieve big results.
It is technical.
No benefit.
Not sure why it's an advantage.
There is no benefit in being compliant.

Table 4.35 shows that respondents are of the opinion that some companies are evading tax and submitting inaccurate amounts while others think that the wastefulness in government discourages tax compliance. Poor tax compliance could undermine the government's ability to carry out their civic responsibility in the provision of basic amenities and social services to many disadvantaged South Africans. Junpath, Kharwa and Stainbank (2016: 100) found that some of the reasons against being compliant were tax spending being abused or not used for the purpose it is meant for and high corruption in government departments.

4.7.3 Motivating factors for business tax compliance

The factors that motivated the respondents to be tax compliant in their businesses are given in Table 4.36.

Table 4.36: Factors motivating tax compliance		
	Number	Rank
Tax clearance certification	61	1
Avoid interest and penalties	38	2
Business formalisation	37	3
Tender application	27	4
Refund from SARS	27	5

Table 4.36 indicates that most respondents (61) saw the need for a tax clearance certificate as the main reason to be tax compliant. In addition, 38 respondents wanted to avoid interest and penalties, 27 respondents saw it necessary for business formalisation, 27 respondents saw it

necessary for tender applications, and 27 respondents saw it necessary for refunds from SARS. The tax clearance certificate has a huge effect on business tax compliance, as a tax clearance certificate is necessary for businesses which rely on tenders and funding. Interest and penalties imposed due to non-compliance also encourages tax compliance, as no one would like to pay extra to SARS. Hendy (2013: 51) suggests that the major motivators of tax compliance are interest and penalties established by the tax authorities.

4.7.4 Factors influencing tax compliance

Four statements were posed about the factors influencing tax compliance, which respondents could answer on a Likert scale. These results are shown in Table 4.37.

Table 4.37: Factors influencing tax compliance							
	Scale					Mean	p-value
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree		
SARS has limited capacity to investigate all income reported to them and taxpayers have an opportunity not to report their exact income.	16 (19.5%)	14 (17.1%)	29 (35.4%)	18 (22%)	5 (6.1%)	2.78	0.001**
The probabilities of being detected by SARS for not declaring the exact income are low.	14 (17.1%)	23 (28%)	29 (35.4%)	11 (13.4%)	5 (6.1%)	2.63	0.000***
Since supporting documents do not need to be sent to SARS and if not selected for an audit, the figures in the tax return can manipulated.	11 (13.4%)	15 (18.3%)	24 (29.3%)	25 (30.5%)	7 (8.5%)	3.02	0.004**
Serious enforcement and penalty by SARS may result if a taxpayer does not comply.	8 (9.6%)	5 (6.0%)	14 (16.9%)	27 (32.5%)	29 (34.9%)	3.77	0.000***
Notes: Not all 93 respondents answered the above statements. p value - significant at <1%*** p value - significant at <5%**							

Table 4.37 shows the mean values for the 1st and 2nd statement were m=2.78 and m=2.63 respectively, while the mean value for the 3rd statement was 3.02, and that of the 4th statement

was 3.77. This means that the respondents' answers for the 1st and 2nd statements indicated that they "disagreed" with the statements which referred to SARS having limited capacity to investigate all income reported to them and taxpayers have an opportunity not to report their exact income and the probabilities of being detected by SARS for not declaring the exact income are low. On the other hand, the mean of the respondents was "neutral" to the 3rd statement which referred to the fact that since supporting documents do not need to be sent to SARS and if not selected for an audit, the figures in the tax return can be manipulated. The mean of the 4th statement which referred to serious enforcement and penalty by SARS may result if a taxpayer does not comply was 3.77 which indicated mainly agreement by the respondents on average.

Based on the level of significance indicated in Table 4.37, the chi-square test indicates that there were statistically significant differences in the scoring pattern of the respondents for all the statements.

This corroborates Saad (2014: 125) who revealed that interest and penalties play an important role in improving the level of tax compliance. Most of the respondents agreed that the main factor that encouraged their compliance is the serious enforcement of interest and penalties. In the SAS, some of the features are system generated. For example, the system generates letters requesting supporting documents. If the taxpayer has never been requested to submit the supporting documents for audit, they do not see the need to capture accurate information when submitting tax returns. Some of the respondents agreed that since supporting documents do not need to be sent to SARS and if not selected for an audit, then the figures in the tax return can be manipulated, thus increasing the level of non–compliance and tax evasion. The more the taxpayers are selected for audit, the more that accurate information on the tax returns is captured and this leads to tax compliance. According to Aronmwan, Imobhio and Izedonmi (2015: 92), tax audits, fines and penalties are measures put in place by the relevant tax authorities to mitigate tax non-compliance.

4.7.5 Personal reasons for tax compliance
The respondents' personal reasons for being tax compliant are indicated in Table 4.38.

Table 4.38: Respondents' personal reasons for being tax compliant							
	Scale					Mean	p-value
	Strongly disagree	Disagree	Neutral	Agree	Strongly agree		
I would feel guilty if I excluded some of my income when completing my tax return.	8 (9.6%)	2 (2.4%)	17 (20.5%)	31 (37.3%)	25 (30.1%)	3.76	0.000***
I feel morally obliged to declare all my tax liabilities.	3 (3.7%)	8 (9.8%)	15 (18.3%)	32 (39.7%)	24 (29.3%)	3.80	0.000***
I would not feel guilty if I excluded some of my income when completing the tax return.	25 (30.1%)	20 (24.1%)	16 (19.3%)	12 (14.5%)	10 (12%)	2.54	0.064*
I believe that other people especially the poor will get the benefit if I comply.	14 (17.1%)	10 (12.2%)	20 (24.4%)	20 (24.4%)	18 (22%)	2.34	0.333
Notes: Not all 93 respondents answered the above statements. p value - significant at <1% *** p value - significant at <10% *							

Table 4.38 shows that while the mean values for the 1st and 2nd statements were above 3.00, the mean values for the 3rd and the 4th statement were below 3.00. This means that the respondents' answers for the 1st and 2nd statements indicated that they "agreed" with the statement which referred to 'I would feel guilty if I excluded some of my income when completing my tax return' (m=3.76), and 'I feel morally obliged to declare all my tax liabilities' (m=3.80). On the other hand, the means for the 3rd and 4th statements suggest the respondents "disagreed' with the statement which referred to 'I would not feel guilty if I excluded some of my income when completing the tax return' (m=2.54), and 'I believe that other people especially the poor will get the benefit if I comply' (m=2.34). It must be noted that the 3rd statement is the inverse of the 1st statement, and therefore it is not unexpected that the respondents would disagree with the statement.

Based on the level of significance indicated in Table 4.38 by the chi-square test, there was a statistically significant difference in how the respondents scored the 1st and 2nd statements (p<0.01).

The results show that respondents believed that they should be compliant with SARS. This shows that respondents are aware of their responsibility to be compliant before they are even reminded by SARS. Some of the respondents did not believe that being compliant benefits the

poor (4th statement). This could mean that they do not have trust in government spending. Palil (2010: 184) found that tax compliance is also influenced by the extent of trust that taxpayers have for the government. Taxpayers' perceptions are potentially important in determining their compliance behaviour. The more the taxpayers have good perceptions about the tax they pay, the likelier that are to comply.

4.7.6 Establishing the level of tax compliance

This section highlights the level of tax compliance among the respondents. Positive responses to the questions in Table 4.38 were typified as high, negative answers were typified as low, and where the responses were neutral, they were typified as uncertain. This result is shown in Table 4.39.

Table 4.39: Level of tax compliance amongst the respondents			
		Number	**Percent**
Level of tax compliance	Uncertain	8	8.8
	High	69	75.8
	Low	14	15.4
	Total	91	100.0

Table 4.39 shows that most of the respondents (n=69; 75.8%) have high tax compliance while 14 respondents (15.4%) have low tax compliance. Even though the results show that many of the respondents are compliant there is still more work to be done to ensure that the level of compliance is improved. Tax knowledge and the use of tax professionals can be used to improve the level of compliance especially for those who were rated non-compliant. Smulders *et al.* (2012: 55) recommended that until the small business owners have gained expertise, training and mentoring services funded by the government should be provided free of charge to small businesses to assist them in becoming and remaining compliant.

4.8 THE RELATIONSHIP BETWEEN TAX KNOWLEDGE AND COMPLIANCE

The final objective of this study was *to evaluate the relationship between SMEs' level of tax knowledge and tax compliance.* Pearson's correlation was used to compare the relationship between tax knowledge (taxpayer responsibility – Table 4.8, business income - Table 4.10, payroll – Table 4.11, turnover - Table 4.13, and VAT – Table 4.16) and the respondents' tax compliance (Table 4.39).

Table 4.40: Relationship between tax knowledge and compliance		
Knowledge of:		Tax compliance
Taxpayer is responsible	Pearson Correlation	-.088
	Sig. (2-tailed)	.407
	N	91
Business income	Pearson Correlation	.177
	Sig. (2-tailed)	.094
	N	91
Payroll tax	Pearson Correlation	.040
	Sig. (2-tailed)	.705
	N	91
Turnover tax	Pearson Correlation	-.036
	Sig. (2-tailed)	.736
	N	91
VAT	Pearson Correlation	-.010
	Sig. (2-tailed)	.922
	N	91

Table 4.40 shows negative relationships between knowledge of taxpayer responsibility, turnover tax and VAT to tax compliance and positive relationships between knowledge of business income and payroll tax to tax compliance. However, no significant relationships were measured. The study thus found no statistically significant relationship between the level of tax knowledge, split into its component parts as shown in the conceptual model, and tax compliance.

To conclude this study, the final section of the questionnaire asked the respondents to indicate their opinions on the importance of SARS. Although this was not a specific objective of the study, it was deemed necessary in order to provide further insight into SMEs' tax compliance.

4.8.1 Importance of the South African Revenue Service

This section deals with the importance of the SARS in ensuring that all taxpayers honestly pay what they owe. The results are summarised in Table 4.41.

Table 4.41: Respondents' rating of the importance of SARS						
	Scale					p-value
	Not all important	Not very important	Neutral	Somewhat important	Very important	
Ensures low-income taxpayers are reporting and paying their taxes honestly	19 (22.6%)	11 (13.1%)	16 (19%)	24 (28.6%)	14 (16.7%)	0.208
Ensures small businesses are reporting and paying their taxes honestly	13 (15.7%)	8 (9.6%)	14 (16.9%)	25 (30.1%)	23 (27.7%)	0.015**
Ensures high-income taxpayers are reporting and paying their taxes honestly	5 (6.1%)	3 (3.7%)	12 (14.6%)	9 (11%)	53 (64.6%)	0.000***
Ensures corporations are reporting and paying taxes correctly	6 (7.4%)	1 (1.2%)	14 (17.3%)	9 (11.1%)	51 (63%)	0.000***
Notes: Not all 93 respondents answered all the above statements. p value - significant at <1% *** p value – significant at <5% ** p value – significant at <10% *						

Table 4.41 listed four statements. When asked to rate their level of importance to the first statement "Ensures low-income taxpayers are reporting and paying their taxes honestly", 24% (28.6%) respondents thought it was somewhat important, whilst 22.6% indicated that it is not all-important. With regards to the second statement, a significant number of the respondents (n=25; 30.1%) believed it is somewhat important while 27.7% (n=22) thought it is very important that SARS ensures small businesses are reporting and paying their taxes honestly. Most of the respondents (n=53; 64.6%) believed it is very important that SARS ensures high-income taxpayers are reporting and paying their taxes honestly (third statement). In addition, a majority (n=51; 63%) of the respondents also thought it is very important that SARS ensures corporations are reporting and paying taxes correctly (fourth statement). The results show that taxpayers believe that SARS' main areas to focus on are to ensure that high-income taxpayers

and corporations are reporting and paying their taxes correctly. This may allow SMEs to not focus on their tax obligations if they believe that SARS should only focus on larger corporations. However, SMEs are the greatest contributors to tax revenue, and it is of vital importance that SARS also focuses on SMEs' tax compliance. The p-values for each statement were significant at either <1%, 5% or 10%. This means that there were significant differences in the scoring patterns of the respondents.

4.8.2 Factors influencing the honest reporting and paying of tax

Respondents were asked to rate the factors in Table 4.42 to indicate how much influence these factors have on the respondents' reporting and paying their taxes honestly.

Table 4.42: Factors influencing honest reporting and paying of tax						
	Scale					p-value
	Not at all influence	Very little influence	Neutral	Some what influence	Great deal of influence	
Fear of an audit.	12 (14%)	4 (4.7%)	11 (12.8%)	18 (20.9%)	41 (47.7%)	0.000***
Belief that your neighbours or colleagues are reporting and paying honestly.	26 (31%)	13 (15.5%)	18 (21.4%)	17 (20.2%)	10 (11.9%)	0.068*
Third parties reporting your income (e.g., salary, interest, dividends) to the SARS.	12 (14%)	9 (10.5%)	13 (15.1%)	18 (20.9%)	34 (39.5%)	0.000***
Your personal integrity.	6 (7.1%)	7 (8.2%)	12 (14.1%)	13 (15.3%)	47 (55.5%)	0.000***
Tax practitioner involvement in filing returns.	9 (10.7%)	4 (4.8%)	19 (22.6%)	13 (15.5%)	39 (46.4%)	0.000***
Accountant's involvement in filing the returns.	5 (5.9%)	4 (4.7%)	18 (21.2%)	22 (25.9%)	36 (42.4%)	0.000***
Fear of paying more interest and penalties at a later stage should SARS detect that the information is not correct.	4 (4.8%)	4 (4.82%)	9 (10.7%)	16 (19%)	51 (60.7%)	0.000***
Notes: Not all 93 respondents answered the above statements. p value - significant at <1%*** p value – significant at <10%*						

Table 4.42 shows that almost half of the respondents (n=41; 47.7%) believe that fear of an audit has a great influence on their honest reporting of taxes. However, 31% (n=26) respondents noted that the belief that your neighbours or colleagues are reporting and paying honestly was not at all an influence. Thirty-four (39.5%) respondents noted that third parties reporting their income (e.g., salary, interest, dividends) to SARS had a great deal of influence on their honest reporting of tax. In terms of the influence of the respondent's integrity, many of the respondents (n=47=55.3%) believed it had a great deal of influence on their honest reporting and paying of the tax. More of the respondents (n=39; 46.4%) also noted that tax practitioner involvement in filing the returns had a great deal of influence in their honest reporting and paying of the tax. Similarly, 36 (42.4%) respondents believed that an accountant's involvement in filing the returns had a great deal of influence in their honest reporting and paying of the tax. Respondents also acknowledged that the fear of paying more interest and penalties at a later stage should SARS detect that the information submitted is not correct had a great deal of influence in their honest reporting and paying of the tax.

The p-values for each statement were significant at either <1% or <10%. This means that there were significant differences in the scoring patterns of the respondents. Research by Osman (2011: 22) revealed that an increase of penalties could result in more tax compliance. Thus, fines and penalties make evading taxes more harmful to taxpayers; and should deter them from evasion. In contrast, the results of Alm (2013: 22) showed that taxpayers believed that fines and penalties were only a means used by the revenue authority to punish taxpayers, but it is not a way to foster compliance or non-compliance. Wadesango *et al.* (2018: 03) also revealed that SMEs were compelled to comply with tax laws because there was the fear of stiff tax penalties. Therefore, the more SARS imposes interest and penalties for non-compliance, the more the compliance of taxpayers.

4.10 SUMMARY

This chapter covered the presentation, analysis and discussion of the data gathered from the SMEs in the Durban area. The findings of this study were discussed and analysed in conjunction with the results of previous studies. The discussion in this chapter was aligned to the sections of the questionnaire that were used to gather the data from the participants in Durban and therefore aligned to the research objectives.

The discussion was first based on the background of the respondents and this indicated that all respondents were adequately qualified to comprehend and answer the questions in the questionnaire. The main characteristics of the respondents included gender, the form of ownership, number of years in operation, average yearly turnover, education level and qualification in taxation. Each research question was separately addressed in the discussion. A summary of the results for each research objective is shown in the next chapter.

The next chapter also provides the conclusion of the study by drawing on the discussion to make relevant recommendations on ways to improve the level of tax knowledge and tax compliance. In addition, the last chapter provides the limitations and contribution of this study and suggests further areas for research.

CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

In the previous chapter, the findings of the study were presented. This chapter presents the summary of the findings, conclusions and recommendations that emerged from the study.

5.2 SUMMARY OF STUDY

In Chapter One, the problem statement, research objectives as well as the rationale for the study were addressed. In Chapter Two, the literature review covered tax compliance, tax knowledge as well as factors attributable to tax compliance. Since most countries have moved to a SAS, the effect of an SAS on compliance was discussed together with challenges attributable to tax compliance. Chapter Three outlined the quantitative research design which was adopted for this study. A consent form accompanied by a covering letter, as well as a link to an online survey questionnaire was attached to an email and sent to selected SMEs in the Durban Chamber of Commerce database in Durban. The questionnaire comprised of three sections, each under a specific theme related to the topic. In Chapter Four, the empirical findings, using descriptive and inferential statistics, presented the data in the form of tables. These tables were then discussed in detail by drawing on relevant literature to support the findings.

5.3 FINDINGS FROM THE LITERATURE REVIEW

5.3.1 Tax knowledge

The existence of a greater knowledge will result in meeting tax commitments more accurately in a state tax system that is viewed as reasonable (Mckerchar 2015: 15). Thus, the tax knowledge possessed by taxpayers will influence their duty to meet their tax commitments and will influence the revenue received by the state.

Taxpayers' knowledge influences tax compliance which means the more informed taxpayers are, the more compliant they are in reporting taxes and vice versa (Mukhlis *et al.* 2015: 165). The more information the taxpayer has on the usefulness of taxes and the better the taxpayer understands taxes, the more obedient the taxpayer will be to settle his tax obligations. This is consistent with Saad (2014: 1072) who reveals that taxpayers' knowledge influences the tax mentalities towards the system of tax filing. Asrinanda (2018: 544) also confirmed that tax knowledge affects taxpayers in paying taxes.

Since the SAS imposes more accountability on the taxpayer in terms of filing requirements and computing the tax payable, SARS requires every taxpayer to provide full information about their income and deductions and to calculate the tax payable and make payments to SARS in accordance with the tax laws.

5.3.2 Relationship between tax knowledge and tax compliance

Tax knowledge is necessary for enhancing the compliance level and will also assist record keeping in businesses and in creating a conducive business environment which enables the business operators who are compliant to operate freely (Myeko and Madikane 2019: 03). Kicher (2013: 33) claimed that the reason why the tax compliance rate is low in Africa is due to lack of adequate tax knowledge and tax compliance is improved among business and individuals through the enhancement of tax knowledge.

Sapiei and Kasipillai (2013: 7) argued that using "more measures to provide tax knowledge to a greater part of the society assists in the prevention of tax evasion and results in the promotion of voluntary tax compliance". General tax knowledge is very important as a basis for understanding tax laws and regulations and to comply with them. Taxpayers' understanding of the tax laws shapes their disposition to comply. Many people find it difficult to understand the requirements contained in the tax laws, and their better level of implementation depends on the knowledge that a person has on tax knowledge Koster (2012: 55). This is because the law is viewed as being complex. Persons with a higher level of qualifications, in general, can interpret the tax laws in a better way and this influences their tax knowledge positively. The results of being unable to interpret tax law eventually leads to non-compliance.

5.3.3 Tax compliance

The main objectives for the introduction of a SAS were to encourage voluntary tax compliance, increase tax revenue collection and minimise the collection costs for the revenue authorities Sapiei and Kasipillai (2013: 75). Tax compliance is still regarded as one of the challenges for SARS and other tax authorities in different countries. The size and type of industry of the business are some of the factors that affect corporate tax compliance. Smaller companies have a greater opportunity to evade tax when compared to larger companies (Nur-Tegin 2010: 2).

There are two main theories of tax compliance, namely the economic theory of tax compliance and the psychological theory of tax compliance. The economic theory of tax compliance is

associated with economic motives such as tax rates, tax audits, probability of detection and profit maximisation. According to this theory, audits and enforcement of penalties for non-compliance should be increased to improve compliance (Palil 2010: 182). On the other hand, the psychological theory of tax compliance focuses on the attitudes towards tax compliance behaviour, which include taxpayers' morals and ethics (Jayawarden 2015: 7).

5.3.4 Complexity of the system

Tax complexity is viewed differently by accountants, tax lawyers and taxpayers. Tax laws in many countries often change, leading to instability and low transparency of the tax codes. This is especially the case in developing countries. Complex tax laws and frequent changes in tax codes confuse taxpayers and administrators alike, leading to opportunities for tax avoidance.

The complexity of tax laws makes it difficult for an ordinary taxpayer who is not a tax practitioner or expert to understand how the tax system works. Corporate taxpayers prefer simple tax laws to gain an easier understanding of taxation and easy preparation of tax returns. Simplifying tax laws in the SAS might encourage compliance among taxpayers, as these tax laws may be easier to interpret and understand, and so possibly taxpayers may be better able to declare their income and compute their tax liabilities correctly.

The complexity of the tax legislation poses a challenge through the creation of uncertainty in interpreting the tax legislation which affects the tax compliance level. Most business operators and other taxpayers make use of tax consultants and lawyers in preparing their tax returns due to a lack of adequate tax knowledge. This results in high compliance costs which may deter taxpayers from complying.

5.3.5 Tax compliance costs

Small businesses have a higher percentage of tax compliance costs as compared to larger businesses; thus, tax compliance costs influence the intention of SMEs to comply with tax laws and regulations (Smulders and Naidoo 2013: 35). High tax compliance costs can increase the level of tax evasion (Akinboade 2015: 395-396). There is an argument that small business can afford to pay tax specialists and even set up in-house tax departments (SME South Africa 2014: 01). The use of tax experts improves tax compliance; however, it increases the cost of compliance. Louw (2018:65) argues that more time is spent on compliance cost which could have been spent on improving the business operations. Maseko (2014: 29) stated that high

compliance costs could influence taxpayers to avoid tax and indirectly promote tax fraud and inhibit investment by way of reducing the competitiveness of the country in terms of taxation attractiveness.

SMEs often make various costly mistakes; these include inaccurate bookkeeping and expenditure on items which are not tax deductible (Marron 2014: 43). These mistakes can be overcome through several preventative measures, including hiring a capable bookkeeper, producing monthly cash flows plans and yearly business forecasts (Rahim 2015: 47). Several incentives have been initiated by the government to reduce the costs and time of preparing, filing and paying of taxes, however most small business owners are uninformed about the available incentives (Osebe 2013: 26). According to Marron (2014: 44), "high compliance costs disadvantage responsible small businesses, while the greater opportunity to underpay taxes advantages less responsible ones".

5.3.6 The use of efiling

Larger businesses are more likely to use efiling than smaller businesses (Keen 2013: 20). Competence in computer usage, knowledge and awareness of efiling and its processes is important for taxpayers (Keen 2013: 20). Technology is one of the factors that influence the acceptance of efiling and compliance among SMEs. Many taxpayers have positive experiences with efiling; however, many taxpayers still prefer going to the SARS offices to file their returns (Collen 2020: 02). Taxpayers require tax software, access to a computer, a reliable internet connection and tax knowledge to utilise efiling. Lack of understanding of the type of information required by the efiling system and the ability to use it causes taxpayers to engage third parties or ignore their tax obligations (Akinboade and Kinfack 2012: 935).

5.4 FINDINGS FROM THE QUESTIONNAIRE

The focus of the study was to assess the relationship between SMEs' tax knowledge and tax compliance of SMEs under the SAS in Durban. The specific objectives were:

- To establish the level of tax knowledge by the SME owners.
- To establish the barriers to tax knowledge.
- To establish the level of tax compliance of SMEs.
- To evaluate whether there is a relationship between SMEs' tax knowledge and tax compliance.

5.4.1 Tax knowledge

The first research objective was to establish the level of tax knowledge by the SME owners. Their level of knowledge was discussed according to their knowledge of their responsibilities, business income, turnover tax, payroll taxes, VAT and efiling.

5.4.1.1 Knowledge on taxpayer responsibilities

The findings from the study show that there was good knowledge of general taxpayer responsibilities. There were no significant relationships between the background variables of gender, level of education, and years of business in operation, business turnover, and the form of business ownership, taxation qualification, and knowledge of taxpayer general responsibilities. All taxpayers are required to know their taxpayer general responsibilities irrespective of their background characteristics (Palil 2010:65).

5.4.1.2 Business income

There was a poor level of knowledge on the expenses that should be deducted from the income to calculate business income. Belay and Viswanadham (2016: 629) argue that poor tax knowledge among business taxpayers may result in unintentional non-compliance. There was no association between gender, average turnover, educational qualification, and taxation qualification and the respondents' knowledge of business income. Regarding the years of business operation, a business that had been in operation for a longer length in time (15-19 years) had good knowledge of business income. In contrast, businesses that are still young (1-5 years), had poor knowledge of business income. The business form of ownership had a significant effect on tax knowledge. Azrina Mohd Yusof *et al*. (2014: 226) noted that although small start-up businesses may act in good faith, tax compliance is a burden to them.

5.4.1.3 Payroll taxes

There was poor knowledge of payroll taxes among many of the respondents and this may negatively affect the operations of their business. Payroll taxes are withheld by employers from the gross salary and are paid to SARS. This lack of knowledge could result in an incorrect declaration on EMP201 returns, which creates unnecessary audits and imposition of penalties by SARS. Knowledge on payroll taxes had no relationship with gender, the form of business ownership, and taxation qualification. On the other hand, the study found that those who have been longer in business have a better knowledge of payroll taxes when compared to those whose businesses are still new. As previously stated, the challenge start-up companies face in keeping up with the demands of tax may be linked to the poor payroll tax knowledge of the respondents whose businesses are still young. The possible reason for the poor knowledge on

payroll among many of the respondents with lower turnover may be attributed to their size and the number of years the business has been in operation.

5.4.1.4 Turnover tax

This study found that majority of the respondents had poor knowledge of turnover tax. One of the reasons could be that they are not aware that the turnover tax exists. The turnover tax system is one of the measures that were implemented by SARS to alleviate the tax burden (Labuschagne 2018:34). The level of tax compliance for SMEs could be affected if they are unaware of incentives made available to lessen the tax burden.

5.4.1.5 Value-added tax

Most of the respondents had a good knowledge of VAT. No relationships were measured between gender, the form of business ownership, and taxation qualification and the respondents' knowledge of business income, education qualification, and qualification on taxation. Regarding the influence of years of business and knowledge of VAT, both older and younger businesses had poor knowledge of VAT. This may be attributed to the fact that VAT eligibility in South Africa is linked to the turnover of the business.

5.4.1.6 Knowledge about efiling

The results revealed that many respondents were neutral in their opinions that efiling makes it easier and faster to submit tax returns. This implies that there are taxpayers who prefer to join the queues at the SARS branches to submit their returns instead of using efiling. Even though South Africa has moved to a SAS, more needs to be done to encourage taxpayers to use efiling when submitting tax returns. Collen (2020: 07) also argued that there should be measures implemented to increase the number of taxpayers using efiling.

5.4.2 Barriers to tax knowledge

The second research objective was to establish the respondents' opinions on the barriers to tax knowledge.

5.4.2.1 Barriers to tax knowledge

The study showed that it is believed that frequent changes on tax make it difficult to understand tax (complexity of tax laws). The reasons, that the 'Tax authority (SARS) does not provide enough seminars and workshops', and 'I am not aware of the tax workshops and seminars that are provided by SARS' indicated that there were barriers to tax knowledge. The results are in line with Falanni (2015: 22) who stated that the complexity of tax laws affects compliance because the managers or tax staff in a company will have to update their knowledge frequently

if there are amendments in the tax law and take more time to discuss and interpret the tax legislation. Kativhu (2019: 20) confirms that complexity of tax laws affects the operations of small businesses. This also indicates that SARS' intervention in providing tax knowledge through seminars and social media platforms may close the barriers to tax knowledge among the taxpayers. Shiya (2018: 68) recommended that the SARS' operations engagement should engage in frequent corporate taxpayer education, targeting small businesses.

5.4.2.2 Strategies to improve taxpayers' knowledge and compliance

The results indicated that interventions could be done to improve tax knowledge and close the barriers to tax knowledge. These interventions referred to public awareness campaigns by SARS on the importance of taxation, more use of social media platforms by SARS on the importance of taxation, and the introduction of tax education in secondary schools. According to Palil and Mustapa (2011: 26), taxpayers' awareness influences taxpayers' ability to pay taxes and submit returns, and the degree of discipline of taxpayers in making good on tax payments. The higher the awareness of taxpayers then the level of taxpayer compliance is also higher, and vice versa.

5.4.3 Tax compliance

The third research objective was to establish the level of tax compliance of SMEs.

The study found that most of the respondents were tax compliant. However, there is still more work to be done to ensure that the level of compliance is improved. The use of tax professionals and improvement in tax knowledge can be used to increase the level of compliance especially to those who were rated non-compliant. Smulders *et al.* (2012: 55) argued that until small business owners have gained the necessary expertise, tax compliance will still be an issue. Smulders *et al.* (2012) recommended that government should provide training and mentoring programmes free of charge to small businesses to assist them in becoming and remaining compliant.

5.4.3.1 Types of tax registration

With reference to the types of tax registration, the study found that the majority of the respondents are registered for income tax and provisional tax, but not for VAT, PAYE, UIF and the SDL. SARS has recently linked with CIPC. If a company registers with CIPC, it

automatically gets an income tax number from SARS. This has had an effect on the income tax registration for companies. It is compulsory that all businesses register for income tax and declare their income every year. They are required to submit income tax returns regardless of whether they have an income tax liability for the year of assessment or not. VAT and PAYE registrations are not compulsory, as there are requirements to be met before registration. PAYE, UIF and SDL registrations are compulsory when the business has full-time employees.

5.4.3.2 Reasons for default in submission of tax returns

The results showed the two main reasons for default in submitting tax returns, which were that they did not manage to submit the returns on time, and they did not know how to complete the returns. This implies that late submission is one of the factors that contribute to non-compliance. It may be that the business owners focus more on their business operations and end up not getting enough time to focus on compliance with SARS. On the other hand, those who do not know how to submit returns still require tax knowledge to improve their level of compliance. It is of vital importance to hire an accountant or tax practitioner to handle the bookkeeping and the submission of tax returns with SARS to ensure sustained tax compliance as they have a full understanding of tax laws (Mahomed 2013: 33).

5.4.3.3 What motivates compliance

The results showed that the motivating factors for compliance were the need for a tax clearance certificate and avoiding interest and penalties. The tax clearance certificate has a huge effect on business operations as a tax clearance certificate is necessary for businesses that rely on tenders and funding. Interest and penalties imposed due to non-compliance also encourages tax compliance, as no one would like to pay extra to SARS. The results agree Hendy (2013: 51) who suggested that interest and penalties established by the tax authorities are the major motivators of tax compliance.

5.4.3.4 Factors that influence compliance

The results revealed that most of the respondents agreed that the main factor that encouraged their compliance is the enforcement of interest and penalties. This has a positive effect on compliance because taxpayers will ensure that they declare and submit correct returns to avoid interest and penalties charged. The more the taxpayers are selected for audit, the more accurate information on the tax returns is captured and that leads to tax compliance. Aronmwan *et al*.

(2015: 92) argued that tax audits, fines and penalties are measures put in place by the relevant tax authorities to mitigate tax non-compliance.

5.4.3.5 The relationship between SMEs' level of tax knowledge and tax compliance

The fourth research objective was to evaluate whether there is a positive relationship between the level of SMEs' tax knowledge and tax compliance.

The results showed that there was no statistically significant relationship between the level of tax knowledge (measured using the components of knowledge of taxpayer responsibility, business income, payroll taxes, turnover tax, and VAT) and respondents' tax compliance. It was also found that the respondents believe that SARS' main area of focus when it comes to reporting and paying taxes correctly should be on high income earners and corporations. However, this may cause SMEs to not focus on their tax obligations if they believe that SARS should only focus on larger corporations.

5.5 LIMITATIONS OF THE RESEARCH

Within the limitations of the study, a constraint emerging is that the response rate was low. Only 28% of the planned sample size of 327 were analysed and presented. This may therefore limit the generalisability of the study findings. The researcher, therefore, takes cognisance of the small sample size and the effect it may have on the generalisability of the study outcome to the knowledge of tax laws and compliance among SMEs in Durban, South Africa. Another limitation emerging from the study is that the statistical analysis was simple and only the relationship between tax knowledge (measured using its components) was tested. Bearing this in mind, further studies could be structured in such a way as to enable more relationships to be tested. This will help enhance the quality of research findings in tax knowledge and compliance among SMEs in Durban, South Africa.

Obtaining an accurate list of SMEs in Durban proved problematic and the list of all enterprises registered with the DCC was used. Registration with the DCC is not legally required and therefore not all SMEs are included on the DCC's list. It was also necessary to use personal knowledge to try and eliminate enterprises which may not meet the criteria to be considered SMEs. As a result, the number of enterprises originally identified as SMEs may have inadvertently omitted some SMEs.

The questionnaire did not probe all criteria which may indicate that the respondent was an SME. Instead, judgement was used in the first instance to identify SMEs in the DCC's register, and thereafter, only the criterion of turnover was probed.

Survey research presents many limitations. Limitations of the survey approach used in this study are as follows:

- Questions concerning tax knowledge can be phrased in different ways. The approach used in this study was to give the respondents as opportunity to express that they were 'not sure' of the answer. It may have been better to provide a range of answers, and also to have given the respondents an opportunity to omit a response.

- The questionnaire asked respondents various questions concerning tax compliance. Business owners were asked if they had ever defaulted on their tax returns in order to get some indication of their compliance. This may be considered a sensitive area and respondents may not have answered this question truthfully as a result. Respondents were allowed to withdraw from the study at any time and, to some extent, allowing participants to withdraw may have mitigated the sensitive nature of any of the questions to which they may have objected to.

- Tax knowledge and tax compliance were measured using the self-reported perceptions of the SME taxpayers. As indicated above, due to the sensitivity of this topic, these measurements may not have been a true reflection of the tax knowledge and tax compliance of the SME taxpayers.

- The respondents may not have answered truthfully to the questions, and giving them the option to not answer certain questions may have had the effect of improving the response rate and the quality of their answers.

5.6 CONTRIBUTION OF THE RESEARCH

SME taxpayers need basic tax knowledge to understand tax systems. The study has shown how tax knowledge and tax complexity influences taxpayers' behaviour towards tax compliance. This could provide insight into SARS in implementing simplified tax legislation for SMEs. Establishing a link between tax knowledge and tax compliance is an under-researched area in South Africa and although no statistically significant relationship was found between tax knowledge and tax compliance, respondents supported the view that more education in tax matters should be provided by SARS. Based on the studies conducted in South Africa and in

other countries, there was a need for this study as only a few studies relating to this topic have been conducted in South Africa and no studies to date have been conducted in the Durban area.

The study also provides relevant information to SARS as it will be in a better position in understanding how proper training can be implemented and inform business owners about the specific types of education campaigns to initiate if the tax needs of SMEs owners are identified.

If SME taxpayers in South Africa are knowledgeable about tax, they will have more peace of mind knowing that their businesses, which earn their revenues from customers and clients who are also taxpayers, are adequately acquainted with requirements so that they are able to easily comply with their tax obligations.

5.7 RECOMMENDATIONS

The study's findings outlined some areas of improvement to increase the level of SMEs' tax knowledge and compliance in the Durban area. The following recommendations are therefore made to SARS and SMEs:

- The SARS' Branch Operations Engagement must target small businesses on frequent corporate taxpayer education. Corporate businesses have to comply with different taxes, which include income tax, PAYE, VAT etc., and complying with different tax types can be complex.
- SARS should implement more programmes to spread the news about tax knowledge and to create awareness about tax knowledge and compliance. Since most taxpayers were not aware of the education programmes provided by SARS, the YouTube channel and other social media platforms could be used to facilitate education programmes for SMEs.
- SARS should invest in promoting and motivating the use of efiling. Encouraging taxpayers to use efiling instead of visiting a SARS branch may improve the level of compliance.
- SMEs are encouraged to avail themselves for the education programmes and tax workshops provided by SARS and ensure that they seek knowledge on the tax incentives available to them.

- SARS should draft tax-related documents which are easy to read and understand for SMEs.

5.8 SUGGESTIONS FOR FURTHER RESEARCH

The following areas for future research are recommended:
- A study can be conducted with a bigger sample than that used in this current study.
- Using information collected from the same sample but in a future period may allow some inferences to be made as to whether tax knowledge and tax compliance, as self-reported by the same sample, has improved or not.
- A similar study could also be conducted in another geographical location involving a comprehensive survey of a larger population. The results could then be compared to this study's results.
- A study could investigate the quality and relevance of education provided to SMEs by SARS, focusing particularly on meeting the needs of SMEs for tax education.
- A similar study could be conducted in which the education level of SME owners is established with a focus on specific industries to get a deeper analysis of the causes of non-compliant behaviours in different sectors.

5.9 OVERVIEW OF STUDY

The study's purpose and objectives were indicated in Chapter One together with the research questions as well as the problem statement of the study. Although the results of the study did not show a statistically significant relationship between tax knowledge (measured using its components) and tax compliance, the study still provided useful information on the tax knowledge and barriers to tax compliance and provided recommendations to improve the tax knowledge of SMEs in Durban.

REFERENCES

Akinboade O.A. and Kinfack, E. 2012. Regulation, awareness, compliance and SME performance in Cameroon's manufacturing and retail sectors, *International Journal of Social Economics*. 39(12): 933-950. Available: https://doi.org/10.1108/03068291211269073 (Accessed 18 October 2018).

Akinboade, O.A. 2014. Understanding the tax compliance culture of private sector tax practitioners in South Africa. *Journal of Economics and Behavioral Studies, AMH International*, 6(3): 202-217.

Akinboade, O.A. 2015. Correlates of tax compliance of small and medium size businesses in Cameroon. *Managing Global Transitions*, 13 (4): 389–413. Available: https://ideas.repec.org/a/mgt/youmgt/v13y2015i4p389-413.html (Accessed 18 July 2016).

Alm, J. 2013. Why do people pay taxes? *Journal of Public Economics*, 48(1), 21-38.

Alm, J. and Torgler, B. 2011. Do ethics matter? tax compliance and morality. *Journal of Business Ethics*, 101, 635-651.

Al-Ttaffi, L.H.A., Bin-Nashwan, S.A., and Amrah, M.R. 2020. The influence of tax knowledge on tax compliance behaviour: A case of Yemeni individual taxpayers. *Journal of Business Management and Accounting,* 10(2), 15-30.

Anto, L., Husin, H., Hamid, W. and Bulan, C.N. 2021. Taxpayer awareness, tax knowledge, tax sanctions, public service accountability and taxpayer compliance. *Accounting,* 7(1): 49-58.

Anyaduba, J.O., Eragbhe, E. and Kennedy, P.M. 2012. Deterrent tax measures and tax compliance in Nigeria. *Journal of Business and Management*, 4(11): 99

Aronmwan, E.J., Imobhio, E. and Izedonmi, F. 2015. Determinants of personal income tax compliance: perception of Nigerian taxpayers. *Research Journal of Finance and Accounting*, 6(1): 81-99. Available: https://dx.doi.org/10.2139/ssrn.2619855 (Accessed 15 October 2019).

Asrinanda, Y.D. 2018. The effect of tax knowledge, self assessment system, and tax awareness on taxpayer compliance. *International Journal of Academic Research in Business and Social Sciences*, 8(10): 539–550.

Azrina Mohd Yusof, N., Ming Ling, L. and Bee Wah, Y. 2014. Tax non-compliance among SMCs in Malaysia: tax audit evidence. *Journal of Applied Accounting Research*, 15(2): 215–234. Available: https://doi.org/10.1108/JAAR-02-2013-0016 (Accessed 14 August 2019).

Babbie, E.R. 2010. *The Practice of Social Research*. Belmont, CA: Wadsworth.

Banking Association of South Africa (BASA). 2017. *Small business tax: what you need to know*. Available: http://www.banking.org.za/news-media/association-news/small-business-tax-what-you-need-to-know (Accessed 30 March 2018).

Baru, A. 2016. The impact of tax knowledge on tax compliance. *Journal of Advanced Research in Business and Management Studies*, 6(2), 22-30.

Belay, S.A. and Viswanadham, P. 2016. An assessment of business income taxpayers tax knowledge, tax complexity, and tax compliance : a case of Amhara Regional State of Ethiopia. the *International Journal of Science and Research*, 5 (5): 628–634. Available: https://www.ijsr.net/archive/v5i5/NOV163431.pdf (Accessed 15 March 2019).

Berger, T. 2011. Tax hangover or cure? Reforms for research and development tax incentives. *Australian Intellectual Property Law Bulletin [E]*, 24(2): 39–41.

Bhattacherjee, A. 2012. *Social Science Research: Principles, Methods, and Practices*. Textbooks Collection. 3. Available: http://scholarcommons.usf.edu/oa_textbooks/3 (Accessed 15 March 2019).

Bird, R.M. and Wallace, S. 2013. Is it really so hard to tax the hard-to-tax? The context and role of presumptive taxes: The context and role of presumptive taxes. *Andrew Young School of Policy Studies,* 15(16): 45-65. Available: https://www.researchgate.net/publication/24137637_Is_It_Really_so_Hard_to_Tax_the_Hard-to-Tax_The_Context_and_Role_of_Presumptive_Taxes (Accessed 19 February 2019).

Blumberg, B., Cooper, D.R. and Schindler, P.S. 2014. *Business Research Methods*. London: McGraw-Hill Higher Education.

Bornman, M. and Ramutumbu, P. 2019. A conceptual framework of tax knowledge, *Meditari Accountancy Research,* 27(6): 823-839.

Bowman, N.D. and Goodboy, A.K. 2020. Evolving considerations and empirical approaches to construct validity in communication science. *Annals of the International Communication Association*, *44*(3): 219-234.

Borrego, A.C., Loo, E., Lopes, C.M. and Ferreira, C M. 2015, Tax professionals' perception of tax system complexity: Some preliminary empirical evidence from Portugal. *e-Journal of Tax Research,* 13(1): 338–360.

Brough, P. 2018. *Advanced research methods for applied psychology: Design, analysis and reporting*. Routledge.

Bryman, A. 2015. *Social Research Methods,* 5th ed. Oxford: Oxford University Press.

Chimucheka, T. 2013. Overview and performance of the SMMEs sector in South Africa. *Mediterranean Journal of Social Sciences,* 4(14): 783–95.

Coe R, Waring M, Hedges L.V. and Arthur J. 2017. *Research Methods and Methodologies in Education*. London: SAGE Publications.

Collen, L. 2020. The impact of internet penetration on corporate income tax filing in South Africa, Ruhr Economic Papers, No. 861, ISBN 978-3-86788-998-8, RWI - Leibniz-Institut für Wirtschaftsforschung, Essen. Available: http://dx.doi.org/10.4419/8678899 (Accessed 15 January 2021).

Collins, H. 2010. *Creative Research*: *The Theory and Practice of Research for the Creative Industries*. Singapore: AVA Publications.

Coolidge, J. 2010. *Tax Compliance Cost Surveys: Using data to design targeted reforms. Investment Climate in Practice; No. 2-8*. World Bank, Washington, DC. Available: https://openknowledge.worldbank.org/handle/10986/10509 (Accessed 28 March 2019).

Creswell, J.W. and Clark, V.L.P. 2011. *Designing and Conducting Mixed Methods Research*. 2nd ed. Thousand Oaks, CA.: SAGE Publications.

Cuccia, A. 2013. The economics of tax compliance: What do we know and where do we go? *Journal of Accounting Literature*, 13: 81-116.

Cui, W. 2017. Taxation without information: The institutional foundations of modern tax collection. *University of Pennsylvania Journal of Business Law*. 20(1) 93-146. Available: http://dx.doi.org/10.2139/ssrn.2927482 (Accessed 15 May 2019).

Dare, C. 2018. Tax Revenue Mobilisation: Improving Personal Income Tax Compliance in South Africa. DCom., University of Stellenbosch.

Davis Tax Committee (DTC). 2014a. *Small and medium enterprises: Taxation considerations: Interim report*. Available: http://www.treasury.gov.za/TaxReviewCommittee/ DTC%20SME%20Report%20for%20Public%20Comment%2014%20July%202014.pdf (Accessed: 15 June 2019).

Davis Tax Committee (DTC). 2014b. *Addressing Base Erosion and Profit Shifting in South Africa.* Available: https://www.taxcom.org.za/docs/New_Folder/1%20DTC%20BEPS%20Interim%20Report%20-%20The%20Introductory%20Report.pdf (Accessed: 27 June 2019).

Department of Small Business Development (DSBD). 2016. *Department of Small Business Development on its 2016 Strategic and Annual Performance Plan*. Available: https://pmg.org.za/committee-meeting/22207/ (Accessed 28 March 2019).

Edward, K.S. and Ambrose, J. 2017. Impact of online tax filing on tax compliance among SMEs in Kibuezi in sub country in Kenya. *International Journal of Current Research*, *9*(1): 45196-45206. Available: http://www.ku.ac.ke/schools/business/images/stories/research/impact-of-online-tax-filing-on-SMES.pdf (Accessed 19 February 2019).

Eichfelder, S. and Schorn, M. 2012. Tax compliance costs: A business-administration perspective. FinanzArchiv/Public Finance Analysis, 68(2), 191–230. Available: https://doi.org/10.1628/001522112X639981 (Accessed 12 March 2019)

Engida, T. and Baisa, G. 2014. Factors influencing taxpayers' compliance with the tax system: An empirical study in Mekelle City, Ethiopia. *E journal of Tax Research*, 12(2): 433-452.

Falanni Z. 2015. Determinants of Corporate Taxpayer Compliance Behaviour: A Study Case at Duren Sawit Small Tax Office in Indonesia. MA in Development Studies, Institute of Social Studies, Erasmus University, Rotterdam.

Fan, W. and Yan, Z. 2010. Factors affecting response rates of the web survey: A systematic review. *Computers in Human Behavior, 26*(2): 132–139. Available: https://doi.org/10.1016/j.chb.2009.10.015 (Accessed 19 March 2019).

Finlay, A. 2012. Introduction to Basic Research Methods Handout. (Online). Available: http://www.itrainonline.org/itrainonline/mmtk/ (Accessed: 21 January 2019).

Fauziati, P. and Kassim, A.A.M. 2018. The effect of business characteristics on tax compliance costs. *Advanced Science Letters*, 24(6): 4377-4379. Available: https://doi.org/10.1166/asl.2018.11608 (Accessed 21 January 2019).

Fox, W.F. and Murray, M. 2013. Taxing the Small: Fostering Tax Compliance Among Small Enterprises in Developing Countries. Andrew Young School of Policy Studies, Georgia State University. Available:

http://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1040&context=icepp (Accessed 01 August 2018).

Griffin, K.A and Museus, S.D. 2011. *Using Mixed Methods to Study Intersectionality in Higher Education.* Hoboken, NJ.: John Wiley and Sons

Gupta, R. 2015. Relational impact of tax practitioners' behavioural interaction and service satisfaction: Evidence from New Zealand. *eJournal of Tax Research*, 13 (1): 76-107. Available: https://www.researchgate.net/publication/281893575_Relational_impact_of_tax_practitioner' behavioural_interaction_and_service_satisfaction_Evidence_from_New_Zealand (Accessed 28 June 2019).

Guthrie, G. 2010. *Basic Research Methods: An Entry to Social Science Research.* Thousand Oaks, CA: SAGE Publications.

Gwaro, O.T., Maina, K. and Kwasira, J. 2016. Influence of online tax filing on tax compliance among small and medium enterprises in Nakuru Town, Kenya. *IOSR Journal of Business and Management*, 18(10): 82-92.

Gherghina, S.C., Botezatu, M.A., Hosszu, A. and Simionescu, L.N. 2020. Small and Medium-Sized Enterprises (SMEs): The Engine of Economic Growth through Investments and Innovation. *Sustainability*, 12(1): 347.

Hair, J.F., Ringle, C.M. and Sarstedt, M. 2011. PLS-SEM: Indeed a silver bullet. *Journal of Marketing theory and Practice,* 19**,** 139-152.

Heale, R., and Twycross, A. 2015. Validity and reliability in quantitative studies. *Evidence Based Nursing,* 18(3): 66–67. Available: https://www.researchgate.net/publication/280840011_Validity_and_reliability_in_quantitative_research (Accessed 15 May 2018).

Hendy, P. 2013. Threats to small and medium sized enterprises from tax and other regulations. In: the Australian Taxation Studies Program Small Business Tax Symposium, Developing Good Tax Policies for SMEs, Sydney.

Jayawarden, D. 2015. Psychological factors affect tax compliance. *International Journal of Arts and Commerce*, 4(6), 1-11.

Johnson, B. and Christensen, L.B. 2012. *Educational Research: Quantitative, Qualitative and Mixed Approaches*. Thousand Oaks, CA.: Sage Publications

Junpath, S.V. 2013. Multiple Tax Amnesties and Compliance in South Africa. M.Tech, Durban University of Technology.

Junpath, S.V., Kharwa, M.S.E. and Stainbank, L.J. 2016. Taxpayers' attitudes towards tax amnesties and compliance in South Africa: An exploratory study. *South African Journal of Accounting Research*, 30(2): 97–119.

Kasipillai, J. 2010. *A Practical Guide to Self-Assessment System.* Kuala Lumpur: McGraw-Hill.

Kassim, M. 2013. Taxpayer attitude towards taxation in developing countries. *Journal of Accounting,* 10(1): 45-65.

Kativhu, S. 2019. Criteria for measuring resilience of youth-owned small retail businesses in selected rural areas of Vhembe District, South Africa. PhD. University of Venda.

Keen, M. 2013. Taxing micro, small- (and medium-) sized enterprises. In: IMF-Japan High-Level Tax Conference, Tokyo.

Khalizatul, P. 2012. A study in tax compliance on self-assessment among academicians in Kota, Kinabalu. Masters thesis, Universiti Malaysia Sabah.

Kiri, N. 2016. Factors affecting tax evasion. *International Journal of Economics, Commerce and Management*, 4(2): 804-811.

Kirk, J. and Miller, M.L. 2011. *Reliability and Validity in Qualitative Research*. Thousand Oaks, CA.: SAGE Publications.

Kicher, E. 2013. *The Economic Psychology of Tax Behaviour.* Cambridge: Cambridge Press.
Koster, L. 2012. Incorporating of Basic Tax Education in the Secondary School Curriculum. M.Com Taxation., University of Pretoria.

Krippendorff, K. 2013. *Content Analysis - An Introduction to its Methodology.* 3rd ed. Thousand Oaks, CA.: SAGE Publications.

Kumar, R. 2014. *Research Methodology.* 4th ed. London: SAGE Publications

Lai, M.L. and Choong, K.F. 2010. Motivators, barriers and concerns in adoption of electronic filing system: survey evidence from Malaysian professional accountants. *American Journal of Applied Sciences,* 7(4):562–567. Available: doi: 10.3844/ajassp.2010.562.567 (Accessed 25 March 2020).

Labuschagne, D. 2018. An analysis of the turnover tax relief available to micro-enterprises in the North-West Province. Master's Dissertation. Potchefstroom: North-West University.

Leedy, P.D. and Ormrod, J.E. 2010. *Practical Research*. 9th ed. Upper Saddle River, NJ: Merrill.

Leedy, P.D. and Ormrod, J.E. 2013. *Practical Research: Planning and Design.* 10th ed. Upper Saddle River, NJ: Merrill.

Le, H., Tuyet, V., Hanh, C. and Do, Q.H. 2020. Factors Affecting Tax Compliance among Small- and Medium-sized Enterprises: Evidence from Vietnam. *The Journal of Asian Finance, Economics and Business*, 7(7): 209–217.

Lekhanya, L.M. 2015. Public outlook on small and medium enterprises as a strategic tool for economic growth and job creation in South Africa. *Journal of Governance and Regulation*. 4(4): 412 – 418.

Letsoalo, S. 2014. Challenges faced by tax compliant microenterprises in Midrand. PhD. University of the Witwatersrand. Available: http://wiredspace.wits.ac.za/bitstream/handle/10539/18127/Challenges%20faced%20by%20tax%20compliant%20microenterprises%20in%20midrand%2c%20SL%20Letsoalo%2c%20697176.pdf?sequence=1&isAllowed=y (Accessed 28 October 2019).

Lewis, A., Webley, P. and Furnham, A. 2013. *The New Economic Mind: The Social Psychology of Economic Behavior*. New York: Harvester.

Li, C.H. 2016. Confirmatory factor analysis with ordinal data: Comparing robust maximum likelihood and diagonally weighted least squares. *Behavior Research Methods.* 48(3): 936-949.

Lodico, M.G., Spaulding, D.T. and Voegtle, K.H. 2010. *Methods in Educational Research: Theory to Practice.* San Francisco, CA: Wiley & Son.

Lukwata, M.H. 2011. The influence of electronic tax filing system on tax compliance and tax collection. BCom, Makerere University. Available: http://text.123doc.org/document/3373708-the-influence-of-electronic-tax-filing-system-on-tax-compliance-and-tax-collection.htm (Accessed 11 July 2018).

Lunani, G., Ayuma, C. and Tanui, E. 2019. Effect of online taxpayer registration on tax compliance of small and medium enterprises in Eldoret Town. *Kenya Global Journal of Advanced Research*, 6(10): 324-333.

Mahomed, R. 2013. Understanding the role of the tax practitioner within the taxpayer and tax practitioner relationship. M.Com Taxation., University of Pretoria.

Manhire, J. 2015. What Does Voluntary Tax Compliance Mean? A Government Perspective. 164 University of Pennsylvania Law Review, Online 11 (2015), Texas A&M University School of Law Legal Studies Research Paper No. 16-58, Available: https://ssrn.com/abstract=2601613 (Accessed 28 October 2019).

Maposa, H. 2016. The perception of tax practitioners relating to the influence of the tax administration act on taxpayers' tax compliance behaviour in South Africa. Master of Philosophy: Accounting Science with specialization in Taxation, University of South Africa. Available:
http://uir.unisa.ac.za/bitstream/handle/10500/21794/dissertation_maposa_h.pdf?sequence=1&isAllowed=y (Accessed 28 October 2019)

Marchbank, N. 2012. Analysing the taxation legislation in South Africa applicable to sole proprietors and comparison to other countries' taxation regimes. Magister Commercii, University of Johannesburg.

Marlow, C.R. 2010. *Research Methods for Generalist Social Work*. Boston, MA.: Cengage Learning.

Marron, D.B. 2014. Tax Issues Facing Small Business. Testimony before the Small Business Committee, United States House of Representatives, April 9. Available: https://www.urban.org/sites/default/files/publication/23071/904621-Tax-Issues-Facing-Small-Business.PDF.

Mascagni, G. and Santoro, F. 2018. What is the role of taxpayer education in Africa? (April 1, 2018). *ICTD African Tax Administration Paper 1*. Available: https://ssrn.com/abstract=3258475 (Accessed 20 July 2019).

Masarirambi, C. 2013. An investigation into factors associated with tax evasion in the Zimbabwe informal sector: A survey of Mbare Magaba informal traders. PhD thesis. Zimbabwe Open University, Harare.

Maseko, N. 2014. The impact of personal tax knowledge and compliance costs on tax compliance behaviour of SMEs in Zimbabwe. *Elite Research Journal of Accounting and Business Management*, 2(3), 26–37.

Mas'ud, A. 2014. Tax complexity and tax compliance in African self-assessment environment. *International Journal of Management Research & Review*, 4(5): 3-5. Available: http://works.bepress.com/abdulsalam_masud/6/ (Accessed 20 July 2016).

Matarirano, O., Chiloane-Tsoka, G.E. and Makina, D. 2019. Tax compliance costs and small business performance: evidence from the South African construction industry. *South African Journal of Business Management,* 50(1):1–9. Available: doi: 10.4102/sajbm.v50i1.336 (Accessed: 15 August 2020).

Mwangi, P.C.N. 2014. Factors influencing tax compliance among small and medium enterprises in Nairobi's industrial area. Doctoral dissertation, University of Nairobi.

Mazansky, E. 2016. Taxpayers' Hands Tied Over Assessment Anomalies. Available: http://dev2.marketsonline.co.za/werksmans-main/virt_media/taxpayers-hands-tied-over-assessment-anomalies-ernest-mazansky-director/ (Accessed 19 August 2016).

McGee, R.W., Yanira, P. and Adriana, M.R. 2012. How serious is tax evasion? A survey of Mexican opinion. In *The Ethics of Tax Evasion.* New York: Springer.

McKerchar, M. and Hansford, A. 2015. Achieving innovation and global competitiveness through research and development tax incentives: Lessons for Australia from the UK. *Australian Tax Forum*, 27(1): 3-23.

Modugu, K.P. and Anyaduba, J.O. 2014. Impact of tax audit on tax compliance in Nigeria. *International Journal of Business and Social Science*, 5(9): 207-215.

Mogeni, E.D. 2014. The effects of compliance cost on tax compliance of companies listed at the Nairobi securities exchange. MBA. University of Nairobi. Available: http://erepository.uonbi.ac.ke/bitstream/handle/11295/75878/Mogeni_The%20effects%20of%20compliance%20cost%20on%20tax%20compliance%20of%20companies.pdf?sequence=3 (Assessed 28 October 2019).

Mongwaketse, P.B. 2015. Perceived effects of an electronic filing system on tax compliance in a district municipality, South Africa. Master of Business Administration, North-West University**.**

Morton, S. Bandara, D.K., Robinson, E.M. and Poll, A. 2012. In the 21st century, what is an acceptable response rate? *Australian and New Zealand Journal of Public Health*, 36(2). Available:

https://www.researchgate.net/publication/223968969_In_the_21st_Century_what_is_an_acce ptable_response_rate (Accessed 28 August 2019).

Mungwana-Zake, E.N. 2018. Perceptions of informal traders towards taxation in Buffalo City Municipality. Masters dissertation. Johannesburg: University of the Witwatersrand.

Muhammad, Z. 2010. Small and medium enterprises (SMEs) competing in the global business environment: A case of Malaysia. *International Business Research*, 3(1): 66-75.

Mukhlis, I., Utomo, S.H., and Soesetio, Y. 2015. The role of taxation education on taxation knowledge and its effect on tax fairness as well as tax compliance on handicraft SMEs sectors in Indonesia. *International Journal of Financial Research*, 6(4): 161-187. Available: https://doi.org/10.5430/ijfr.v6n4p161 (Accessed 25 January 2019).

Muturi, H.M. and Kiarie, N. 2015. Effects of online tax system on tax compliance among small taxpayers in Meru County, Kenya. *International Journal of Economics, Commerce and Management*, III (12): 280-297.

Mugo, F.W. 2011. *Sampling in Research*. (Online). Available: http://www.serprofessoruniversitario.pro.br/m%C3%B3dulos/metodologia-dapesquisa/sampling-research (Accessed: 22 January 2019).

Naicker, Y., and Rajaram, R. 2019. Factors that influence tax compliance of SMEs in South Africa. *Acta Universitatis Danubius. Administratio*, 10(2). Available: http://journals.univ-danubius.ro/index.php/administratio/article/view/5616 (Accessed 28 January 2021).

Ndlovu, M. 2015. A comparative study on the tax compliance burden and tax incentives for SMMEs in South Africa. M.Com (Taxation), University of the Witwatersrand.

Nghaamwa, O. 2011. The factors influencing attitudes of Namibian taxpayers towards taxation. M.Com (Taxation), University of Pretoria.

Ngibe, M. and Lekhanya, L.M. 2019. Innovative leadership in South African manufacturing small medium enterprises within KwaZulu-Natal. *Journal of Contemporary Management,* 16(2), 300–330.

Ngigi, M.B. 2015. The effect of integrated tax management system on tax compliance by small and medium enterprises in the Central Business District, Nairobi County. Master of Science in Finance, University of Nairobi.

Nguyen, T.T.D., Pham, T.M.L., Le, T.T., Truong, T.H L., and Tran, M.D. 2020. Determinants influencing tax compliance: The case of Vietnam. *Journal of Asian Finance, Economics and Business*, 7(2), 65–73.

Normatov, B. 2020. Legal nature of tax audits in Uzbekistan and foreign countries. *The American Journal of Social Science and Education Innovations*, 02, 418-442.

Nur-Tegin, K.D. 2010. Determinants of business tax compliance. *The BE Journal of Economic Analysis and Policy*, 8(1): 1-28.

Ohms, C., Olesen, K., and Khin-Carter, N. 2015. Taxpayer compliance models: A literature review and critique. *New Zealand Journal of Taxation Law and Policy*, 21 (4), 427-461.

Oladipupo, A.O. and Obazee, U. 2016. Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. *Scientific Research Publishing Inc*, 8(1):1–9. Available: doi: 10.4236/ib.2016.81001.

Olaoye, C.O., Ayeni-agbaje, A.R. and Alaran-ajewole, A.P. 2017. Tax information, administration and knowledge on taxpayers' compliance of Block Moulding Firms in Ekiti State. *Journal of Finance and Accounting*, 5(4): 131–138.

Olla, R. 2016. A discussion of the tax burden on SMEs in South Africa. Doctoral thesis, North-West University.

Osebe, R. 2013. An analysis of factors affecting tax compliance in the real estate sector in Kenya: a case study of real estate owners in Nakuru Town. *Journal of Emerging Issues in Economics, Finance and Banking,* 1(4), 7–9.

Osman, F.S. 2011. Tax amnesty with effects and effecting aspects: Tax compliance, tax audits and enforcement. *International Journal of Business and Socials science*, 2(7): 67-87.

Palil, M.R. 2010. Tax knowledge and tax compliance determinants in self-assessment system in Malaysia. M.Tech., University of Birmingham. Available: https://core.ac.uk/download/pdf/76107.pdf (Accessed 19 August 2019).

Palil, M.R. Akir, M.R.M. and Ahmad, W.F.B. 2013. The perception of taxpayers on tax knowledge and tax education with level of tax compliance: A study the influences of religiosity, *ASEAN Journal of Economics, Management and Accounting*. Available: http://fem.ipb.ac.id/miicema/e-journal2/wp-content/uploads/2015/09/8.pdf (Accessed 15 July 2016)

Palil, M.R. and Mustapha, A.F. 2011. Determinants of tax compliance in Asia: A case of Malaysia. *European Journal of Social Sciences*, 24(1): 8-32.

Palil, M.R. and Mustapha, A.F. 2011. Factors affecting tax compliance behaviour in self-assessment system. *African Journal of Business Management*, *5*(33): 12864-12872.

Pancawati, H. and Nil. Y. 2011. The factors that influence the willingness to pay the tax. *Dinamika Keuangan dan Perbankan.* 3(1): 126-142.

Polit, D.F. and Beck, C.T. 2010. *Essentials of Nursing Research: Appraising Evidence for Nursing Practice*. 7th Ed. Philadelphia: Wolters Kluwer Health/Lippincott Williams & Wilkins.

Pallant, J. 2016. *SPSS Survival Manual: A step by step guide to data analysis using IBM SPSS.* 6th ed. Berkshire: McGraw-Hill Education.

Pretorius, M.M. 2015. South African small business' taxation registration compliance. Master of Accounting Science, University of South Africa.

Puspita, A.F., Subroto, B. and Baridwan, Z. 2016 The analysis of individual behaviour of corporate taxpayers' obedience: Tax compliance model (study of hotels in Malang and Batu), *Review of Integrative Business and Economics Research*, 5(3): 135−160.

Rahim, A. 2015. A comparative study of South African small business corporation tax and turnover tax. MCom., University of South Africa.

Ramharak, S. 2016. The tax education needs of SME business owners in the construction industry. MCom., University of Pretoria.

Richardson, G. 2016. Determinants of tax evasion. *Journal of International Accounting*, 6(8): 23-65.

Saad, N. 2012. Fairness perceptions and compliance behaviours: New Zealand evidence. *New Zealand Journal of Taxation Law and Policy,* 17(1), 33-82.

Saad, N. 2014. Tax knowledge, tax complexity and tax compliance: Taxpayers' view, *Procedia - Social and Behavioural Sciences,* 109: 1069-1075.

Salehi, M., Khazaei, S. and Tarighi, H. 2019. Tax avoidance and corporate risk: Evidence from a market facing economic sanction country. *Journal of Asian Finance, Economics and Business*, 6(4), 45-52.

Sapiei, N.S. and Kasipillai, J. 2013. Impacts of the self-assessment system for corporate taxpayers. *American Journal of Economics*, 3(2): 75–81. Available: doi: 10.5923/j.economics.20130302.03.

Saunders, M., Thornhill, A. and Lewis, P. 2012. *Research Methods for Business Students*. 6th ed. Boston: Pearson Education Ltd.

Savitri, E. and Musfialdy, M. 2016. The effect of taxpayer awareness, tax socialization, tax penalties, compliance cost at taxpayer compliance with service quality as mediating variable. *Procedia - Social and Behavioral Sciences,* 219: 682–687. Available: https://doi.org/10.1016/j.sbspro.2016.05.051 (Accessed 28 October 2019).

Scholtz, A. and Gravenorst, C. 2019. Deloitte Africa Tax & Legal. The tax compliance burden for small and medium term enterprises (SMEs), Available: https://www2.deloitte.com/content/dam/Deloitte/za/Documents/tax/AntheaScholtz_ClaudiaGravenorst_The_tax_compliance_burden_for_small_and_medium_term_enterprises.pdf (Accessed June 28, 2020).

Schutte, D., Labuschagne, D., Georgescu, M.A. and Pop, C. 2019. An evaluation of the turnover tax system in South Africa. *Theoretical and Applied Economics*, XXVI 3(620): 59-70.

Sekaran, U. and Bougie, R. 2010. *Research Methods for Business: A Skill Building Approach*. 5th ed. West Sussex: John Wiley and Sons Ltd.

Sekaran, U. and Bougie, R. 2013. *Research Methods for Business.* 6th ed. West Sussex: John Wiley & Sons Ltd.

Sekaran, U. and Bougie, R. 2016. *Research Methods for Business: A Skill Building Approach.* 7th *ed*. New York: John Wiley and Sons Ltd.

Shiya, M.S. 2018. Investigating the relationship between tax information availability and tax compliance of SMMEs in the Kroonstad area. MBA, North-West University.

Scholtz, A. and Gravenorst, C. 2019. Personal Taxes –The fragile state of South Africa's golden goose. Available:

 https://www2.deloitte.com/content/dam/Deloitte/za/Documents/tax/za-The-fragile-state-of-South-Africas-golden-goose-A-Scholtz-C-Gravenorst.pdf (Accessed 15 May 2021).

SME South Africa. 2018. *SME landscape report, An Assessment of South Africa's SME Landscape.* South Africa: SME South Africa. Available: https://www.smallbusinessinstitute.co.za/wpcontent/uploads/2019/12/AssessmentOfSAsSME Landscape.pdf (Accessed 15 June 2020).

SME South Africa. 2014. *The Real Cost of Tax Compliance for Small Businesses.* Available: https://smesouthafrica.co.za/The%C2%A0real+cost+of+tax+compliance+for+small+busin (Accessed 16 August 2020).

Smulders, S.A. 2013. An evaluation of tax compliance costs and concession for small businesses in South Africa – establishing a baseline. PhD University of Pretoria. Available: https://repository.up.ac.za/handle/2263/37105 (Accessed 28 October 2019).

Smulders, S. and Naidoo, G. 2013. Addressing the small business tax compliance burden – Evidence from South Africa. *Journal of Economic and Financial Sciences*, 6(62): 263–84.

Smulders, S., Stiglingh, M., Franzsen, R. and Fletcher, L. 2012. Tax compliance costs for the small business sector in South Africa - establishing a baseline. *eJournal of Tax Research,* 10(2): 184–226.

South Africa. 1962. Income Tax Act, No. 58 of 1962. Government Gazette, Extraordinary: 1 189. (Online) Available: https://www.gov.za/documents/income-tax-act-29-may-1962-0000 (Accessed 12 November 2019).

South Africa. 1996. National Small Business Act, No. 102 of 1996. Government Gazette, 17612: 1-20 (Online) Available: https://www.gov.za/documents/national-small-business-act (Accessed 12 November 2019).

South Africa. 2012. National Development Plan 2030: Executive Summary. (Online) Available: https://www.gov.za/sites/default/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf (Accessed 17 June 2019).

South African Revenue Service (SARS). 2012. South African tax system. (Online). Available: http://www.sars.gov.za/home.asp?pid=208 (Accessed: 24 September 2019).

Republic of South Africa. 1997. South African Revenue Service Act (Notice 34 of 1997). Government Gazette number 18257: 5 September. (Online). Available: http://www.info.gov.za/view/DownloadFileAction?id=70780 (Accessed: 29 November 2019).

Sugunro, O.A. 2002. Selecting a quantitative or qualitative research methodology: An experience. *Educational Research Quarterly*, 26(1): 3-10.

Swain, J. 2017. *Designing Research in Education: Concepts and Methodologies*. London: SAGE Publications.

Swistak, A. 2016. Tax penalties in SME tax compliance. *Financial Theory and Practice*, 40(1): 129-147. Available: http://www.fintp.hr/upload/files/ftp/2016/1/swistak.pdf (Accessed 16 August 2019).

Tanko, M.B. 2015. Tax law enforcement: Practice and procedure. *Research Journal of Finance and Accounting*. 6(7): 143-147

Tavakol, M. and Dennick, R. 2011. Making sense of Cronbach's Alpha. *International Journal of Medical Education,* (2): 53–55. Available: https://www.researchgate.net/publication/270820426_Making_Sense_of_Cronbach's_Alpha (Accessed 28 October 2019).

South Africa. 2011. Tax Administration Act, No. 28 of 2011.

Tedds, L.M. 2010. Keeping it off the books: An empirical investigation of firms that engage in tax evasion. *Applied Economics,* 42(19): 2459-2473.

Tee, E., Boadi, L.A., and Opoku, R.T. 2016. The effect of tax payment on the performance of SMEs: The case of selected SMEs in Ga West Municipal Assembly. *European Journal of Business and Management*, 8(20): 119–125.

Tyler, T.R. 2012. The psychology of legitimacy: A relational perspective on voluntary deference to authorities. *Personality and Social Psychology Review*, 4(1), 323-345.

Ulph, D. 2013. *Measuring Tax Complexity*. Available: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193497/ots_david_ulph_measuring_tax_complexity.pdf.(Accessed 15 August 2019).

Venter, J.M.P., De Clercq, B., Swanepoel, A., Posthumus, L.C., Doussy, E., Heyns, A. and Van Aardt, C.J. 2010. Uncovering the possible tax gap in South Africa. Paper presented at the Southern African Accounting Association North Gauteng Regional Conference, South Africa. Available: http://uir.unisa.ac.za/bitstream/handle/10500/3894/Conference%20Proceedings.pdf? sequence=1 (Accessed: 15 November 2019).

Venter, J.M.P. and Pretorius, M.M. 2013. Factors influencing South African small business value-added tax registration compliance. Proceedings of the Southern African Accounting Association Biennial International Conference, June 26-28.

Voorhees, C.M., Brady, M.K., Calantone, R. and Ramirez, E. 2016. Discriminant validity testing in marketing: an analysis, causes for concern, and proposed remedies. *Journal of the Academy of Marketing Science.* 44(1): 119-134.

Wadesango, N., Mutema, A., Mhaka, C. and Wadesango, V.O. 2018. Tax compliance of small and medium enterprises through the self-assessment system: issues and challenges. *Academy of Accounting and Financial Studies Journal* 22(3): 1528–2635.

Wahl, I., Kastlunger, B. and Kirchler, E. 2010. Trust in authorities and power to enforce tax compliance: An empirical analysis of the "Slippery Slope Framework". *Law and Policy*: 32(4), 383-406.

White, T.L. and McBurney, D.H. 2012. *Research Methods.* 9th ed. Halfway House: International Thomson Publishing.

Williams, C.C. and Horodnic, I.A. 2016. Cross-country variations in the participation of small businesses in the informal economy: an institutional asymmetry explanation. *Journal of Small Business and Enterprise Development*, 23(1): 3-24.

APPENDIX A: COVERING LETTER

Faculty Research Office
Durban University of Technology

Date: 26 June 2019

Dear Participant

I am studying towards M. Acc degree in Taxation (Master in Accounting specialising in Taxation) at the Durban University of Technology. The title of my research is: The impact of tax knowledge on compliance in a self-assessment tax system: A case study of small and medium-sized enterprises in Durban.

Please complete the attached questionnaire to enable me to gather data for my research. The information you provide will be kept strictly confidential. Only my research supervisor and I will have access to the completed questionnaires. Please be assured that you will remain completely anonymous throughout the research process and in any reporting or write-ups related to my research.

Thank you very much.

Name: Nompumelelo
Precious Sithebe
Student No: 21031556
Address: 163 Botanic House, Botanic Gardens Road, Durban
Tel No.: (H) 079 9942567
      (Cell) 0730749930
(Email): precious.nompumelelo3@gmail.com

Prof. L Stainbank
Research Supervisor

APPENDIX B: LETTER OF INFORMATION AND CONSENT

LETTER OF INFORMED CONSENT

Dear Participant

Thank you for agreeing to participate in this research study entitled: *The impact of tax knowledge on compliance in a self-assessment tax system: A case study of small and medium-sized enterprises in Durban.*

The aim of this study is to investigate whether the offering of multiple tax amnesties by government will have an effect on tax compliance. The purpose of this research is to examine the impact of tax knowledge on tax compliance in the self-assessment system.

This study will make recommendations on ways to improve voluntary compliance, contribute to the literature in the area of tax knowledge and its influence on tax compliance.

The researcher undertakes to assure you of the following:

- to maintain your confidentiality
- to protect your rights and welfare, i.e. to ensure that no harm comes to you as a result of your participation in this research;
- to present information and transcripts used in this research in such a way as to maintain your dignity, and if in doubt to first consult with you; and
- to make available to you the final copy of this research publication
- you are free to withdraw from this research at any time, if the need should arise
- no manipulation or withholding of information is involved in this study
- It is intended that the findings of this research study shall also serve as guide for other researchers and institutions in their quest to evaluate and gain additional knowledge in this subject.

Thank you for volunteering to add to a body of academic knowledge in Taxation.

Yours sincerely

_____
N.P Sithebe
MTech: Taxation
Student No: 21031556

I, _____ (participant's name), agree to participate in this study, to add to the body of academic knowledge in Taxation.

Participant's signature_____   Date_____

APPENDIX C: GATEKEEPER'S LETTER/LETTER OF PERMISSION

DURBAN CHAMBER OF COMMERCE AND INDUSTRY NPC
EST 1856

27 September 2019

Nompumelelo Precious Sithebe

Durban University of Technology

Durban

4001

Dear Nompumelelo

RE: PERMISSION TO CONDUCT RESEARCH

This letter serves to confirm that the Durban Chamber of Commerce and Industry hereby acknowledges and approves the research to be conducted through the Durban Chamber of Commerce and Industry for the completion of Nompumelelo's Master in Accounting: *The impact of tax knowledge in compliance in a self- assessment tax system: A case study of small and medium-sized enterprises in Durban.*

Please note that the data collected must be treated with due confidentiality and anonymity. This information is also provided by the Durban Chamber of Commerce and Industry on the condition that a copy of the final research output will be given to the Chamber for its information purposes.

Yours faithfully

Yolan Nagoor

Manager: Policy and Advocacy

APPENDIX D: ETHICAL CLEARANCE
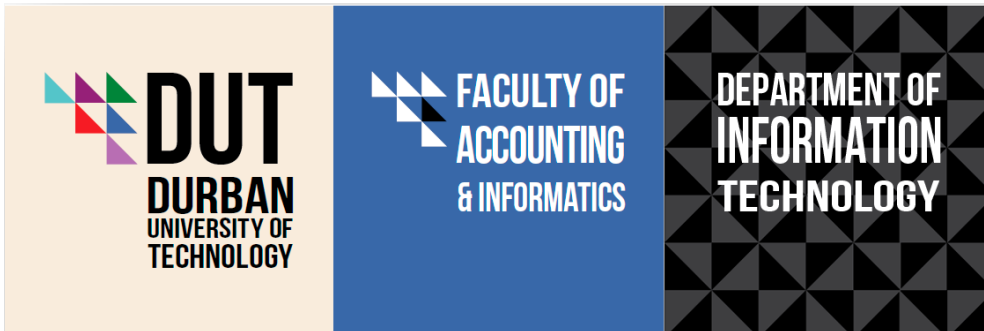
Faculty Research Office

Durban University of Technology

26 June 2018

Ms N.P. Sithebe

Student Number: 20131556

Degree: Master of Accounting: Taxation

Dear Ms Sithebe

ETHICAL APPROVAL: Level 2

Your email correspondence in respect of the above refers.

I am pleased to inform you that the Faculty Research Committee (FRC) at its meeting in 17 October 2017, has granted preliminary permission for you to conduct your research "*The impact of tax knowledge on compliance in a self-assessment tax system: A case study of small and medium-sized enterprises in Durban*".

You are required to present this letter together with your fully approved proposal, including all the signatures, to the central DUT Research office to obtain full permission to conduct the research. You also need to obtain a permission letter to conduct your research at the site of research. Please note that a letter of information and a letter of consent must be presented to each interviewee and accompany each questionnaire for each participant as per your research proposal.

A summary of your key research findings may be submitted to the FRC on completion of your studies.

Kindest
regards.   Yours
sincerely

Dr Delene Heukelman

Faculty Research Coordinator (Acting)

APPENDIX E: QUESTIONNAIRE

Questionnaire on Tax Knowledge and Tax Compliance
All responses are anonymous and will be kept strictly confidential

SECTION A – DEMOGRAPHIC INFORMATION

Please indicate your answer by placing an X in the box.

1. Please specify your gender.

Male	
Female	

2. What is the form of ownership of your business?

Sole trader	
Close corporation	
Private company	
Partnership	
Personal liability company	

3. For how many years has the business been in operation?

Please place an X next to the one that is applicable to your business.

Number of years	
1 – 5 Years	
6 – 9 Years	
10 – 14 Years	
15 – 19 Years	
More than 20 Years	

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

Please place an X next to the one that is applicable to your business.

Turnover (Rands)	
0 – 500 000	
500 001 – 1000 000	
1000 001 – 1500 000	
1500 001 – 2 000 000	
2 000 001 and above	

5. What is your highest level of education?

Please place an X next to the one that is applicable to you.

Qualification	
Matric	
Undergraduate diploma/ certificate	
Honours or postgraduate diploma	
Masters	
PhD	
Other	

6. Do you have a qualification that involved taxation as part of your studies?

Yes	
No	

SECTION B - TAX KNOWLEDGE

Please read each statement carefully and answer (Tick) according to your knowledge.

For each question in this part, please tick whether the statement is:

1. **True**
2. If you are **not sure**.
3. **False**.

Part B 1 Taxpayer General Responsibilities

7. Taxpayer is responsible to:

	Statements	True	not sure	False
A	Inform and declare actual income received from all sources to the tax authority (SARS).			
B	Keep records/documents pertaining to income and expenditure for a period of 5 years after submission of the tax return.			
C	Pay taxes due within the prescribed period from the date of issue of the notice of assessment or within the stipulated period.			

Part B 2 Business Income.

8. The following expenses shall be deductible from the income when calculating taxable business income.

	Statements	True	not sure	False
A	The direct cost of producing the income such as the direct cost of manufacturing, purchasing and selling costs.			
B	Commission paid for services rendered to the business.			
C	Personal expenses of the business owner.			

9. PART B 3 Payroll

	Statements	True	not sure	False
A	A micro business is still required to withhold payroll taxes and VAT (if voluntarily registered as an Employer).			
B	SMEs may be required to withhold and pay PAYE on behalf of its employees in terms of part two of the fourth schedule of the Income Tax Act (No. 58 of 1962)			
C	The employer is responsible for calculating the PAYE amounts payable to SARS.			

10. PART B 4 Turnover Tax

	Statements	True	not sure	False
A	Turnover tax replaces all other taxes such as VAT, provisional tax, capital gains tax and dividend tax if the business has a qualifying annual turnover of R 1 Million or less.			
B	Small businesses are not taxed at a flat rate of 28% but on a progressive rate of tax according to their taxable income.			
C	Qualifying Small Business Corporations will not pay tax on the first R 75 750 from 01 March 2018 to 28 February 2019.			

11. PART B 5 Value added Tax

	Statements	True	not sure	False
A	The business is not legally required to register for VAT if the turnover is less than R1 Million.			
B	A VAT registered business shall maintain accounting records, original tax invoice received by the person and copies of all tax invoices issued by the business for 5 years.			
C	It is compulsory for an entity that makes taxable supplies exceeding R1 million to register as a VAT vendor in terms of section 23 of the VAT Act			

12. PART B 6 Tax education and Training

	Statements	True	not sure	False
A	I have attended formal education and tax training about taxation			
B	Trainings arranged and given by SARS was relevant and practical to know about tax			
C	Taxpayer education has enhanced my level of understanding of various tax regimes.			

D	It easier to file tax returns than before.			

13. The use of either an accountant or a tax practitioner

	Statements	Yes	No
A	Does your business use an internal accountant?		
B	Does your business use an external accountant?		
C	Does your business use an internal tax practitioner?		
D	Does your business use an external tax practitioner?		

If you answered yes, please place an X against the reasons given below which are relevant to your decision to use an accountant or a tax practitioner.

	Statements	
A	Lack of tax knowledge	
B	It's faster	
C	I don't have time to submit myself	
D	To ensure that correct returns are filed	
E	I believe they understand tax laws better than I do	
F	Other reasons (please specify)	

14. Have you ever defaulted on your tax returns such as Income tax, Provisional tax, PAYE, Vat etc.?

Yes	
No	

If yes, why did you default on your submission? Please place an X against all the reasons, which are applicable to you

	Statements	
A	I did not manage to submit the returns on time	
B	I did not know how to complete the returns	
C	I did not want to pay any taxes	
D	I did not declare the correct income	
E	Other reasons (please specify)	

_____

_____

15. Please indicate your knowledge about the use of efiling.

For each of the following given statements please tick:

1 If you **strongly disagree** with the statement

2. If you **disagree** with the statement

3. If you are **neutral** towards the statement

4. If you **agree** with the statement

5 If you **strongly agree** with the statement

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	I know and understand how to use efiling					
B	efiling is easy, simple to understand and I can use it without assistance					
C	efiling encourages me to be tax compliant because it's easy to use or access					
D	The use of efiling has improved my level of tax compliance with SARS legislation					
E	I can pay my liability faster and easier since I started using efiling					
F	The use of efiling to submit my tax return(s) has assisted me to declare income accurately					

_____
_____

SECTION C - BARRIERS TO TAX KNOWLEDGE

16. Do you have any barriers to tax knowledge?

Yes	
No	

For each of the following given statements please tick:

1. If you **strongly disagree** with the statement

2. If you **disagree** with the statement

3. If you **are neutral as to** whether you agree or disagree with the statement

4. If you **agree** with the statement

5. If you **strongly agree** with the statement

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	Frequent changes on tax makes it difficult to understand tax (Complexity of tax laws)					
B	My school offered accounting in high school, but I did not choose it.					
C	I do not have background knowledge in accounting.					
D	I do not have background knowledge in tax					
E	Tax is too technical					
F	Tax authority (SARS) does not provide enough seminars and workshops.					
G	I am not aware of the tax workshops and seminars provided by SARS					

17. Please answer this question using the 5 – point scale below:

1. **Strongly agree**

2. **Disagree**

3. **Neutral**

4. **Agree**

5. **Strongly agree**

Which of the following strategies contribute in improving a taxpayer's knowledge and so closes the barrier to tax knowledge?

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
A	Seminars provided by SARS					
B	More public awareness campaigns by SARS on the importance of taxation					
C	More use of social media platforms by SARS on the importance of taxation					
D	Introduction of tax education in secondary schools					
E	Other (please specify)					

18. Taxpayer Education Awareness

Are you aware of any taxpayer education programmes conducted by SARS?

Yes	
No	

If yes, have you attended any of the following taxpayer education programmes? Please tick the ones that you have attended.

	Statements	
A	Dividends Tax and Corporate Distributions	
B	VAT and Payroll taxes	
C	Corporate Transactions	
D	Small Business incentives	
E	Other programmes that you felt relevant to your business	

_____
_____

SECTION D - TAX COMPLIANCE

19. Is your business registered for the following? Please place an X against all the relevant taxes and indicate by Yes or No.

	Tax Types	Yes	No
A	Income tax		
B	Provisional tax		
C	PAYE		
D	VAT		
E	UIF		
F	Skills development levy		
G	Other (Specify)		

_____
_____

20. Do you think being compliant is an advantage to South Africa?

Yes	
No	

If you answered no, please give reason(s) for your answer.

_____
_____
_____

21. What motivates you to ensure that your business is compliant? Please place an **X** against all the reasons, which are applicable to your business.

	Statements	
A	Tax Clearance certification	
B	Business formalisation	
C	Avoid Interest and Penalties	
D	Tender Application	
E	Refund from SARS	
F	Other (Specify)	

22. For each of the following given statements, please indicate your opinion on the following statements influencing tax compliance in general, please tick.

1. If you **strongly agree** with the statement

2. If you dis**agree** with the statement

3. If you are **not sure** to agree or disagree with the statement

4. If you **agree** with the statement

5. If you **strongly agree** with the statement

	Statements	Strongly disagree 1	Disagree 2	Neutral 3	Agree 4	Strongly agree 5
A	SARS has limited capacity to investigate all income reported to them and taxpayers have an opportunity not to report their exact income.					
B	The probabilities of being detected by SARS for not declaring the exact income are low					
C	Since supporting documents do not need to be sent to SARS and if not selected for an audit, the figures in the tax return can manipulated.					
D	Serious enforcement and penalty by SARS may result if a taxpayer does not comply					

23. For each of the following statements, please indicate <u>your personal reasons</u> for being tax compliant. please tick

1. If you **strongly agree** with the statement

2. If you **disagree** with the statement

3. If you are **not sure** to agree or disagree with the statement

4. If you **agree** with the statement

5. If you **strongly agree** with the statement

	Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
		1	**2**	**3**	**4**	**5**
A	I would feel guilty if I excluded some of my income when completing my tax return					
B	I feel morally obliged to declare all my tax liabilities					
C	I would not feel guilty if I excluded some of my income when completing the tax return					
D	I believe that other people especially the poor will get the benefit if I comply.					

24. Please answer this question using the 5 – point scale below:

1. **Not at all important**

2. **Not very important**

3. **Neutral**

4. **Somewhat important**

5. **Very important**

How important is it to you, as a taxpayer, that the South African Revenue Service does each of the following to ensure that all taxpayers honestly pay what they owe?

	Statements	Not at all important 1	Not very important 2	Neutral 3	Somewhat important 4	Very important 5
A	Ensures low-income taxpayers are reporting and paying their taxes honestly					
B	Ensures small businesses are reporting and paying their taxes honestly					
C	Ensures high- income taxpayers are reporting and paying their taxes honestly					
D	Ensures corporations are reporting and paying taxes correctly					

25. Please answer this question using the 5-point scale below:

1. Not at all an influence

2. Very little influence

3. Neutral

4. Somewhat influence

5. Great deal of influence

How much influence do each of the following factors have on whether you report and pay your taxes honestly?

	Statements	Not at all an influence 1	Very little influence 2	Neutral 3	Somewhat influence 4	Great deal of influence 5
A	Fear of an audit					
B	Belief that your neighbours or colleagues are reporting and paying honestly					
C	Third parties reporting your income (e.g., salary, interest, dividends) to the SARS					
D	Your personal integrity					
E	Tax practitioner involvement in filing the returns					
F	Accountant's involvement in filing the returns					
G	Fear of paying more interest and penalties at a later stage should SARS detect that the information submitted is not correct.					

Thank you for your participation