

## INSIGHTS INTO GREEN TAX AMONGST SMALL MEDIUM ENTERPRISE OWNERS IN SOUTH AFRICA: A QUALITATIVE STUDY

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### ABSTRACT

**Objective:** This study sought to explore how the owners of small medium enterprises in South Africa, understood green tax and the factors influencing tax compliance.

**Methods:** Using a qualitative research design, data was obtained from a sample of 12 owners of small medium enterprises, who voluntarily consented to participate in the study. Data was collected using semi-structured interviews, using a virtual platform due to COVID-19 regulations. Thematic analysis was used to analyse the data.

**Results:** Five broad themes emerged from this inquiry which revolved on how business owners understand green tax, factors affecting green tax compliance and the strategies to ensure green tax compliance amongst small medium enterprises.

**Conclusion:** The study found that participants were in favour of green taxes which reflected a commitment to environmental protection. However, concerns regarding how the government utilised green taxes to ensure environmental protection emerged and consumers were found to be reluctant to pay higher premiums for green products, which affected overall tax compliance.

**Research implications:** Greater education regarding the salience and value of green taxes amongst the owners of small medium enterprises is important. More research related to how to ensure green tax compliance and the role small medium enterprises play in green tax compliance will strengthen compliance and enable environmental sustainability.

**Originality/value:** The study contributes to understanding the reasons behind a lack of compliance with regards to green taxes amongst small medium enterprises.

**Keywords:** green tax, small medium enterprises, environment.

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## CONHECIMENTOS SOBRE O IMPOSTO VERDE ENTRE OS PROPRIETÁRIOS DE PEQUENAS E MÉDIAS EMPRESAS NA ÁFRICA DO SUL: UM ESTUDO QUALITATIVO

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## RESUMO

**Objetivo:** Este estudo procurou explorar como os proprietários de pequenas e médias empresas na África do Sul entendiam a fiscalidade verde e os factores que influenciam o cumprimento das obrigações fiscais.

**Métodos:** Utilizando um desenho de pesquisa qualitativa, os dados foram obtidos de uma amostra de 12 proprietários de pequenas e médias empresas, que consentiram voluntariamente em participar do estudo. Os dados foram coletados por meio de entrevistas semiestruturadas, em plataforma virtual devido à regulamentação da COVID-19. A análise temática foi utilizada para análise dos dados.

**Resultados:** Cinco grandes temas surgiram deste inquérito, que giravam em torno da forma como os proprietários de empresas entendem a fiscalidade verde, os factores que afectam o cumprimento da fiscalidade verde e as estratégias para garantir o cumprimento da fiscalidade verde entre as pequenas e médias empresas.

**Conclusão:** O estudo concluiu que os participantes eram a favor de impostos verdes que reflectissem um compromisso com a protecção ambiental. No entanto, surgiram preocupações sobre a forma como o governo utilizou os impostos verdes para garantir a protecção ambiental e descobriu-se que os consumidores estavam relutantes em pagar prémios mais elevados por produtos verdes, o que afectou o cumprimento global das obrigações fiscais.

**Implicações da investigação:** É importante uma maior educação relativamente à importância e ao valor dos impostos verdes entre os proprietários de pequenas e médias empresas. Mais investigação relacionada com a forma de garantir o cumprimento das obrigações fiscais verdes e o papel que as pequenas e médias empresas desempenham no cumprimento das obrigações fiscais verdes reforçarão o cumprimento das obrigações fiscais e permitirão a sustentabilidade ambiental.

**Originalidade/valor:** O estudo contribui para a compreensão das razões por trás da falta de cumprimento dos impostos verdes entre as pequenas e médias empresas.

**Palavras-chave:** imposto verde, pequenas e médias empresas, meio ambiente.

## INFORMACIÓN SOBRE EL IMPUESTO VERDE ENTRE LOS PROPIETARIOS DE PEQUEÑAS Y MEDIANAS EMPRESAS EN SUDÁFRICA: UN ESTUDIO CUALITATIVO

### RESUMEN

**Objetivo:** Este estudio buscó explorar cómo los propietarios de pequeñas y medianas empresas en Sudáfrica entendían los impuestos verdes y los factores que influyen en el cumplimiento tributario.

**Métodos:** Mediante un diseño de investigación cualitativo, se obtuvieron datos de una muestra de 12 propietarios de pequeñas medianas empresas, quienes voluntariamente aceptaron participar en el estudio. Los datos se recolectaron mediante entrevistas semiestructuradas, utilizando una plataforma virtual debido a la normativa COVID-19. Se utilizó el análisis temático para analizar los datos.

**Resultados:** De esta investigación surgieron cinco temas amplios que giraron en torno a cómo los propietarios de empresas entienden los impuestos verdes, los factores que afectan el cumplimiento de los impuestos verdes y las estrategias para garantizar el cumplimiento de los impuestos verdes entre las pequeñas y medianas empresas.

**Conclusión:** El estudio encontró que los participantes estaban a favor de impuestos verdes que reflejaran un compromiso con la protección del medio ambiente. Sin embargo, surgieron



preocupaciones sobre cómo el gobierno utilizaba los impuestos ecológicos para garantizar la protección del medio ambiente y se descubrió que los consumidores se mostraban reacios a pagar primas más altas por productos ecológicos, lo que afectó el cumplimiento fiscal general.

**Implicaciones de la investigación:** Es importante una mayor educación sobre la importancia y el valor de los impuestos verdes entre los propietarios de pequeñas y medianas empresas. Más investigaciones relacionadas con cómo garantizar el cumplimiento de los impuestos verdes y el papel que desempeñan las pequeñas y medianas empresas en el cumplimiento de los impuestos verdes fortalecerán el cumplimiento y permitirán la sostenibilidad ambiental.

**Originalidad/valor:** El estudio contribuye a comprender las razones detrás del incumplimiento de los impuestos verdes entre las pequeñas y medianas empresas.

**Palabras clave:** impuesto verde, pequeñas y medianas empresas, medio ambiente.

## 1 INTRODUCTION

South Africa has been identified as being a country, with the highest source of pollution and amongst the top twenty carbon dioxide (CO<sub>2</sub>) emitters in the world (Mcsweeney and Timperley, 2018). This has catastrophic consequences both for the environment and the health of all of humankind (Kalidin, 2017). Increasing consumer related demands, fuels pollution of the environment, especially when materials, such as fossil fuels, are used to satisfy these demands (Bhanot, Paruchuri and Deshmukh, 2015). It has been estimated that over 75% of the pollution occurring in the global context, can be attributed to small and medium enterprises (SMEs) (Perera, 2018). This has compelled the government to consider taxes, related to the environment, in order to reduce emissions and nurture the sustainability of economic progress through development. Although green government legislation that includes carbon taxes and emissions trading systems has been introduced in the South African context, a study which considers the views of SME owners, would prove beneficial (Baranzini *et al.*, 2017). Carbon taxes are important to incorporating external costs into the costs of products, as well as consumer prices, thereby enabling improved behavioural patterns amongst manufacturers. In fact, Pettinger (2019) argued that carbon taxes might even be a source of income, which could be a successful solution compared to regulatory government policies. According to Levinson (2017), the introduction of carbon taxes is one effective method of protecting the environment and achieving the growth of the economy. He further asserted that the excise levy foisted on the carbon content of fossil fuels, has contributed to decreasing emissions of GHG, which has consequently influenced climate change.



Levinson (2017) further argued that some companies consider it cost-effective for taxes to be paid, as opposed to pursuing unethical practices. Conversely, those who find compliance less costly would reduce their emissions. On average, SMEs possess a substantial cumulative environmental influence. Within the manufacturing industry, they account for a massive amount of global resource utilisation, carbon emissions as well as generation of waste, which negatively affects environmental sustainability (Koirala, 2018). According to Madsen and Ulhoi (2014), SMEs account for two thirds of environmental degradation. Despite this they have the ability to make significant environmental enhancements. For instance, eco-innovators can spearhead or prompt new green companies, particularly in the local as well as developing markets, which may be unattractive or unachievable, within larger organizations. In the United Kingdom and Finland, for instance, SMEs consist of 90% and 70% of cleantech companies (Tetley, 2016). They are also essential promoters of inclusive and green development, given the economic and environmental importance of SMEs. Although there seems to be several threats and the right set of circumstances that climate change, presents to companies, numerous research reports concentrate on their obligations as significant GHG pollutants and future change-makers. Although these problems are hard to mitigate, the government has implemented green tax, as a policy to react to the appeal to "save the environment" (Frankel, 2018). The rationale for this kind of legislation is to encourage environmental sustainability of production, as well as consumption by reflecting on environmental consequences, particularly on the prices of products or services, thus rationalising the prices of limited resources.

Research has documented that SMEs still have an important part to play in combating environmental change and global warming, as they are the foundations of several economies all over the world, including South Africa (Madsen and Ulhoi, 2014). This phenomenon has resulted in the establishment of green taxation, sometimes called environmental taxation in several counties and regions. Interestingly, several small businesses simply refuse to consider the salience of adhering to environmental tax regulations and seem to be unaware of the potential advantages appended to them (Olatunji and Olaoye, 2015). It is against this backdrop that the current study sought to understand how SME business owners in the manufacturing industry, in south Africa, viewed green tax compliance and to understand what strategies need to be in place to strengthen the level of compliance.



## 2 THEORETICAL FRAMEWORK

Salgado and Franchi (2023) wrote that the need to protect the environment requires the development and improvement of innovative mechanisms and different perspectives that will enable a better balance between economic development and environmental protection. Agustinus, Samekto and Ispriyarso (2023) further argued the importance of environmental planning and management that can be effective, yet sustainable. Green taxation creates a framework for obtaining optimum social welfare, and its cash flow performs an important function in accomplishing sustainable development as well as social justice (Endriana, Hartono and Irawan, 2016). A study by Isamu (2012) found that a pollution tax is often welfare superior, compared to the subsidisation of renewable packages that consumers purchase, due to its contribution to minimising damage to the environment. Environmental effect is one of the main triggers of government-company fiscal and subsidy interactions (Li, Du and Long, 2020). The government establishes the impact of tax and specifies the threshold amount of the subsidy to support the company's green effort. Green taxes have been linked with two outcomes. In an explicit context, environmental protection seems to have become a primary concern for manufacturing companies and cost-efficiency with rising pollution trade-off. From an implicit view, green taxes are making producers and consumers adjust their production and consumption habits. In this kind of tax, rather than just requesting pollution taxes, they establish taxes on raw materials or consumer products which utilise them to harm the environment (Pourkarimi and Hojjat, 2017).

Examples of indirect green taxes are taxes on fossil fuels, industrial fertilisers, non-eco-friendly detergents, and disposable plastic containers. In addition to the environmental benefits, price increases, can form the basis for a reallocation of revenues within the low deciles of the economy and this strategy will boost government revenue, as well as economic growth within the long term (Shafie-Pour-Motlagh and Farsiabi, 2017). Appropriate green tax eliminates both short and medium-term pollution through the use of fossil fuel. It also pushes the timeframe ahead when fossil fuel alternatives, take over again and allows the market to keep more fossil fuel locked up. Green tax policies are commonly used in developed countries; however, in transitional and emerging nations, they are implemented to a lesser degree (Ivanova 2017; Martinez-Fernandez and Weyman, 2018).



Businesses have historically had an impact on the environment and will continue to do so in the future. While there may be positive indicators to the contrary, businesses seem to be a menace to the environment and environmental concerns present challenges to business advancement and employment creation. The ideology of environmental sustainability has however become increasingly supported. As discussed by Sa´nchez-Medina, Romero-Quintero and Sosa-Cabrera (2014), businesses are compelled to acknowledge the environment. The business owner performs a pioneering function in researching and contributing technological remedies, to environmental difficulties. However, for the business organisation, the environment is a fast-increasing market, a business advantage, and an employment creation opportunity.

It is clear that numerous environmental commitments will increase in the future with more stringent regulations and increasingly strong social and consumer pressure. Therefore, by following those ecological values, businesses would have to adjust to the situation. In general, this adaptation phase will entail a transformation of the companies, their goods, their manufacturing processes, and their management practices (Shrivastava, 2015), which will result in a reduction in the effects on the natural environment of the companies. In short, the world has become a strategic concern for enterprises, and it needs continuous attention and sufficient incorporation of all its aspects into the strategy of the enterprise.

Despite the contribution of SMEs to the South African economy, their environmental impact is relatively unknown. Several researchers have however predicted that the cumulative effect of SME pollution is around 60% (Hillary, 2014). Given the fact that most environmental emissions come from SMEs, there is poor understanding and recognition by SMEs, of constructive strategies in environmental management. Environmental issues and knowledge of SMEs are often expressed in informal environmental management programmes, involving a mixture of environmental processes such as reducing waste, energy conservation, and water conservation (Christensen, Wehrich and Newman, 1994).

Legislation is now seen as an important motivation for SMEs to embark on enhanced processes for the environment. Compliance with environmental laws, including carbon emissions, pollution control, waste management as well as packaging, and recycling requirements is a significant catalyst for SMEs to follow better environmental practices (S´aez-Mart´inez, D´ıaz-Garc´ıa and Gonz´alez-Moreno, 2016). This study found



that compliance with regulations helps prevent unnecessary penalties that have a detrimental effect on the cash flow and income of SMEs that are already under cash resource constraints.

Taxes are regarded as a prerequisite for maximum national revenue in both developed and developing nations, where countries boost their economies by direct as well as indirect taxes. Every entity is required to pay taxes (both corporate and individual) and are therefore obligated to voluntarily abide by the tax controlling authority's rules and legislation. Nonetheless, as indicated by Kirchler, Kogler and Muehlbacher (2014), several individuals abandon their tax obligations and those that do, create challenges for tax authorities (Alm, 2019). The tax compliance process depends primarily on the engagement of taxpayers in policy initiatives and public spending, as well as enhanced fines and tax audits (Alm and Torgler, 2011).

### **3 METHOD**

Qualitative research methodology, which is an approach to “discovering new fields” or “exploring areas that are new” (Flick 2009), guided the study. Qualitative designs embody the elements of descriptive research (Welman, Kruger and Mitchell, 2005). It was appropriate for the current study, which intended to describe how the owners of SMEs in South Africa, view green tax and green tax compliance. Participants were business owners recruited primarily from small manufacturing enterprises, domiciled in the eThekweni district, of KwaZulu-Natal, in South Africa. The data was collected using a non-probability homogenous convenience sample, by inviting a few owners and then through them identifying others, using a snowballing approach. A homogenous convenience sample has better generalizability, as opposed to a conventional convenience sample (Jager, Putnick and Bornstein, 2017). A few owners then assisted with identifying other relevant participants for the study, after the initial few were invited via email. This was only done after full ethical approval was secured from the Faculty Research Committee, at Durban University of Technology.

Data collection stopped when data saturation was reached. A total number of 12 owners constituted the eventual sample for this study. This was acceptable in line with Creswell (2014), who recommended a sample size of between 5 and 25 for qualitative studies. Ethical clearance was obtained from the Durban University of Technology's



(DUT) Faculty Research Committee (FRC), prior to conducting the interviews. Participants were assured of their anonymity in the study and no coercion was used in the recruitment of participants. They were assured that data collected would be kept confidential and that all hard copies and electronic copies of the data would be shredded or deleted. After they consented to participate during a phone call to them, a date and time for the interviews was set, that was most convenient to them. After they signed the consent letters, and returned it to the researcher, interviews were then conducted using a virtual platform. The latter was necessary due to COVID-19 regulations which prevented face-to-face interviews. An online platform, namely, Microsoft Teams, as well as telephonic calls were used to interview the participants. Each interview lasted approximately 45 minutes each. The semi-structured nature of the interviews allowed the researcher flexibility in terms of interviewee responses. The interviews were guided using an interview guide, that was developed in accordance with the aim of the study. Each interview was digitally recorded and after the completion of each interview. The audiotapes were labelled to maintain order and facilitate the analysis (Schurink, Fouché and De Vos, 2011).

Thematic analysis, was used to guide the analysis. Thematic analysis is a process used to identify, analyse and interpret themes or patterns identified by the researcher, that acts as key information related to the aim of the study (Braun and Clarke, 2016). Themes were extracted from the data based on words and phrases identified within the text of each interview transcript. Themes were text-based on the frequency of use and relationship to other texts. It allowed the researcher to organise data to a minimal description of gathered information and reduce it to relevant themes and sub-themes. Trustworthiness was ensured in several ways. With regards to transferability, a complete description of the study process and context was provided and participants direct quotes were used. Moreover, an adequate amount of time was allocated to data collection and analysis to immerse oneself in the data to validate same. Moreover member checking was used to ensure that participants themselves verified the findings.





## 4 RESULTS AND DISCUSSION

Eight themes emerged from the analysis of the data.

### 4.1 THEME 1: IMPORTANCE OF GREEN TAX AMONGST SMES

The data revealed that participants were mindful of their actions and encouraged and promoted a sustainable environment through their organisations. The participants also agreed that their businesses strive towards making responsible decisions that will reduce the negative impact of their business on the environment. Fjeldstad, Sjursen and Ali (2013) similarly found in their study that the majority of the companies in the eThekweni region are actively involved in environmental waste management practices and are aware of the business context.

With regards to the level of awareness of environmental issues, in South Africa, participants said:

“More businesses and individuals are becoming aware of the importance of environmental protection compared to a few years ago. You notice more people using reusable shopping bags, cleaning up beaches and streets, and recycling”.  
(P14)

“I think it is fast becoming a priority among businesses through the world and will eventually have a large impact on how we manufacture goods going forward”.  
(P7)

As participants expressed, their personal awareness of the importance of environmental awareness, stems from the escalation in the use of reusable shopping bags, the cleaning up of the beaches, and recycling initiatives being levelled globally as a result of climate change. Another reported that this increased attention towards environmental sustainability, has prompted green manufacturing initiatives, particularly in the manufacturing industry. Green manufacturing, in this context, reflects the environmentally friendly practices that are put in place when producing a commodity (Deif, 2011). Hoogendoorn, Guerra and van der Zwan (2015) asserted that green manufacturing procedures are considered more efficient as they do not just promote environmental sustainability, but also ensure optimal utilisation of production inputs to minimise waste and decrease contamination.



The huger societal and global movement was also responsible for influencing personal views surrounding environmental protection and sustainability. Participant four said that due to the extent of media awareness his views regarding environmental protection had increased. Research undertaken by Braithwaite (2016), reflected on eight factors affecting the level of public compliance towards the green business environment in South Africa. He discovered that the level of awareness amongst business owners has progressively increased the level of compliance in the city, with mass media playing an instrumental role in the process. A study by Jovita, Chibuzor and Onyemachi (2019), also revealed that with the increased level of awareness of environmental protection, businesses have switched from the traditional management mentality to environment-oriented green management. According to Kautto (2016), the objective of the awareness of environmental protection is to ensure that operational activities be performed in line with the environment, to preserve the environment, while achieving the business objectives, visions, and goals.

#### 4.2 THEME 2: UNDERSTANDING GREEN TAX

The second sub-theme that emerged in the data focussed on participants understanding of green tax and attitudes towards it. Participants described green tax as:

“Taxes that are levied on consumers and businesses to promote environmentally friendly and sustainable practices”. (P17)

“A way of monitoring the pollution caused in the environment”. (P8)

“Green tax, or environmental tax as its commonly known, I think it is basically twofold: it contributes towards a cleaner environment, that is reducing global warming, trying to say that companies are not drawing the line when it comes to saving the environment”. (P11)

“Environmental tax is the government plan of action to encourage people to become more aware about the harm that they cause to the environment, hence, by making them pay for it”. (P9)

There were several ways in which green tax was described in the data. Firstly, green tax was viewed as payment directed towards protecting the environment. Participant 5 defined green tax as a “*contribution*”; P17 viewed it as “*taxes that are levied on consumers and businesses*”; and P1 believed it was a “*premium paid for potential damage.*” Only participant nine called it a “*punitive tax.*” Aligned with the views of participants, Schabmann (2013) asserted that green tax is a compulsory payment, which



is made by both organizations and individuals to a government, for improved environmental conditions despite the benefits that may or may not accrue to the taxpayer. Beyond the environmental protection and management goal, Kirchler (2017) concurred that green tax, just like all other government levies, is a very important revenue stream for governments for environmental development projects. Beyond the levies, Kautto (2016) asserted that green taxation advocates for the deployment of environmental regulatory principles and policies, as well as other practices that brings about improvement in the quality of the environment in general. The green tax is thus an effort to ensure that organisations whose operations negatively affect the environment contribute to government's effort to address the negative consequences thereof (Kautto, 2016).

#### 4.3 THEME 3: ATTITUDES TOWARDS GREEN TAX

The third sub-theme that emerged from the data focused on participants attitudes towards green tax. In this regard participants said:

“It is a good idea as it will encourage businesses and individuals to be more environmentally conscious”. (P14)

“It is a good way to get companies to be cognisant of their emissions and it gives motivation to reduce emissions”. (P19)

“I am very pleased with this type of tax. It's beneficial in many ways, mostly to save the environment. However, I feel that it needs to be properly and fully implemented. I am willing to comply 100% as this is a great way to conserve the environment”. (P8)

The aforementioned excerpts reflect that participants had positive attitudes towards green tax. Participant 6 saw green tax as an “*excellent structure*”; P9 as a “*good way*” to get companies to be cognisant of their emissions; and P14 believed it was a “*good initiative*” to save the environment. Similar sentiments were echoed by Cassells and Lewis (2011) who wrote that the commitment of SMEs to environmental responsibility, emerged from owners attitudes towards green taxation. In their view, a positive attitude indicates that SME business owners are in favour of the government environmental protection plan. Participant shared that his willingness to comply with green tax was based on its proper implementation. Hair *et al.* (2019) supported the notion that a positive attitude towards green tax is crucial to ensuring successful collection of taxation revenue.



The data revealed that participants are sensitive to environmental protection and demonstrate traits of environmental responsibility, which are critical components of an environmentally sustainable business.

#### 4.4 THEME 4: FACTORS AFFECTING GREEN TAX COMPLIANCE

##### 4.4.1 Sub-theme 1: Tax morale

The first sub-theme was linked to tax morale. Tax morale indicates taxpayers' willingness to pay taxes (Loknath and Abdul Azeem, 2017). One of the most cited definitions of tax morale, is that by Torgler (2013) who wrote that "tax morale is the intrinsic and extrinsic motivation to pay taxes" Participants tax morale can be found in the following excerpts:

"Paying taxes helps in preserving the longevity of [the] earth for our generations to come". (P11)

"I am keen on paying such a tax as I know the reason why and the good that comes from it". (P3)

"I am willing to pay green tax if my company is destroying the environment". (P12)

Participant's motivation to pay tax was linked to both organisational and personal reasons. For participant 11, it was his personal commitment to protect Mother Earth, while participant 12, demonstrated a deep commitment to pay green tax if his company was responsible for damaging the environment. Whilst the motivation of participant 12, to pay tax hinged on his potential contribution to environmental degradation, the motivation for tax payment for participant three was linked to the proper execution of environmental protection policies. These findings reflect then that tax morale was a factor that influenced tax compliance. The foregoing expectation has necessitated calls from some researchers for further studies into these intrinsic and extrinsic factors and their relationship with tax compliance (Devos, 2014: 85).



#### 4.4.2 Sub-theme 2: Cost of green tax

The second sub-theme reflects participants' concerns regarding the cost of green tax.

“The primary reason for lack of compliance is cost. Adopting environmental practices are costly as suppliers realise the importance/pressure for companies to comply and price their products with a high mark-up to take advantage of the situation, e.g. the costs associated with solar panels”. (P18).

“Companies do not want to incur extra costs through implementing greener processes and practices as they are very costly”. (P13)

“Sometimes the additional cost of being more friendly towards the environment increases the costs of their products and services significantly and this would result in them being less competitive; but, on the other hand, certain consumers are willing to pay a premium for environmentally friendly products so, which would actually allow businesses to charge more”. (P14)

As evidenced the cost of compliance influenced green tax compliance amongst the participants. As one participant shared additional costs, brought on by green practices influenced their decision making as it would make them less competitive. Another participant said that consumers were an important part of environmental protection, because if they were willing to pay premiums for green products, then businesses could charge more and be consequently better positioned to pay green taxes. The primary business concern of these producers would therefore be to improve the competitiveness of the green product and at the same time meet the increased demand for green products. According to Miriam *et al.* (2018: 45), this is possible through innovation and competitiveness of sustainable products.

Support for the findings can be found in Kirchler's (2017), argument that most businesses are small SMEs that cannot afford to bear the burden of additional unwarranted costs. Wahabu (2016) further concurred saying that he found that cost was the most significant factor contributing to tax evasion amongst SMEs and traders. Yergenthren and Rajendra (2018) concluded that the main factors affecting tax compliance related to capital structure, compliance costs, tax rates, tax audits, and the morals of the taxpayer. The associated cost of green tax can therefore limit the prospect of environmental regulations, as taxpayers would rather avoid the tax payment in order to make more business profit.



#### 4.5 THEME 5: OTHER FACTORS INFLUENCING NON-COMPLIANCE

“Businesses may feel that it is just another tax and they don’t see the benefit of paying it or how the funds are being used to limit or lessen the damage to the environment.” (P14)

“There has been so much uncertainty around the actual legislations.” (P19)

“I think that SMEs are under pressure to meet the laws and regulations surrounding environmental practices, especially in a manufacturing sector.” (P18)

“I believe that eThekweni doesn’t have the capacity ... to even collect taxes in the manner that people will want their contributions to be spent. Therefore, if taxes are correctly administered, I will be happy to pay”. (P9)

“Lack of knowledge and awareness of what is green tax and how to ensure compliance of green tax”. (P15)

There were several other reasons advocated for the lack of compliance in addition to the issue of tax. One reason was that businesses were unaware of the requirements. Hence, whilst participants were not opposed to paying, they expressed a need to have greater insight into its benefits, particularly how funds were going to be used to prevent environmental damage. Participant 18 believed that SMEs were under pressure to comply with laws and regulations surrounding environmental practices, particularly in the manufacturing sector. Another reported uncertainty around the legislation surrounding green tax, which may affect compliance. Although there are very few studies on green tax evasion, one undertaken by Fagariba (2016) explored the reasons for SMEs’ tax evasion in general. He found that the major factors hindering tax compliance included a high level of government corruption, high compliance costs, the weak enforcement of tax laws, the weak capacity of tax authorities to detect those who evade tax payments, a poor tax education, loopholes in the tax net, issues of the tax burden, and poor sales. These are areas warranting attention as part of a drive to ensure that SMEs are compliant.

A further report by Zarri (2014) reflected that the main challenges facing the collection of taxes were as follows: (i) The difficulty in evaluating the exact size of the informal sector; (ii) the fact that broad-based taxation might come at the expense of significant administrative costs resulting from the existence of a large number of informal firms and entrepreneurs, and the difficulties in monitoring them; and (iii) the observation that informal firms tend to be less productive than formal ones. Lastly, in the case of South Africa, according to Zarri (2014), the main issues related to the payment of taxes from the SMEs is due to the weak and under-resourced revenue authorities, a considerably large informal sector, and a national bias towards collecting taxes. This imposes a higher



tax burden on poor households and employees in the formal sector. This was evidenced in the excerpt as detailed above from participant nine, who expressed a lack of faith in authorities to expend taxes collected towards environmental issues. As such the need for transparency regarding green tax emerged as a further theme as follows.

#### 4.6 THEME 6: ROLE OF GOVERNMENT IN GREEN TAX IMPLEMENTATION

##### 4.6.1 Sub-theme 1: Transparency regarding green tax

The first sub-theme that emerged under this theme, focused on transparency. Participants said,

“Green tax should be discussed and negotiated on fair terms well in advance before implementing the tax on businesses ...” (P1)

“I honestly feel that this tax calculation needs to be more specific and detailed”. (P8)

“There is no way that the government can charge us for pollutants if they do not inform us about the manner that they will charge us. At the moment, this is very vague and needs to be properly explained to us”. (P2)

Transparency and the need for specific and detailed information regarding this tax calculation emerged strongly in the data. One participant lamented the lack of consultation with SMEs, before implementing the tax rate, describing it as information bias. Others requested that the government heed the call for a specific and detailed system of green tax calculation to be available. In this way he highlighted that the current system of green tax administration lacked a consistent measurement scale and this lack of transparency affected tax compliance. This was further supported by participant two, who said that business owners were not informed of the way that green tax charges were levied on them. With regards to information bias, the same participant stated that there was a tremendous amount of “*nebulousness and vagueness in terms of how it was implemented*”. Based on this, the reasons for non-compliance can be more clearly understood. This points the direction that authorities must take in terms of education and transparency regarding same. It further implies that a good measurement of fairness must, at the very least, cover different dimensions, as well as assess the perceptions of fairness at various levels relevant to the implementation of government policies (Moutinho *et al.*, 2017).



#### 4.6.2 Sub-theme 2: Challenges related to enforcement

The challenges related to the enforcement also emerged in the data. Participants said:

“Government face[s] economic and political challenges when trying to implement environmental taxes.” (P18)

“The government does not have any measures to record this type of tax, therefore, people are not taking it seriously”. (P3)

“Some of the challenges would be developing a basis for calculating the environmental taxes, ensuring compliance, collection of the taxes, ensuring that the taxes do not cripple businesses and the economy, and developing processes to effectively utilise the funds for environmental protection”. (P14)

Participant 14 noted the government’s inability to effectively utilise funds for environmental protection, as the primary factor hindering its poor implementation. The inability of the government to properly monitor the process was further highlighted by participant six who asserted that the challenges affecting the whole green tax process, related to the “difficulties in implementing [the] tax compliance system and monitoring compliance administratively”. This implies that even if the government implements tax in a transparent and accountable manner, the inability to monitor the progress made on the environment over time, also limits the full potential of the green tax resources. Hence intervention at the level of the government was critical to implementing and monitoring green tax specifically.

### 4.7 THEME 7: EFFECTS OF CURRENT GREEN TAX MEASURES

#### 4.7.1 Sub-theme 1: Transformation of the business

Participants commented that if green taxes were enforced then there would be transformation of the business sector in South Africa. They said as follows:

“There will be pressure on business to ensure compliance”. (P16)

“I think that SMEs are under pressure to meet the laws and regulations surrounding environmental practices, especially in the manufacturing sector”. (P18)





The need to ensure greener organizations and their contribute to environmental protection, rests with tax authorities. Once regulations related to same are made transparent and vigorously enforced, then compliance would occur. According to Dangelico and Vocalelli (2017), “the application of resource-efficient technologies improves an organizations’ competitiveness and the greening of production processes inevitably ensures, higher returns on investment and increased sales figures, with an improved public image. Almost all the participants acknowledged the need for businesses to change and that owners be faced with the task of strategizing to meet new green regulations and bear the operational risks associated with this. Creswell (2019) suggested that if the cost of compliance was lesser than the penalty for tax avoidance, then businesses should embark on an adjustment process to meet environmental regulations. Participant 18 reflected on the challenges saying, “I am not sure about the implementation effects of current green tax measures with SMEs in eThekweni, but the SME sector does encounter problems such as limited funding, poor management skills, and lack of support structures in South Africa”. This suggests again that the lack of support for or understanding of green tax challenges its implementation and compliance bt SME owners. Creswell (2019) further argued, that general taxation contributes to business operation costs which eventually leads to increase in prices of output or tax evasion. This must also be considered.

#### 4.8 THEME 8: THE PROSPECT OF GREEN TAX IN SOUTH AFRICA

##### 4.8.1 Sub-theme 1: Tax education and training

The first sub-theme of theme five was related to tax education and training. Participants shared as follows:

“The government needs to market this tax through targeted campaigns and perhaps to consult individually with SMEs as we need to be educated about this”. (P6)

“There should also be seminars and talks, calling businesses and people, showing them how to deal with green taxes in each industry, [for] example, the motor industry, and the chemical industry. Each sector should have a seminar on this type of tax and how it affects them and how it should be implemented”. (P4)

“I think government needs to speak to businesses as education is very important. They need to inform businesses and people about the tax and consequences, as [a]



lot of people do not like to pay taxes. This will make people understand the consequences that are caused from emissions that they pollute; hence, they will want to reduce emissions to avoid paying taxes”. (P12)

As evidenced above, participants supported the need for tax education and training, specifically green tax and how it affected various sectors in South Africa. The data reflected the need for greater conscientisation and education regarding green tax and educational seminars to facilitate green tax compliance. This suggests that education around green tax would inculcate higher tax morale and would also act as an agent for monitoring the activities of the government to ensure full implementation of environmental policies. More importantly business owners would understand more fully how emissions compromised the environment. Furthermore, the need to avoid tax would incentivise owners to prevent pollution. Lago-Peñas and Lago-Peñas (2010) also called for greater attention to be paid to tax education to encourage compliance.

## 5 CONCLUSION

This study explored how green tax was viewed amongst owners of SME manufacturing companies in eThekweni, South Africa and the factors influencing tax compliance. Green taxes are taxes that are levied on behaviour or actions deemed harmful to the atmosphere and are used to promote environmentally friendly practices through economic opportunities. The study found that participants were in favour of green taxes which reflected a commitment to environmental protection. However, concerns regarding how the government utilised green taxes to ensure protection and that consumers were reluctant to pay higher premiums for green products, have affected overall tax compliance. The participants called for greater education and information around green taxes and transparency with regards to government initiatives to use green taxes towards environmental protection. Moreover, the development of regulations with regard to green tax will provide an effective basis for the transformation process towards a green economy. This context includes promotion of green investment and management, as well as the enforcement of taxes on investments that do not meet the quality requirements of the design and product development phase at regional and international levels.

A clearer understanding of the taxpayer's tax laws will result in a better understanding of the penalties that may be imposed on tax liability exemptions. In other



words, there is a lack of green tax education put forth by the government to SMEs and the public which is hampering the level of compliance of this beneficial tax. Bird (2014) supported the findings in the current study saying that if taxpayers do not interpret the rules correctly, they will fail to comply with the tax rules stipulated in the tax laws. EThekwini is largely populated, therefore, adequate compliance with green tax will be of huge benefit to the community and local businesses.



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