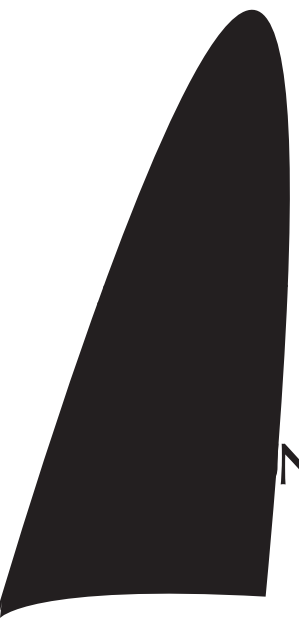


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Tax compliance costs for the small business sector in South Africa — establishing a baseline

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Abstract

This study is part of an international research project (across four countries) which is evaluating and comparing tax compliance costs affecting the small business sector. The primary objective of this empirical study was to measure the tax compliance costs of small businesses in South Africa and to establish a baseline against which future studies and enhancements to the tax system could be measured. The study also differentiated tax compliance activities from core accounting activities in order to identify the managerial benefits of tax compliance. It also investigated whether various South African small business tax concessions are perceived to be achieving thea

However, despite this critical role in the economy, this sector faces various challenges, one of them being a regulatory burden imposed by tax legislation (Strategic Business Partnerships for business growth in Africa (SBP), 2005:44; SBP, 2011:28). This plight of small businesses in South Africa with regard to taxation is confirmed in the following statement by one of the directors of the South African Black Entrepreneurs Forum:

“Overall, it is quite clear that our current [tax] system is biased against one of the most important sectors in the economy being small businesses. At a time where it is difficult for people to gain employment, they should be encouraged to start their own ventures and not be punished when they do.” (Qabaka, 2011:17).

This concern is echoed by the Small Business Project (2003:1), Abrie and Doussy (2006:1), the Foreign Investment Advisory Service of the World Bank Group (FIAS,

“While such incentives may have resulted in some limited relief, it is argued here that the actual structure of South Africa’s current tax system is so heavily biased against small businesses that any such relief is negligible”.

1.2 Need for the present study

Statements such as the above (made in 2011) might have merit, but have no value without statistical evidence validating them. Studies were conducted by FIAS in 2006 (FIAS, 2007) and by Govender and Citizen Surveys in 2007 (Govender & Citizen Surveys, 2008) to identify and measure th

adoption and usefulness and complexity of these concessions — as perceived by the respondents — was investigated.

This study will provide a baseline of tax compliance costs against which future studies and enhancements to the tax system could be

The questionnaire was sent out to 88 057 small business taxpayers (Murugan, 2011a). Reminder e-mails were sent out during the survey period and there was a definite increase in the number of responses due to these reminders (Meintjes, 2011). The number of usable questionnaires received from the respondents amounted to 5 865, which represents a response rate of 6.7%. Although Saunders et al. (2007:358) indicated that internet based surveys are likely to have a response rate of 11% or lower, these response rates are considered rather low even for web surveys (Cook, Heath & Thompson, 2000:829; Dilman, Phelps, Tortora, Swift, Kohrell, Berck & Messer, 2009:7, Shih & Fan, 2008:257). However, it must be mentioned that the electronic survey platform used to distribute the questionnaire could unfortunately not determine how many of the e-mails that were sent out were undeliverable (Murugan, 2011b:2). This could have had a major effect on the response rate and consideration should be given to this fact before concluding on the response rate. In addition to this, various other reasons and possible explanations for the low response rates, such as, inter alia, the fact that the questionnaire responses could not be saved at any given time resulting in the questionnaire having to be completed in one sitting by the respondents, the length of the questionnaire (it was long and of a detailed nature), the server downtime and the fact that the questionnaire was only provided in English should also be taken into account. Although one can therefore not come to any definite conclusions about how representative and statistically reliable the sample was, 5 865 responses should nevertheless provide invaluable information and insight into an area where there is currently no reliable and up to date statistical information available.

3. DEFINITION OF TERMS

Before the results of the survey are discussed, it is critical to first establish what is meant by a “small business”, “tax compliance costs/benefits” and “small business tax concessions”. The definitions and explanations of these terms are discussed below.

3.1 Small business

South Africa has, from an economic as well as taxation perspective, no single consistent definition of a “small business” available (SARS, 2011a; Smulders, 2006:15-19). To ensure comparability to previous compliance cost research in South Africa, this study defined a small business as a business with a turnover of R14 million or less.

3.2 Tax compliance costs

For the purposes of this study, tax compliance costs include internal costs, as defined by Turner, Smith & Gurd (1998) that is, the cost of collecting, paying and accounting for tax on products or profits of the business, and on the wages and salaries of employees together with the costs of acquiring the knowledge to enable this work to be done; and external costs, mainly in the form of advisors costs — using professional tax service providers is one of the main costs contributing to the cost of complying with taxation legislation (Coolidge, Ilic & Kisunko, 2009:26). In an attempt to prompt the respondents to differentiate between their time spent on tax-related activities and time devoted to accounting activities, a separate list of both tax and accounting activities were provided to them in the questionnaire. It was hoped that this would minimise the impact of the purely accounting compliance costs on the survey results.

4. EMPIRICAL RESEARCH FINDINGS

4.1 Measurement criteria

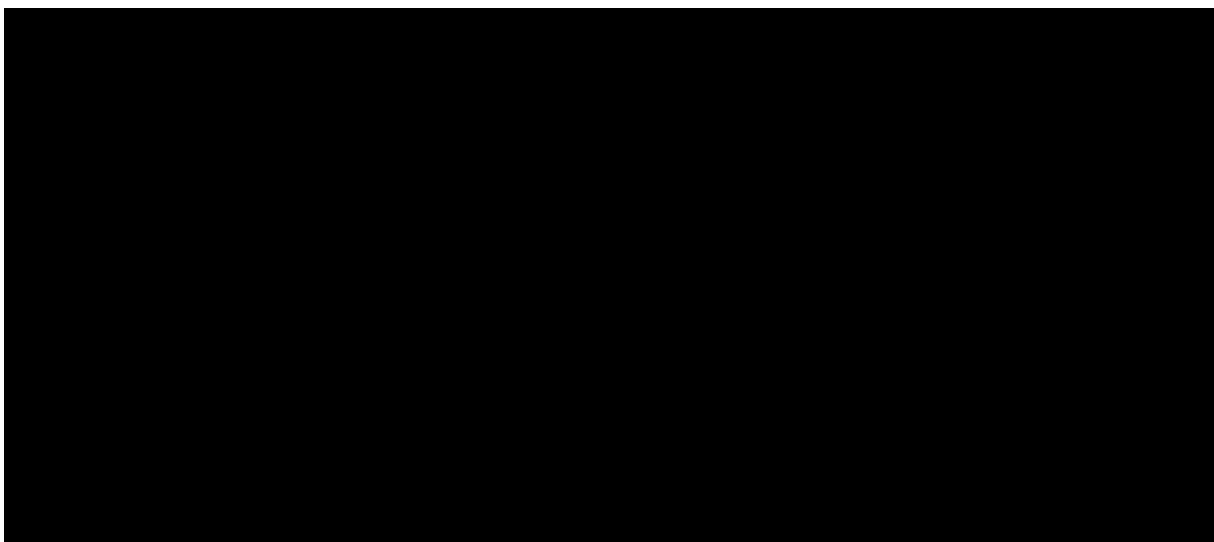
All compliance costs and times were calculated using the 5% trimmed mean, rather than the ordinary mean (average), to compensate for unusually high values being recorded in the responses to most of the questions. The trimmed mean is slightly different from the mean in that it removes a certain percentage of the responses from each extreme distribution (in this case 5% from the top and 5% from the bottom) before calculating the mean (Field, 2009:163). The use of a trimmed mean smoothes distortions in the data and provides a more systematic and useful method for detecting changes over a period of time, which is required for this study if it is to be used as a benchmark (Field, 2009:163). It was also used to ensure comparability of information across the five countries involved in the survey.

The questionnaire used to collect the information was divided into five components, namely (1) the profile of the respondents, (2) the time the respondents spend on internal tax and accounting activities, (3) the money the respondents spend on internal and external tax and accounting related activities, (4) the perceptions that the respondents have of the benefits of tax compliance, and (5) small business tax concession considerations. Each of these components will be discussed next.

4.2 Profile of the respondents

The majority of respondents conducted their activities in the professional services sector, traded in the form of close corporations (CCs), were established businesses that had been in operation for more than five years, and had a turnover (see Figure 1) and employee numbers that tended to lean towards the higher end of the small business spectrum.

Figure 1: The estimated turnover of the business



When the demograph profile (number of employees and age distribution) of the survey respondents was compared to the FinScope (2010:5-17) study, which included interviews with 5 676 small business respondents (businesses throughout South Africa with a turnover of between R70 000 and R14 million), it revealed that start-up businesses appear to be under-represented in the current study, possibly due to their lack of internet access/e-mail addresses, which could have resulted in their exclusion from this study from the start. As no scientifically valid universe or reliable database of small businesses currently exists (African Response, 2006:11, Statistics South Africa, 2010a:vii, FinScope, 2010:4), and since details of the total small business population on the SARS database were not available at the time of the research, it cannot be conclusively determined whether these respondents are representative of the whole small business population in South Africa, but there is potentially a systematic bias against the smaller and less sophisticated businesses — as is further discussed below.

To ensure that the results of the current study were comparable to the two tax compliance cost studies previously conducted in South Africa (FIAS, 2007, and the Govender & Citizen Surveys, 2008), the demographics of the respondents to the current study were compared, where possible, to those of the other two studies. The FIAS (2007:18) and Govender and Citizen Surveys (2008:31) studies used different turnover categories from this survey, making any form of direct comparison difficult, but Table 1 below, indicates the distribution of the businesses over two broad turnover categories for all three studies.

Table 1: Comparison of turnover categories between current and other study results

TURNOVER/STUDY	Current study	FIAS (2007)	Govender & Citizen Surveys (2008)
R0 — R1 000 000	40.5%		

4.3 Quantification of internal tax compliance costs

In line with the latest methodology adopted by the Inland Revenue (New Zealand) (2010a:26), a four-step approach was adopted to quantify the internal tax compliance costs incurred by small businesses. The first step entailed establishing the hours taken by small businesses on tax compliance activities (per tax, per annum). A matrix format, as used by Evans, Ritchie, Tran-Nam & Walpole (1996), Colmar Brunton Social Research (2005:38) and the Inland Revenue (New Zealand) (2010a:16 and 2010b:37) in their surveys of small businesses, was used to collect the information regarding the time spent on the different taxes per tax compliance activity.

The second step required the respondents to indicate who performed the internal tax compliance activities in the business (owners, employees, or unpaid friends and relatives) and the percentage of time each of these persons spent on these tax activities. Establishing who spends the hours on tax compliance activities in the business facilitated the quantification of the tax compliance costs but, before this could be done, step three had to be performed.

The third step requested the respondents to provide what they would consider to be an appropriate hourly value for each of the categories of persons performing the tax compliance activities (owners, employees, or unpaid friends and relatives). To ensure that these values were reasonable, these self-evaluated values were benchmarked against externally available salary information to ensure that there was some degree of quality control over the values provided by the respondents.

Step four ultimately quantified the internal tax compliance costs by multiplying the total compliance time (hours) spent on each tax by the percentage of time spent by the different category of persons (owners, employees, or unpaid friends and relatives) on each tax, which was further multiplied by the appropriate cost (hourly rate) of internal

Table 2: Annual internal hours spent on different taxes: all small businesses

Taxes	VAT	IT	PAYE	CGT	Customs	Excise duties	Total all taxes	TTS
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Figure 2 highlights the disproportionate burden faced by smaller businesses when it comes to tax compliance activities. When analysing this time in more detail (refer to Table 3 below), it became evident that recording information needed for tax, especially VAT, is the tax compliance activity that is the most time-consuming for small businesses. PAYE was the tax that took the most time to calculate, submit and pay the tax due. The number of hours spent dealing with SARS and learning about tax was also the highest for PAYE, which is possibly due to the recent changes to this tax brought about by SARS (SARS, 2011b:1-3). Tax planning and dealing with the tax advisor is the highest in respect of income tax.

Table 3: Mean* annual hours spent on different tax activities

Activity	VAT	IT	PAYE	CGT	Customs	Excise duties	Total all taxes (excl TT)	TT
Recording information	64.78	31.4	35.31	0.46	0.18	0.02	132.24	26.7
Calculating tax, filing return & paying tax	13.77	11.32	18.50	0.25	0.07	0.01	43.92	17.4
Dealing with SARS	6.50	6.2	10.62	0.08	0.04	0.00	23.46	5.0
Tax planning	2.73	5.0	4.66	0.30	0.02	0.00	12.71	4.0
Dealing with tax advisor	5.14	8.2	5.48	0.28	0.02	0.01	19.11	6.9
Learning about tax	6.00	7.6	8.61	1.15	0.21	0.09	23.70	7.2
Other activities	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.0
Total time spent	98.92	69.85	83.18	2.52	0.54	0.13	255.14	67.31

* 5% trimmed mean was used in this table

b) Comparison to other research

Unfortunately, none of the previous tax compliance cost studies broke the time taken to deal with tax activities down into as much detail as the current study did. However, certain activities were dealt with in both the current and previous studies, and

Table 4: Comparison to other tax compliance cost studies of time taken to perform various tax activities

STUDY	Current study (mean)	Current study (5% trimmed mean)	FIAS (2007)	Govender & Citizen Surveys (2008)
HOURS PER TAX TAKEN TO:	Record information needed for tax	Record information needed for tax		Record information needed for tax & submit tax returns
VAT	167.26	64.78	-	Included below
Income Tax	82.43	31.49	-	Included below
PAYE	62.58	35.31	-	Included below
TOTAL	312.27	131.58	-	Included below
	Calculate tax, submit return & pay tax	Calculate tax, submit return & pay tax	Prepare, complete & submit tax returns	Record information needed for tax & submit tax returns
VAT	36.10	13.77	18.77	Included below
Income Tax	26.78	11.32	5.34*	Included below

Despite the activities and taxes being slightly different across all three studies, what is evident is that the overall time taken (using either the means or the 5% trimmed means) to record information needed for tax, prepare, complete and submit tax returns, has increased. If the activities are reviewed individually, an exception to this overall increase arises in respect of the filing and paying of VAT returns (FIAS study) and the recording of tax information and submission of the tax return (Govender and Citizen Surveys study) — but only if the 5% trimmed mean is used. The extent of the overall increase cannot be commented on further due to the differences mentioned above, but notwithstanding this, an increase in time to comply with tax legislation is not desirable, either from a SARS or taxpayer perspective.

From a broad overall time perspective, a comparison can also be made with the PricewaterhouseCoopers (PwC) and IFC (2011:69) Paying taxes 2011 report which records the time taken to prepare tax figures, complete and file tax returns, and also pay the three major taxes — VAT, income tax (including provisional tax and CGT), and taxes on employees (PAYE, SDL and UIF). A case study methodology is used to record this information whereby tax experts from a number of different businesses compute the taxes and contributions payable based on standardised case study facts. This global study reveals that it takes 200 hours to perform the abovementioned functions in South Africa. This is slightly more than the 175.88 hours taken by the respondents of the current survey, i.e. 175.17 hours as in Table 4 above, plus CGT of 0.71 (0.46 + 0.25) being the time taken to record information, calculate, file and pay the tax due.

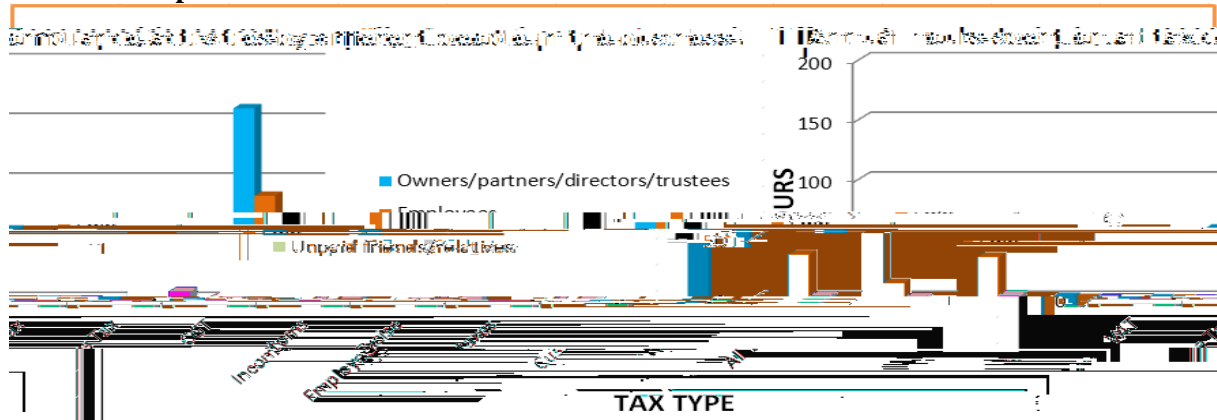
It is evident that the hours recorded by the respondents to the current survey are only slightly less than the PwC and IFC hours. What is of concern is that the PwC and IFC study bases its information on a “medium-sized” company that has five owners and 60 employees and that has a turnover of approximately R46 million (this is closer to a medium to large sized business from South Africa’s perspective). Although there are slight discrepancies between the exact tax activities that are included in these estimates, overall it appears that small businesses in South Africa are spending a large amount of time to comply with tax legislation when compared to medium to large-sized businesses.

Having established the hours spent internally on various tax compliance activities per year, it was necessary to determine how much this time is costing the business. Before this could be achieved, it was essential to determine who actually performs these functions within the business as the value of the time might depend on the person rendering the service.

4.3.2 Step 2 — Who performs the tax compliance activities?

Figure 3 indicates that most of the internal time spent on tax compliance activities was attributable to the owners, who performed 63% of annual hours related to tax compliance activities, with the employees performing 34% and unpaid friends or relatives the remaining 3%.

Figure 3: Annual internal hours spent on tax compliance activities — by different people in the business and per tax



VAT compliance took up most of the owners’ and employees’ time, with employees spending relatively more time on PAYE after VAT.

4.3.3 Step 3 — Valuation of time spent on different taxes

A contentious issue discussed amply in the literature (Allers, 1994:54; Evans, Ritchie, Tran-Nam, & Walpole, 1997:11; Pope in Sandford, 1995:101) is the value to be placed on the time spent by owners and employees of a small business. The valuation

The respondent's self-reported values were benchmarked against average hourly rates obtained from recently conducted local publicly available salary surveys. The Accountants on Call (2010:1) Salary Survey as well as the Statistics South Africa (2010b:xii) Monthly Earnings of South Africans Survey were both carried out in 2010 and were considered appropriate as a benchmark for two reasons; firstly, they were recent and related to the same or similar period that the survey related to and, secondly, because they contained information on "accounting type" positions which are similar to the functions/positions that a person would be required to carry out in order to comply with tax. Two managerial positions were selected to obtain a benchmark of the owners' time: financial manager and financial accountant, because both of these positions seemed to encompass the functions that an owner would fulfil in a small business, and were more aptly suited than the other categories documented.

As no indication of the size of the business paying these remuneration packages was provided in the Accountants on Call (2010) Salary Survey to ensure that these rates were reasonable in respect of payments made by small businesses, the average rates in terms of that salary survey were compared to the Chartered Institute of Management Accountants (2010:15) South Africa Part Qualified Salary Survey, which provided a break-down of the salary information by business size. This comparison revealed that the average salary initially chosen was too large compared to the average salaries paid by small businesses in South Africa. The rates used for the owners were therefore adjusted to a lower level, more in line with remuneration paid by small businesses. To ensure this choice was valid, a further comparison of average salaries in the accounting/finance field was made with the Walters (2011:408) Global Salary Survey and Macdonald & Company's (2011:6) Rewards and Attitudes Survey. The results of this comparison further justified the use of the lower-paid category of person to obtain the most appropriate and reasonable value for persons working in these positions in South African small businesses.

A valuation of the employee's time was obtained by selecting two clerical functions: assistant accountant and balance sheet bookkeeper from the Accountants on Call (2010) salary survey. A rate for a trial balance bookkeeper was also provided (at a lower remuneration package) in the survey, however, this was not used, as more of the respondents to the current survey indicated that they had a good rather than a basic bookkeeping knowledge, implying that the higher salary option would be more appropriate in the current circumstances. The remuneration for both clerical functions was selected from the category of staff without a degree and with two to eight years' experience because more than half of the respondent clerks or administrative staff, and more than a third of the respondent bookkeepers, indicated that their highest qualification was having completed high school. Although the managers that completed the survey indicated that their highest qualification was a usines(s)-3.sine5 Tc.3

Table 6: External average salary per hour* for selected tax functions



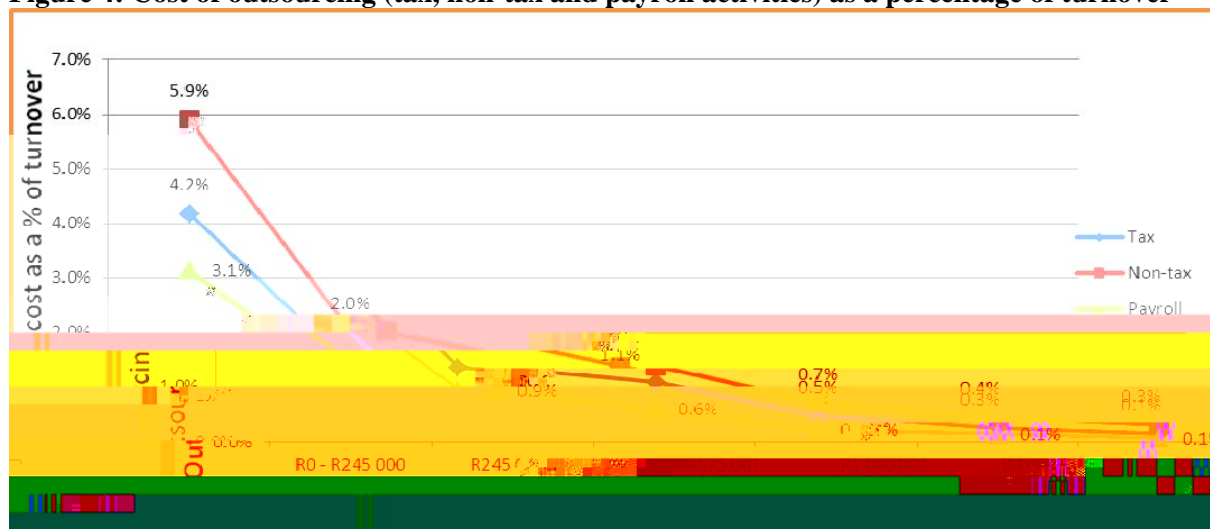
the value of time for owners and employees of small businesses. The hourly rates to be used as an alternative valuation of the internal compliance costs of small businesses were therefore R249.48 for owne

employees on internal tax compliance activities and the FIAS study only calculated the cost incurred by small businesses to prepare, complete and submit tax returns for VAT, income tax, provisional tax and PAYE. Therefore Table 9 compares the findings of the current study to the FIAS study but only in respect of the costs to

3. The FIAS study separated provisional tax from income tax and did not mention CGT separately. The current study did not mention provisional tax separately, but did separate CGT from income tax (current study amounts above exclude CGT values and are presumed to include provisional tax).

Bearing all of these differences in mind, and if the FIAS (2007) figures are increased for inflation (at an average rate of 6.55% from 2007 to 2011 (Statistics South Africa, 2008:1; 2011a:1 and 2011b:1)), it appears that there has been an overall increase in internal tax compliance costs as the retainer value of R24 158 (R31 136 adjusted for inflation) has almost doubled if compared to the current study (R52 672). To ensure that a reliable conclusion on the incidence of internal tax compliance costs can be obtained, it is suggested that the current values be used as a baseline for future studies so that meaningful comparisons can be made

Figure 4: Cost of outsourcing (tax, non-tax and payroll activities) as a percentage of turnover



Almost half (48.9%) of the respondents perceived that there is a value in the information provided by their external service providers beyond the provision of tax services and tax advice, as they indicated that they would be prepared to pay for external accounting and payroll services even if South Africa were tax free. It was generally the smaller businesses (turnover of less than R1 million) that would probably not incur these expenses and therefore it appears as if they do not perceive as much value in the information provided by their external accounting and payroll service provider. Taxpayers who currently pay for external non-tax and payroll related services would be more likely to spend on external services in a tax compliance free environment.

Assuming that there were no tax obligations, these respondents were prepared to pay R10 095 for external accounting services and R4 764 for external payroll services. Some (10.9%/19%) were even prepared to spend more than they were currently paying, implying that they derive more benefits from their relationship with their accountant/external payroll service provider than what they are currently paying for.

b) Comparison to other research

A comparison of the findings in respect of the use of external service providers for tax and accounting services in the FIAS (2007), the Govender and Citizen Surveys (2008) and the current study are displayed in Table 10 below. The average (mean) costs as well as the 5% trimmed mean for the current study have been provided because the other two studies did not use the 5% trimmed mean, but rather the ordinary mean (Kisunko, 2011:1).

Table 10: Three study comparison of annual costs of external tax and accounting related services

COST OF EXTERNAL SERVICE PROVIDERS /	Current study (mean)	Current study (5% trimmed mean)	
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4.5.1 Nature of the accounting system and reasons for keeping accounting records

The results indicated that just over three quarters of the respondents (77.7%) operated a computer based accounting system. Of those that didn't use a computer-based accounting system, 1.6% indicated that they used no accounting system at all. Of those that used no accounting system, 67.2% were businesses with a turnover of less than R1 million, with the majority of these having a turnover of between R0 and R254 000. This result is to be expected given the nature and size of the business, but what was surprising was that there were companies (12.5%) that have a turnover of between R3 million and R14 million, that also did not use any form of accounting system. The reasons for this and its effectiveness would need more investigation. Of the category of respondents that did not use a computerised accounting system, that is those that used a paper-based or manual system (11.9%), nearly half (48%) were also businesses with a turnover of less than R1 million. Respondents with a turnover of R1 million to R3 million were the ones that used a paper-based or manual system the most.

In a further endeavour to disentangle tax from accounting costs, the type of accounting system used (and for what it was used — tax versus accounting) and the owner's perception of the importance of accounting

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purposes, with just under a third of the respondents stating that the records were kept roughly equally for accounting and tax purposes. It was interesting to note that a fifth of the respondents kept records mainly for tax purposes (but they were also used for accounting purposes). Tax therefore featured as a very important reason for keeping accounting records (even more important than for reporting to owners, internal management, other regulatory bodies and lenders).

4.5.2 Time spent on various accounting activities

a) Survey results

In order to identify accounting activities that were not just carried out for tax purposes and that were beneficial to the business in some other way, question 14 in the questionnaire invited respondents to indicate the annual hours spent on specific core accounting activities. A similar methodology was used by Evans et al (1996:15), but two additional categories of activities were added to the list used in that study — those being investment planning unrelated to tax and budgeting and control. Venter and de Clercq (2007:147) found that small businesses in the three largest sectors in the South African economy (manufacturing, retail and business services) hardly use tax inputs, advice or information for management and planning purposes. It was therefore appropriate to see if perhaps the accounting information was used for investment planning and budgeting and control purposes as this could help resolve the disentanglement dilemma in respect of this activity. It was found (see Table 11) that the respondents spent on average 1 117 hours on core accounting activities, with most of this time spent processing customer invoices and cash received.

Table 11: Annual hours spent on different accounting activities by small businesses

ACCOUNTING ACTIVITY	Mean*(hours)	Median (hours)
Processing customer invoices and cash received	394.07	190.00
Following up debtors	105.74	30.00
Paying bills	100.29	48.00
Calculating and paying wages	62.46	30.00
Checking banking records against		

When comparing the total costs of R221 591 (median: R120 976) spent internally on accounting activities with the costs of tax activities (excluding the turnover tax) which amount to R53 356 (median R20 491), it is clear that performing the accounting activities of the business costs just over four times as much as the tax compliance activities. Thus more time and costs are spent on accounting activities than on tax compliance activities.

Having established the internal and external tax compliance costs incurred by small businesses, it was considered appropriate to establish if the respondents thought that there were any benefits that arose from complying with tax legislation. The next section thus focuses on the respondents' views of tax compliance benefits (if any).

4.6 Tax compliance benefits

The thought that tax compliance activities give rise not only to costs, but also to benefits, first came about in the early 1980's (Sandford, Godwin, Hardwick & Butterworth, 1981), but this has never been investigated from a South African perspective.

4.6.1 Do tax compliance benefits exist?

This research, as is shown in Figure 7 below, established for the first time in South Africa that there is a perception that tax compliance benefits exist.

Figure 7: Does complying with tax obligations have benefits for the business?

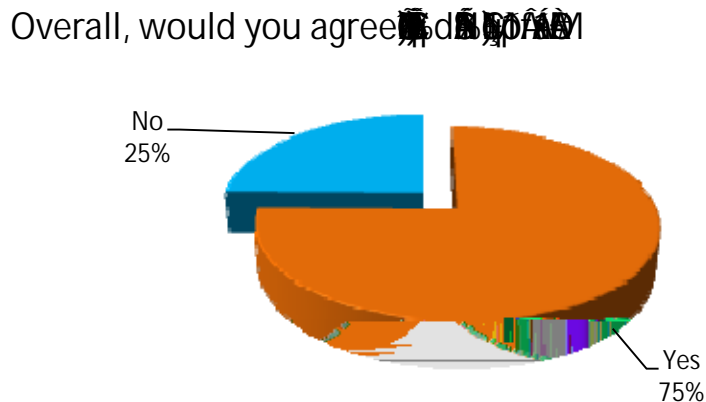


Figure 8: Benefits of complying with tax obligations

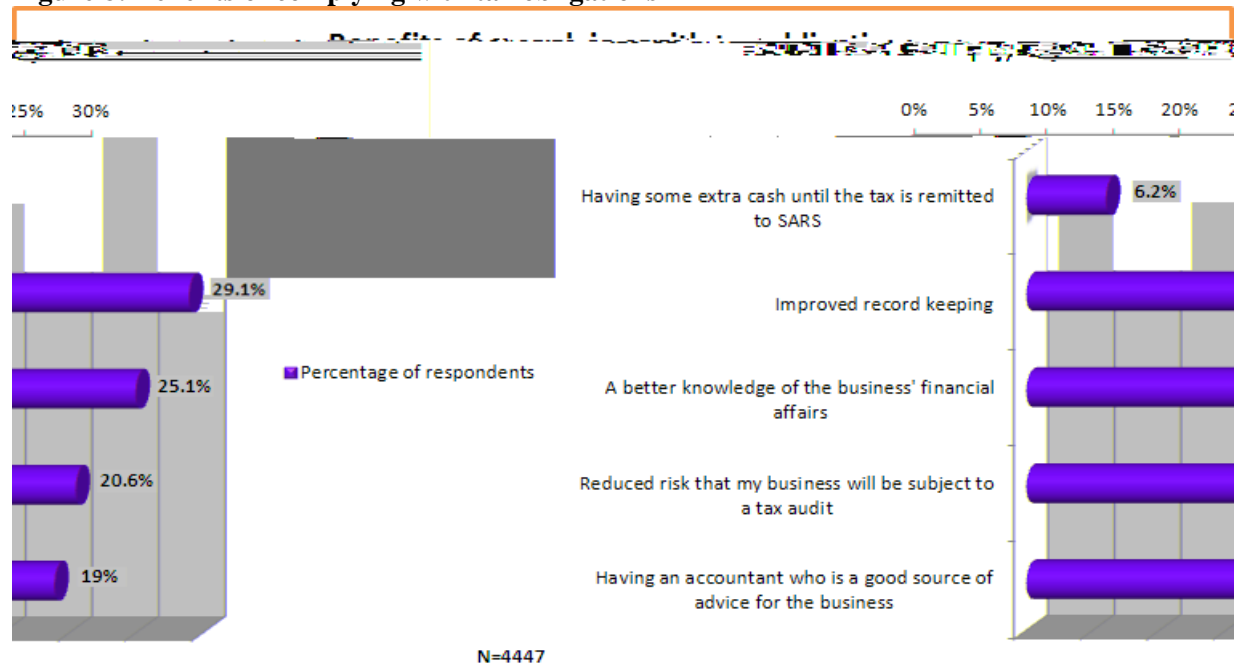
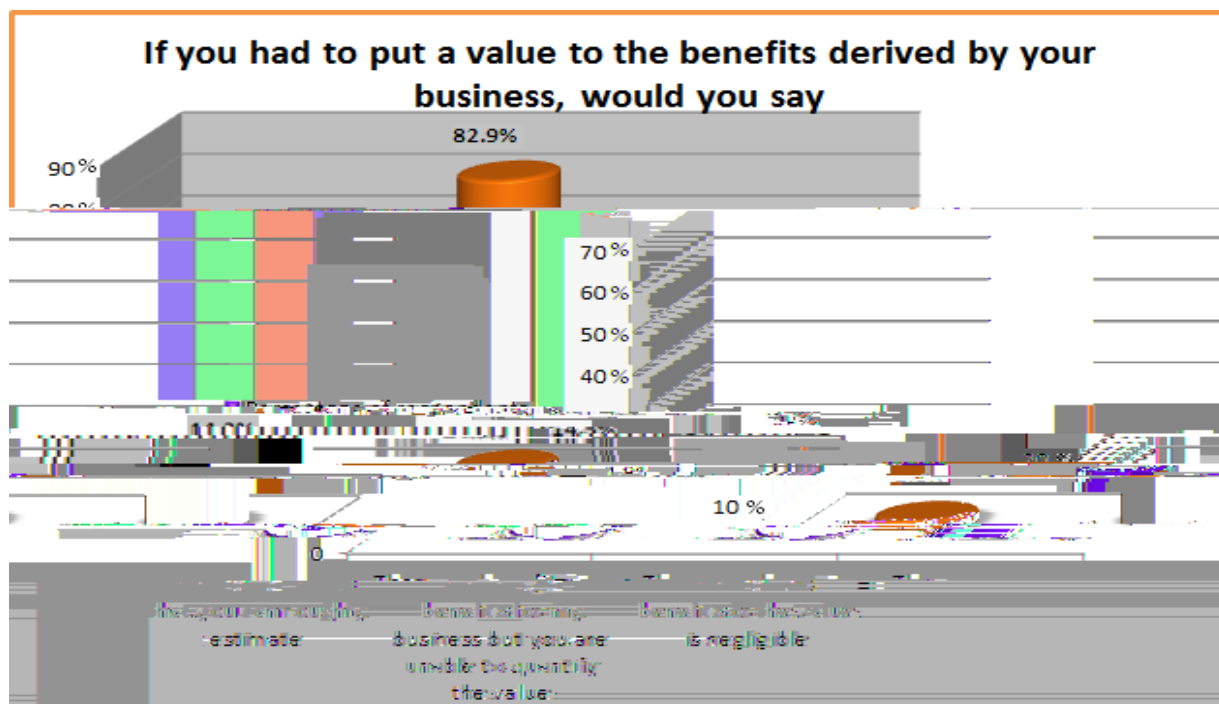


Figure 9: Valuation of tax compliance benefits by respondents



Despite the fact that, for the first time in South Africa, the establishment of the perception that tax compliance benefits exist was established, 82.9% of the respondents indicated that they could not accurately quantify these benefits. The research was thus unable to accurately measure the tax compliance benefits and future research in this area, using a more sophisticated approach as suggested by Lignier (2009c:38), is proposed.

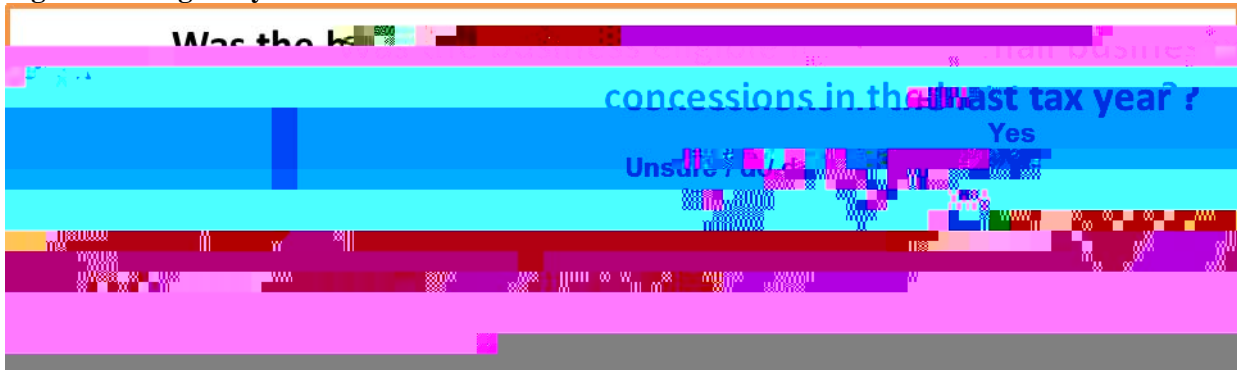
4.7 Small business tax concessions (SBTCs)

Small businesses are arguably the most dynamic sector of the economy, but they are much more vulnerable than any other sector to the compliance burden created by the tax law and its complexity (OECD, 2010:5). The South African government, have made endeavours to reduce this compliance burden by introducing various strategies and measures (tax concessions) to achieve this reduction in the tax compliance burden (SARS, 2011c:30-32).

In view of these developments, it was believed that there would be value in researching the extent to which SBTCs achieved their objective of reducing the tax compliance burden in South Africa. In order to do this, the take-up (eligibility) of the specific tax concessions by small businesses in South Africa and the reasons why they were or were not used by these businesses were investigated in this study. The small businesses' perceptions of the concessions with regard to their usefulness and level of complexity were also considered.

What was found (refer to Figure 10) was that almost half (47%) of the respondents indicated that they were not eligible for the SBTCs, 41% indicated that they were “not sure” if they were eligible, leaving only 12% stating that they were in fact eligible.

Figure 10: Eligibility of small business tax concessions



This finding is an indication that the eligibility criteria for the SBTCs could be too restrictive (confirmed by certain of the respondents' views provided in the survey) or that some small businesses or their external service providers are ignorant, not updated or not knowledgeable of the SBTCs, or that the marketing of these concessions has not been adequate or appropriately targeted. Upon further analysis of the data, it was found that there existed some confusion about the eligibility and use of these concessions (especially in respect of the turnover tax system).

Of those small businesses that were eligible for the SBTCs, 68% actually used the SBTCs, indicating good adoption of the concessions once the businesses are aware of them. Of those that did not use the concession despite being eligible for them, it was found that the main reason for not using the SBTCs was because the rules of the concessions were too complex, followed by the increase in internal or external time spent on tax related activities.

Table 16 : Perceptions about complexity of SBTC

Concessions	Not complex or not very complex	Moderately to very complex	Unsure Not Applicable Not relevant
Small Business Corporation	7.10%	11.60%	81.20%
	(347)	(565)	(3 945)
Small Retailers VAT Package	5.60%	9.90%	84.50%
	(269)	(478)	(4 082)
CGT concession	4.30%	10.60%	85.00%
	(209)	(511)	(4 090)
Submission of VAT returns four-monthly	13.50%	10.10%	76.30%
	(655)	(490)	(3 693)
Turnover Tax System	8.40%	10.80%	80.70%
	(406)	(524)	(3 903)

All of the respondents, irrespective of their eligibility for or use of the SBTCs were asked their overall general attitude towards the SBTCs and if the SBTCs were a waste disagree-3 903)

lack of understanding of the SBTCs. Based on these views, it may be concluded that further research into the SBTC's role in reducing the compliance burden, and perhaps the effectiveness of the marketing campaign of SARS, is warranted.

5. CONCLUSION

Small businesses are critical in expanding the economy, because as they grow they become the employers of the future. Addressing the tax concerns of this sector of the economy should be a priority of the South African government. This study was designed as a large-scale survey with the objective of collecting primary data that would allow an evaluation of the impact of the tax system on small businesses' tax compliance costs. While evaluating and measuring the tax compliance costs incurred by small businesses, the study sought to differentiate tax compliance activities from core accounting activities, and to determine whether there were any managerial benefits or other tax compliance benefits that could offset the gross compliance costs identified. An attempt was also made to establish whether or not the SBTCs were effective in relieving some of the effects of the tax compliance burden on small businesses.

The findings of the survey indicate that there is possibly a slight bias towards the larger end of the small business sector, but that comparison with previous tax compliance cost studies was nevertheless justified. It was estimated that it took small businesses (not on the turnover tax system) an average of 255 hours per year to comply with tax legislation. Turnover tax respondents spent just under two thirds of the time (155 hours) to comply with their tax obligations compared to similar businesses not registered for this tax.

This study confirmed that gross tax compliance costs are regressive, and overall it cost sinesses not regi3s) to

The findings regarding the effectiveness of small business tax concessions revealed that almost half of respondents (47%) in this survey were not eligible for any SBTCs, with a further 41% indicating that they were “unsure” if they were eligible. There is an

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ANNEXURE A
SMALL BUSINESS TAX CONCESSIONS IN SOUTH AFRICA

Concessions (since 2001) introduced by the National Treasury and/or SARS that specifically relate to small businesses are as follows:

1. The introduction in 2001 of section 12E of the Income Tax Act (South Africa, 1962), being the Small Business Corporation (SBC) regime.
2. The Small Retailers VAT Package (SRVP) which was introduced in 2004 to assist small businesses in VAT record-keeping and calculation (deleted from 1 March 2010) (SARS, 2011a:1).
3. The capital gains tax relief of R900 000 (R750 000 before 1 March 2011) for the sale of small business assets introduced into the Income Tax Act (1962) in 2001 (South Africa, 1962: Eighth Schedule paragraph 57).
4. Filing of VAT returns every four months (instead of every two months) for small businesses with taxable supplies of less than R1.5 million (R1.2 million before 1 March 2008) introduced from 1 August 2005 (South Africa, 1991:section 27&4B).
5. The exemption, from 1 August 2005, from having to pay the skills development levy (SDL) for employers with an annual payroll of R500 000 or less per annum (South Africa, 1999: section 4(b)).
6. The introduction of the turnover tax for micro

SRVP benefits

A Small Retailers VAT Package was introduced by SARS in 2004 (SARS, 2005:1). This package provided an alternative method for qualifying small retail businesses to determine the value of the total taxable supplies — that is, it assisted in determining what proportion of the business' sales were taxable at the standard or zero rate. It was aimed at those small retail businesses that found it difficult to issue tax invoices for a large number of supplies made direct to the public. To qualify for this package, the business had to apply to SARS and had to sell standard, as well as zero-rated foodstuffs from the same business premises and had to make taxable supplies (excluding VAT) of less than R1 million in any 12 month period and did not have adequate point of sale equipment (SARS, 2005:1-3). The benefits of being registered for the SRVP was that the business was not required to purchase specialised equipment to record all of its standard and zero-rated sales and would only be required to retain limited records for VAT purposes (SARS, 2005:2). In addition, SARS would have supplied the approved small retailer with pre-printed booklets to assist it in determining its daily gross takings and zero-rated sales (SARS, 2005:2).

Capital gains tax benefits

Persons who operate small businesses as defined in paragraph 57 of the Eighth Schedule to the Income Tax Act (South Africa, 1962) are entitled to exclude R900 000 (R750 000 before 1 March 2011) of the capital gain made on the disposal of active business assets (subject to certain conditions) when they attain the age of 55 years, or where the disposal is in consequence of ill-health, other infirmity, superannuation or death.

VAT benefits

Small businesses with taxable supplies not exceeding R1 000 000 are not required to register for this tax and are therefore spared the burden of administering this tax. These businesses may, however, apply (in certain cases) for voluntary registration, which enables them to benefit from input tax credits on certain expenses, but also then imposes upon them the administrative burden of this tax. Certain small businesses are permitted to submit VAT returns every four months, instead of the normal monthly or two-monthly requirement (South Africa, 1991: section 27) which could assist in reducing their administrative burden. In addition, small businesses with taxable supplies of less than R2.5 million per year may elect to pay VAT on the cash basis, rather than the accrual basis (South Africa, 1991: section 15) which again might assist small businesses with their cash flow concerns.

SDL benefits

No SDL needs to be paid by businesses whose total remuneration subject to SDL paid/payable to all its employees does not exceed R500 000.

Turnover tax system

In essence, the benefits of being registered as a microbusiness under the turnover tax system is that these entities are subject to a low rate of tax on turnover without having to keep a record of their expenses and deductions (National Treasury, 2007:39-40). Minimal record-keeping is, however, required – micro businesses will need to retain records of the amounts received and dividends declared during the year of assessment, as well as proof of each asset and liability that has a value of more than R10 000 at the end of the year of assessment (SARS, 2011c:12).

Provisional tax benefits

The benefit available for businesses with a taxable income for the tax year that is R1 million or less, is that it may base its estimate of taxable income for purposes of calculating its second provisional tax payment on the lesser of the basic amount or 90% of its actual taxable income, without incurring any penalties for under-estimating its taxable income. A business that has taxable income of more than R1 million is not permitted to use the basic amount without the risk of incurring under-estimation additional tax/penalties.

Binding private ruling benefits

A small business has to pay only a R2 500 as opposed to a R10 000 application fee for a binding private ruling.

General

The exemption from SDL and relief on under-estimate penalties for provisional tax, were not separately considered in the survey. This is perhaps a flaw in the questionnaire, however, although the SDL is a separate tax, it is contained on the same return, almost calculated in the same way and is paid for in the same manner as employees' tax (PAYE) and is only payable at a rate of 1% (on a very similar amount used for PAYE purposes) and was thus not considered of great importance to this research.

In respect of the provisional tax, it must be noted that this is not a separate tax, but rather a system that makes taxpayers provide for their final tax liability by