

# PERCEPTIONS OF SOUTH AFRICAN TAXPAYERS: A COMPARITIVE STUDY

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# INTRODUCTION



- A government's success or failure to collect tax rests upon the honesty of taxpayers (Adams, 1921:536).
- Tax resistance takes two major forms, tax avoidance and tax evasion (Lewis, 1982:123; OECD, 2004; Webley, Robben, Elffers and Hessing, 1991:2).
- There appears to be a substantial **tax gap** between the tax that is theoretically collectable from economically active persons in South Africa and the tax that is actually collected.
- A figure of R30 billion has been quoted in the press (Cokayne, 2002:6; Kemp, 2002; Leuvennink, 2003:1; Mbanga, 2004; Temkin, 2003:1).



- The reasons for evading taxes have been explored by both economists and psychologists.
- An extensive literature review was conducted and prior research on various aspects relating to tax evasion was analysed.
- A customised scale was developed taking cognisance of this previous research.
- The country of focus for this study was South Africa as only limited research on taxpayers' perceptions has been conducted within a South African context.
- This paper reports specifically on the design of the questionnaire and whether the findings from the current research substantiates earlier research.



# QUESTIONNAIRE DESIGN

- The questionnaire started with a number of **demographic questions** for example age, gender, educational background, employment status.
- Additional **personal information** was determined for example support for current government, views about the future of South Africa, views on income distribution, risk profile, prior dealings with SARS.
- Respondents were then asked whether they agreed, disagreed or had no opinion concerning a number of statements dealing with **general issues related to tax.**
- Respondents were also asked whether they agreed, disagreed or had no opinion regarding a number of statements that relate to **tax evasion** (to determine their views on tax evasion).
- Respondents were then asked to answer “yes” or “no” to statements relating to **tax compliance** (to determine their actions on tax evasion).

# General tax-related statements

- A large proportion of taxes is used by the government for meaningless purposes
- It is unfair to pay tax
- Income tax rates and the VAT-rate must be reduced
- The income tax rate (%) should be the same regardless of the amount of income earned (i.e. everybody pays income tax using the same percentage irrespective of the amount you earn)
- I do not know why I have to pay tax
- Waste and corruption in government is high
- Rich people should pay tax at a higher rate
- Tax is very complicated - I do not know how to calculate my own tax liability
- The amount of tax I have to pay is reasonable considering the benefits received
- The government does not provide enough information about how they use taxpayers' money

# Statements relating to tax evasion

- The fiscal authorities would notice if I decided to evade tax
- Government receives enough tax so it does not matter if some people evade tax
- The burden of tax is so heavy that many people are forced to evade it in order to survive
- Since so many other people are evading tax, I cannot be blamed for evading tax
- I work hard for the income I receive so I should be allowed to keep it all for myself
- People evade tax because the risk that the authorities will find out is low
- Wealthy people evade tax more often than poor people

# Statements relating to tax compliance

- Every year I report all of my income to the fiscal authorities (SARS) when I submit my income tax return
- I would consider not reporting all of my income to the fiscal authorities (SARS) when I submit my income tax return in future
- I have sometimes made higher deductions than was legally permitted when I submitted my income tax return
- I would consider making higher deductions than legally permitted when I submit my income tax return in future
- I would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should
- If a tax advisor advises me not to declare all of my income, I would take his advice

# METHODOLOGY

- Research was of an exploratory nature.
- Statistical hypothesis testing wasn't used.
- Data was collected from a sample of 260 South African taxpayers by means of face to face interviews, based on the questionnaire.
- Study focused on natural taxpayers within the Tshwane metropolitan area (which includes Pretoria, the capital city of South Africa) in Gauteng.
- A private, independent company (i.e., MarkData) was contracted to aid in performing the survey.
- The sample was considered to be acceptable when compared with the 2001 census information (Statistics South Africa, 2004:19-23).

# RESULTS

1. Individual demographic, economic or other factors and respondents' attitudes towards **general tax related issues**
2. Individual demographic, economic or other factors and respondents' attitudes towards **tax evasion**
3. Individual demographic, economic or other factors and respondents' attitudes towards **tax compliance**
4. Relationship between respondents' perceptions towards specific tax-related statements and **tax evasion**
5. Relationship between respondents' perceptions towards specific tax-related statements and **tax compliance**

# 1. Individual demographic, economic or other factors and respondents' attitudes towards general tax related issues

Statement	Factor	Past Research	Current Research
<p>Income tax rates must be reduced</p> <p>And</p> <p>The VAT rate must be reduced</p>	Age	<p>Younger people are more favourably inclined towards increased services (thus higher tax rates). Thus, it appears as if attitudes and life experience may have an impact on taxpayers' actions (Mueller, 1963:233).</p>	<p>No significant differences were found.</p>



# 1. Individual demographic, economic or other factors and respondents' attitudes towards general tax related issues

State-ment	Factor	Past Research	Current Research
<p>Income tax rates must be reduced</p> <p>And</p> <p>The VAT rate must be reduced</p>	Employment status	Self-employed taxpayers are more likely to agree that tax revenue is too high and that the fiscal exchange rate is unfavourable (Vogel, 1974:507).	No significant differences were found.

## 2. Individual demographic, economic or other factors and respondents' attitudes towards tax evasion

Factor	Past Research	Current Research
Age	Young people are more likely to be associated with tax evasion behaviour (Webley <i>et al.</i> , 1991:68-77).	Respondents over 60 years of age believe to a greater extent that tax evasion is not acceptable.
Gender	Friedland <i>et al.</i> , (1978:113) found that females evaded tax more readily than males. Webley <i>et al.</i> , (1991:68-77) revealed that men evaded tax more often than women.	No differences were found in this study.

## 2. Individual demographic, economic or other factors and respondents' attitudes towards tax evasion

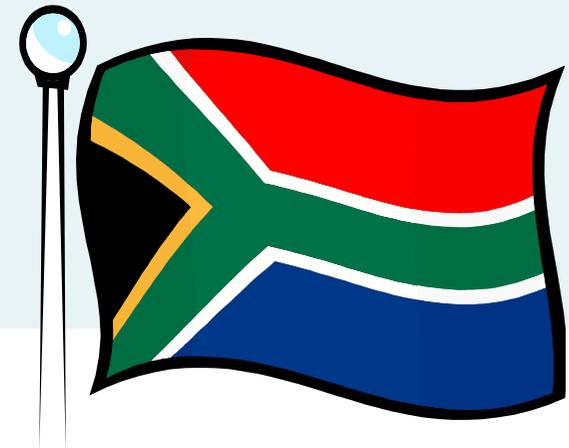
Factor	Past Research	Current Research
Educational background	Groenland and Van Veldhoven (1983, in Webley <i>et al.</i> , 1991:59) found that people with a higher level of education evaded tax more than those with a lower education.	It was found that respondents with a higher educational qualification may tend to evade less than the respondents that have not completed school.
Employment status	Webley <i>et al.</i> , (1991:68-77) found that people who are employed are most likely to be associated with tax evasion behaviour.	No differences were found.

## 2. Individual demographic, economic or other factors and respondents' attitudes towards tax evasion

Factor	Past Research	Current Research
Risk profile	Dean <i>et al.</i> , (1980:42) noted that the desire to “beat the system” is a possible reason for tax evasion.	This study shows no differences in perceptions between respondents with different risk profiles.
Level of support for current government	In Lewis’s (1982:172) model of tax evasion, in relation to individuals, fiscal attitudes and perceptions (which include the individual’s support for government policies) affect a taxpayer’s decision whether or not to evade paying tax.	No differences were revealed.

## 2. Individual demographic, economic or other factors and respondents' attitudes towards tax evasion

Factor	Past Research	Current Research
Views on the future of South Africa	According to Lewis's (1982:172) model of tax evasion, some taxpayers may have a better understanding of the working of fiscal policy than others, and, by contrast, tax authorities who are perceived as rigorous invaders of personal liberty may, in turn, engender more antipathetic tax attitudes.	No differences were revealed.



## 2. Individual demographic, economic or other factors and respondents' attitudes towards tax evasion

Factor	Past Research	Current Research
Views on income distribution	According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system.	Respondents who are of the opinion that everyone should be entitled to keep the income they earn, would evade tax more than those who believe that all income earned should accrue to the government, which should distribute this equally among all South Africans.

### 3. Individual demographic, economic or other factors and respondents' attitudes towards tax compliance

Factor	Past Research	Current Research
Age	People who are young are most likely to be associated with tax evasion behaviour (Webley <i>et al.</i> , 1991:68-77).	This study indicates that respondents over 60 years of age are more likely to be tax compliant, whereas younger respondents (that is, 21-29 years of age) are less likely to be tax compliant.

### 3. Individual demographic, economic or other factors and respondents' attitudes towards tax compliance

Factor	Past Research	Current Research
Risk profile	The desire to “beat the system” is a possible cause of tax evasion (Dean <i>et al.</i> , 1980:42).	It appears that respondents who consider themselves to be risk-takers are less likely to be tax compliant than those who consider themselves to be more risk averse.

### 3. Individual demographic, economic or other factors and respondents' attitudes towards tax compliance

Factor	Past Research	Current Research
Prior dealings with SARS	Lewis (1982:172) suggests that tax inspectors influence a person's attitude to tax behaviour.	Respondents who have consulted with SARS officials in the past are more likely to comply with tax requirements than those who have not.



### 3. Individual demographic, economic or other factors and respondents' attitudes towards tax compliance

Factor	Past Research	Current Research
Views on income distribution	According to the Australian Cash Economy Task Force (1998:18), taxpayer compliance decisions can be affected by economic factors such as the tax system.	Respondents who are of the opinion that everyone should be entitled to keep the income they earn, are less tax compliant than those who believe that all income earned should accrue to the government, which should distribute this equally among all South Africans.

## 4. Relationship between respondents' perceptions towards specific tax-related statements and tax evasion

Statement	Past Research	Current Research
A large proportion of taxes is used by the government for meaningless purposes	A possible reason for tax evasion is government wastage (Dean <i>et al.</i> , 1980:42).	The majority of all the respondents agreed with the statement: "A large proportion of taxes is used by the government for meaningless purposes". Similarly, the majority of respondents who agreed with the statements relating to tax evasion (that is, those who will tend to evade more), also agree with this statement.

## 4. Relationship between respondents' perceptions towards specific tax-related statements and tax evasion

Statement	Past Research	Current Research
It is unfair to pay tax	Previous research revealed that people use the unfairness of the tax system as a justification for evasion (Webley <i>et al.</i> , 1991:68-77).	The current study showed no relationship.



## 4. Relationship between respondents' perceptions towards specific tax-related statements and tax evasion

Statement	Past Research	Current Research
Income tax rates must be reduced and the VAT rate must be reduced	A substantial proportion of South African respondents indicated that they would support the introduction of lower tax rates (Oberholzer, 2005:249-275).	The current study showed no relationship.

## 4. Relationship between respondents' perceptions towards specific tax-related statements and tax evasion

Statement	Past Research	Current Research
Tax is very complicated – I do not know how to calculate my own tax liability	Song and Yarbrough (1978:450) asked respondents to compare and rank each of the five commonly discussed shortcomings of income tax. They found that “there are too many loopholes” and “the regulations are too complicated” were ranked second and third respectively.	A high proportion of all respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), agree that tax is complicated and that they do not know how to calculate their own tax liability.

## 4. Relationship between respondents' perceptions towards specific tax-related statements and tax evasion

Statement	Past Research	Current Research
The amount of tax I have to pay is reasonable considering the benefits received	A past study found that on the whole, South African respondents are positive about paying tax, if the government applies the revenue appropriately for the benefit of the taxpayer (Oberholzer, 2005:249-275).	A large proportion of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), disagree with the statement: "The amount of tax I have to pay is reasonable considering the benefits received".

## 4. Relationship between respondents' perceptions towards specific tax-related statements and tax evasion

Statement	Past Research	Current Research
The government does not provide enough information about how they use taxpayers' money	A study conducted by Oberholzer (2005:249-275) showed that a significant proportion of the South African respondents are of the opinion that the government should be more transparent in the utilisation of taxpayers' money.	The majority of all respondents agreed with this statement. Similarly, a large proportion of respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more), agree that the government does not provide enough information about how they use taxpayers' money.

## 5. Relationship between respondents' perceptions towards specific tax-related statements and tax compliance

Statement	Past Research	Current Research
A large proportion of taxes is used by the government for meaningless purposes	A possible reason for tax evasion is government wastage (Dean <i>et al.</i> , 1980:42).	The majority of all the respondents agreed with this statement. Similarly, a large proportion of the respondents who are less tax compliant, agree with this statement.

## 5. Relationship between respondents' perceptions towards specific tax-related statements and tax compliance

Statement	Past Research	Current Research
It is unfair to pay tax	Previous research revealed that people use the unfairness of the tax system as a justification for evasion (Webley <i>et al.</i> , 1991:68-77).	The majority of all the respondents disagreed with this statement. Nevertheless, a greater proportion of the respondents who are more tax compliant, disagree with the abovementioned statement than those who are less compliant.

## 5. Relationship between respondents' perceptions towards specific tax-related statements and tax compliance

Statement	Past Research	Current Research
Income tax rates and the VAT rate must be reduced	A substantial proportion of South African respondents indicated that they would support the introduction of lower tax rates (Oberholzer, 2005:249-275).	The majority of all the respondents agreed with these statements. Similarly, a large proportion of the respondents who are less tax compliant, agree that the rates must be reduced.

## 5. Relationship between respondents' perceptions towards specific tax-related statements and tax compliance

Statement	Past Research	Current Research
Tax is very complicated – I do not know how to calculate my own tax liability	Song and Yarbrough (1978:450) asked respondents to compare and rank each of the five commonly discussed shortcomings of income tax. They found that “there are too many loopholes” and “the regulations are too complicated” were ranked second and third respectively.	The findings of this study reveal that amongst those respondents that are more tax compliant, there is an even division between those who agree, those who disagree and those with neutral views towards this statement.

## 5. Relationship between respondents' perceptions towards specific tax-related statements and tax compliance

Statement	Past Research	Current Research
The amount of tax I have to pay is reasonable considering the benefits received	A past study found that on the whole, South African respondents are positive about paying tax, if the government applies the revenue appropriately for the benefit of the taxpayer (Oberholzer, 2005:249-275).	A higher proportion of the respondents who are less tax compliant disagree with the statement, compared to those who are more tax compliant.

## 5. Relationship between respondents' perceptions towards specific tax-related statements and tax compliance

Statement	Past Research	Current Research
<p>The government does not provide enough information about how they use taxpayers' money</p>	<p>A study conducted by Oberholzer (2005:249-275) showed that a significant proportion of the South African respondents are of the opinion that the government should be more transparent in the utilisation of taxpayers' money.</p>	<p>The majority of all the respondents agreed that the government does not provide enough information about how they use taxpayers' money, however, a higher proportion of respondents who are less compliant, agree with the statement.</p>

## 6. Perceptions of penalties relating to tax evasion

Statement	Past Research	Current Research
The appropriateness of penalties with regard to tax evasion	In a Swedish study, Vogel (1974:499-513) requested taxpayers to choose suitable penalties for tax evasion from a set of fixed alternatives. The choice of a prison term appears to be a good indicator of the perceived seriousness of tax offences.	In South Africa the respondents have stronger views regarding the punishment for crimes such as hijacking, housebreaking and drunken driving (imprisonment) than punishment for tax-related offences (fine). The respondents do not perceive tax evasion and failing to report additional income to be as serious as the aforementioned crimes.

## 6. Perceptions of penalties relating to tax evasion

Statement	Past Research	Current Research
The severity of penalties will affect evasion.	According to Allingham and Sandmo's (1972:338) classical model if penalties are severe, people will be more compliant.	The findings of this study contradict the classical model. A large proportion of the respondents who agree with the statements relating to tax evasion (that is, those who will tend to evade more) also believe that the penalties associated with tax evasion are too severe.
The risk that the authorities will find out.	A study by Dean <i>et al.</i> (1980:39-40) found that tax evasion may increase if people believe that they will not be detected.	The results of the present study reveal that tax evasion may increase if people believe that they will not be detected.

# CONCLUSION



- It is imperative to determine taxpayers' perceptions. This will influence government policy regarding to taxation.
- In addition it will enable government to market itself and its services more effectively to the general public.
- The results of this study suggest that a large number of factors play a role in individual behaviour.

- In addition to include factors from previous research the study also included factors unique to South Africa.
- This study expanded on previous research by adding factors unique to South Africa, these factors include population groups, home language, income per month, registered as a taxpayer.
- The study only focused on natural persons. Other persons might extend the findings of this research by testing these findings in other areas, amongst other population groups and utilising other interrogation methods.
- Thank you!!!

