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CHALLENGES FACED BY TAX COMPLIANT MICROENTERPRISES IN MIDRAND



A RESEARCH REPORT PRESENTED TO THE SCHOOL OF PUBLIC AND DEVELOPMENT MANAGEMENT

UNIVERSITY OF THE WITWATERSRAND

By

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ABSTRACT

Microenterprises have the potential to address the triple challenges of unemployment, poverty and inequality because of the opportunities they present to the socially and economically disadvantaged in South Africa. This has a spillover effect of growing the economy. However, the challenges faced by tax compliant microenterprises as uncovered in this qualitative research, limits them in meeting potential. Twelve respondents comprising of three clusters (tax practitioners, microenterprise owners and SARS official) were purposefully and conveniently sampled to give their views and opinions about the challenges. The lack of expertise, SARS' evolving rules and regulations, financial costs of being compliant, onerous tax compliance preparations, and constitutional ambiguity and unclear definition of microenterprises were observed to be the major challenges that tax compliant microenterprises face. Although the South African government is not oblivious of the dilemma that tax compliant microenterprises often find themselves in, more needs to be done to ease their plight in operating in an enabling business environment. This study provides an insight into the current and future tax issues that government needs to address towards creating an enabling tax environment for businesses. The scope of this paper is limited as the researcher sought to bring to light the challenges faced by microenterprises. Other emerging issues, such as the benefits of being compliant could not be fully established and paves the way for further research.

Key words: ***Tax Compliance, Microenterprises, and Challenges in Tax compliance***

DECLARATION ON PLAGIARISM

I, Simon Lakola Letsoalo, (Student Number: 697176), I am a registered student for MM PDM in 2013.

Hereby declare the following:

I confirm that the work I submit for all assessments for the above course is my own unaided work. I have followed the required conventions in referencing the thoughts and ideas of others. I am aware that the correct method of referencing material and a discussion on what plagiarism is, are explained in the P&DM Study Guide and these issues have been discussed in class during Orientation sessions and documented in the Introduction and Orientation Guide.

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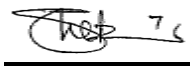
Signature:  *Date: 27/10/2014*

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TABLE OF CONTENTS

ABSTRACT ii

DECLARATION ON PLAGIARISM iii

ACKNOWLEDGEMENTS iv

GLOSSARY OF TERMS ix

LIST OF ABREVIATIONS xi

LIST OF TABLES xii

LIST OF FIGURES xiii

CHAPTER ONE 1

1 Introduction 1

1.1 Background 1

1.2 Problem Statement 2

1.3 Purpose Statement 3

1.4 Research Questions 4

1.5 Importance of the research 4

1.6 Structure of the Report 4

1.7 Conclusion 5

CHAPTER TWO 7

2 Literature Review 7

2.1 Microenterprises in perspective 7

2.1.1 Defining microenterprises: A world view 8

2.1.2 Defining microenterprises in South Africa 9

2.1.3 Discrepancies in defining microenterprises 11

2.1.4 Creating an enabling business environment 11

2.2 Taxation 12

2.2.1 Tax Compliance 13

2.2.2 Theoretical basis of tax compliance 13

2.2.3 Obligations of being tax compliant 14
2.3 South Africa's tax system for microenterprises 15
2.3.1 Year of assessment (tax year) 15
2.3.2 Filing of tax returns 16
2.3.3 eFiling 16
2.3.4 Turnover tax for microenterprises 16
2.4 The advantages associated with tax compliance 17
2.5 Emerging tax compliance challenges 18
2.6 Measures by governments to ensure and enhance compliance 20
2.7 Conclusion 21
CHAPTER THREE 23
3 Research Methodology 23
3.1 Research Paradigm 23
3.2 Research Strategy 24
3.3 Type of qualitative research and research methods 24
3.4 Sampling 25
3.4.1 Cluster 1 26
3.4.2 Cluster 2 26
3.4.3 Cluster 3 27
3.5 Data Collection Procedure 28
3.6 Data Presentation and Analysis 29
3.7 Data Validation 30
3.8 Ethical Considerations 31
3.9 Limitations of Research 31
3.10 Conclusion 32
CHAPTER FOUR 33
4 Data Presentation 33

4.1 The meaning of being tax compliant for microenterprises 34
4.2 The challenges encountered by tax compliant microenterprises 41
4.3 Government efforts in creating a conducive tax compliance environment for microenterprises 46
4.4 Conclusion 49
CHAPTER FIVE 50
5 Data Analysis 50
5.1 Analytical framework 50
5.2 Emerging themes relating to the meaning of tax compliance 52
5.3 Challenges faced by microenterprises 53
5.3.1 The lack of expertise 53
5.3.2 SARS evolving rules and regulations 54
5.3.3 Technological adjustment challenges 54
5.3.4 Financial costs of being compliant 55
5.3.5 Onerous tax compliance preparations 56
5.3.6 Constitutional ambiguity and unclear definition of microenterprises 56
5.4 Measures to ensure compliance 57
5.4.1 Measures in addressing the lack of expertise 57
5.4.2 Measures addressing the challenge of SARS evolving rules and regulations 58
5.4.3 Measures addressing technological adjustment challenges 58
5.4.4 Measures addressing the financial costs of being compliant 59
5.4.5 Measures addressing onerous tax compliance preparations 59
5.4.6 Measures addressing constitutional ambiguity and unclear definition of microenterprises 60
5.5 Conclusion 60
CHAPTER SIX 62
6 Conclusion and Recommendations 62

6.1 Conclusion 62
6.2 Recommendations 63
REFERENCES 65
7 APPENDICES 69
7.1 Appendix A: Interview Schedule 69
7.2 Appendix B: Information and Consent Form 71

GLOSSARY OF TERMS

Income Tax: An annual tax that is payable to SARS based on taxable income (net income) that is received by or accrues to individuals, companies, and other taxpayers after deducting qualifying expenses and allowances (SARS, Tax Guide For Micro Business 2012/13, 2012a)

microenterprises /Micro Business: A Micro Business is classified as a company with a gross income (sales / turnover plus other income) not exceeding R1 million and total assets (current and non-current) not exceeding R5 million, and that is not classified as a Body Corporate / Share Block Company (SARS, Income Tax Return For Companies, 2013)

Tax: A compulsory financial contribution imposed by a government to raise revenue, levied on income or property of persons or organisations, on the production costs or sales of goods and services (Turner, Smith, & Gurd, 1998)

Tax compliance: Compliance refers to the degree to which taxpayers and traders, along with intermediaries like practitioners and clearing agents meet their legal obligations (SARS, SARS Compliance Programme 2012/13 – 2016/17, 2012)

Turnover Tax: Turnover tax is a simplified tax system aimed at making it easier for micro businesses to comply with their tax obligations. The turnover tax system replaces Income Tax, VAT, Provisional Tax, Capital Gains Tax and Dividends Tax. A micro business that is registered for turnover tax can, however, choose to remain in the VAT system as of 1 March 2012 (SARS, Tax Guide For Micro Business 2012/13, 2012a).

Professional service: A service in the field of accounting, actuarial science, architecture, auctioneering, auditing, broadcasting, consulting, draftsmanship, education, engineering, financial service broking, health, information technology, journalism, law, management, real estate broking, research, sport, surveying, translation, valuation or veterinary science (SARS, Tax Guide For Micro Business 2012/13, 2012a)

Value Added Tax: Value-Added Tax (also commonly known as VAT) is an indirect tax on the consumption of goods and services in the economy. Revenue is raised for

government by requiring certain businesses to register and to charge VAT on the taxable supplies of goods and services. These businesses become vendors that act as the agent for government in collecting the VAT (SARS, Income Tax Return For Companies, 2013).

LIST OF ABREVIATIONS

ASA……	Accountancy South Africa
DTI……	Department of Trade and Industry
GDP.....	Gross Domestic Product
ITD……	Income Tax Department
IFC……	International Finance Corporation
IRS.....	Internal Revenue Services
MSEs.....	Micro and Small Enterprises
MSMEs…….	Micro, Small and Medium Enterprises
NSBC.....	National Small Business Council
NSBSS.....	National Small Business Support Strategy
SARS.....	South African Revenue Service
SMMEs.....	Small, Micro and Medium Enterprises
VAT……	Value Added Tax

LIST OF TABLES

Table 1: Generalised definition of microenterprises in South Africa……. 10

Table 2: Turnover Tax Marginal Rates For microenterprises 2012-2013…… 17

Table 3: Sample Composition…….. 25

LIST OF FIGURES

Figure 1: A synopsis of taxation……...……. 12

CHAPTER ONE

1 Introduction

Microenterprises, across the globe, are increasingly becoming important community development tools, as they provide individuals (including those of low to moderate income) with the opportunity to create their own employment (Hasseldine, Evans, Hansford, Lignier, Smulders, & Vaillancourt, 2012). This is so because they afford them the opportunity to capitalise on their skills and ideas through their own businesses. Although these opportunities may be somewhat limited, their potential in helping individuals, families, or communities to accumulate assets and wealth cannot be overlooked. However, since microenterprises operate in a regulated environment, they are liable for complying with the tax regulations that apply to their business strata to Government. Being tax compliant has not been without its challenges for these microenterprises. This research focuses on microenterprises in Gauteng's Midrand area in order to give insight on what challenges, since 1996, they face in becoming tax compliant.

1.1 Background

Post 1994, South Africa has been advancing towards the promotion of Small, Micro, and Medium Enterprises (SMMEs) which are seen as key to economic growth and job creation, especially amongst the country's historically disadvantaged communities. In a study, Smulders (2006) observed that SMMEs contribute 36.1% of South Africa's Gross Domestic Product (GDP) and employ 68.2% of the workforce in the private sector. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce (Smulders, 2006 cited in Zhang, 2010). Arendse, Karlinsky, Killian, and Payne (2006) also highlighted the job creation potential of this sector of the economy when they suggested in their research findings that the growth in employment creation by SMMEs exceeded that of larger businesses in recent times since the coming of the year 2000 which was a new millennium.

The role that tax, as a source of public resources, plays in the development efforts in different countries is rather well pronounced. Khalilzadeh-Shirazi and Shar (1994) assert that the role that Public Finance plays in development featured prominently in public policy discussions at a time that most developing countries were experiencing significant macroeconomic imbalances and slow economic growth during the 1980s. At the core of these discussions was how tax systems needed to be reformed for an effective and efficient tax system in order to boost government's fiscus. As such taxation has become a vital component of the development efforts in most African states (Smulders & Stiglingh, 2008). This is so because taxes collected are converted by the government to, for instance, provide basic infrastructure and social services; hence the need to create properly functioning tax systems.

The South African Revenue Service (SARS) is the custodian of tax in the Republic South Africa. Although the Republic's tax system is considered to be among the most efficient and effective in Africa (ASA, 2011), the system is to some extent inefficient, lacking clarity, when it comes to business tax of Small Enterprises (microenterprises included). It is documented that the sector is consistently arguing that complying with taxation regulations is a constraint to their growth due to, for instance, time consuming preparations, the associated costs of compliance (Turner, Smith, & Gurd, 1998). It also emerged that the lack of a clear definition and the constantly changing tax submission systems by tax regulators are among the pronounced apprehensions of being tax compliant.

Further discussions on these and other concerns arising from tax compliance are provided for in the literature review section. However, it is of importance to point out at this point that Turnover tax, Income tax, Value Added Tax (VAT) and Pay As You Earn tax (PAYE) are the main types of taxes that apply to South African Companies (Department of Trade and Industry, 2007; National Small Business Act, 1996).

1.2 Problem Statement

Microenterprises in South Africa often find it difficult to operate in a somewhat unclear and constrained tax environment for one reason or the other. Both previous studies and anecdotal evidence suggest that being tax compliant poses challenges for microenterprises which hamper their development as limited business time and

other scarce resources such as funds are spent in meeting compliance regulation. The payment of taxes is an inescapable reality for all businesses in South Africa. However, microenterprises find the regulatory procedures to be followed when being compliant unclear (for instance: where to draw the line between a micro and small business) and a burden (for instance, compliance costs, time consuming) as they are unsolicited challenges. Eichfelder and Schorn (2009), Smulders and Naidoo (2013), Turner, Smith, and Gurd (1998), among other authors, contend that the protracted, costly and often confusing procedures to be followed when being compliant are considered an affliction to the growth of the Small Business sector (microenterprises included).

Although much research has been done on Tax Compliance by Small businesses in South Africa, much focus has been levelled towards quantifying compliance costs (see for instance: Smulders and Stiglingh, 2008; Zhang, 2010). Little attention has also been drawn on microenterprises, as the focus has been more on the broader category of Small Business (which includes the micro, small and medium enterprises). Smulders and Naidoo (2013, p. 275) made the same observation that "the extent of the in/decrease in the tax compliance burden/cost as a result of these challenges (by SARS) is not yet clear and requires further investigation". In this light, the reseacher identified a gap on the challenges "microenterprises" (after being detached from the broader "Small Business" grouping) face. The focus area will be in Midrand.

1.3 Purpose Statement

The purpose of this research is to investigate the challenges faced by tax compliant microenterprises in South Africa. The research is intended to aid our understanding of what it means for microenterprises when being tax compliant. Bringing to light the challenges faced is intended to inform the government and SARS on the areas to improve or reform in order to create an enabling business environment for the microenterprises. As such, the research objectives are as follows:

1. To understand what being tax compliant means for microenterprises;
2. To contribute to the microenterprises development efforts by the government, and

3. To recommend to SARS on areas to improve before implementing tax reforms.

1.4 Research Questions

The main research question is: What challenges do microenterprises encounter to be tax compliant?

1. How do the challenges affect microenterprises?
2. What can government do to ensure that compliance by microenterprises does not pose a stumbling block to their growth and development?

1.5 Importance of the research

Literature on tax compliance of small business (microenterprises included) revealed that considerable research has been done, although much of it focuses on the small business sector as a whole. It also emerged that much research conducted elsewhere focused more on quantifying the tax compliance costs (tax burden). Given that tax regulations are constantly changing and the business environment ever evolving, it is important that further research narrows the gap associated with these transformations.

This research serves to bridge this gap by contributing to the broader knowledge with information relating to the tax compliance of “microenterprises” in South Africa. Researching on the challenges faced by microenterprises when being tax compliant is of relevance in the ever-changing business environment as it paves the way for a better understanding of the sector (since much of the research conducted elsewhere looked more on the small business sector as a whole). The research will also provide policymakers with recent information that can be used make informed decisions when either improving tax systems or in finding solutions towards the creation of a more conducive business environment for microenterprises.

1.6 Structure of the Report

The research report is comprised of six chapters. Each chapter contains descriptions and discussions relating to the specific subject matter. The chapters are organised as follows:

Chapter One: This chapter introduces the topic through providing a brief background, the purpose of the study and the context in which the research will be conducted. It also brings into perspective the areas of focus which will be guided by the research questions supplied.

Chapter Two: Chapter Two presents the Literature Review. This chapter looks at the literature around which the research has been formulated. The literature review discusses and defines the key terms around the topic, looks at key authors or theories, and also raises some key arguments around taxation of microenterprises.

Chapter Three: Chapter Three covers the Research Methodology. It discusses and explains the research methodology and design strategy used by the researcher in: selecting the research area, sampling the respondents, collecting and analysing data.

Chapter Four: This chapter forms the Data Presentation section. It presents research findings as brought forward by the research respondents when answering the research questions. This chapter forms the emerging themes and summarises the issues, perspective or arguments as spoken by the respondents.

Chapter Five: This chapter is the Data Analysis section. This is where the researcher analyses data by putting into perspective the data that was collected and the literature which was reviewed. The question of meaning is answered by the researcher in view of all the data available.

Chapter Six: This is the Conclusions and Recommendations chapter. This is where the researcher concludes the study and recommends based on the key findings of the research. It links what the researcher sought to do with what the researcher found out when it comes to the challenges faced by microenterprises when being tax compliant.

1.7 Conclusion

The potential that microenterprises have in creating jobs, growing the economy or reducing poverty is well documented. However, the challenges (lack of finances, complying with tax regulations, lack of support from governments, and etcetera) they face threaten the realisation of their full potential. This research investigates

microenterprises in Midrand to bring to light the challenges they face in complying with the tax regulations in South Africa. In doing so, this research will investigate what tax compliance means for microenterprises as this will usher in a better understanding of their attitude and responsiveness to tax regulatory policies. A further enquiry into the challenges they face will pave the way for the researcher to propose measures that the government may take to ensure compliance.

The following Chapter presents a literature review of research that has been conducted elsewhere around the world including South Africa. Doing so presents issues that have been raised when looking at the challenges faced by tax compliant microenterprises.

CHAPTER TWO

2 Literature Review

The purpose of this section is to briefly explore and assess the different literature by researchers who have contributed to the broader knowledge about microenterprises and the challenges faced in becoming Tax compliant. Although there is a growing body of literature about tax compliance for businesses, there is little research that has been done which entirely looks at microenterprises. However, with the available literature, this review aims to aid our understanding of microenterprises in South Africa. It will look at how microenterprises are defined in the South African context and also around the world. It will also engage literatures which look at Tax Compliance of microenterprises. This review is divided into five main parts which look at: firstly, microenterprises from different perspectives; secondly, company Taxation; thirdly, Tax Compliance of microenterprises, fourthly, the emerging challenges often faced by tax compliant microenterprises; and lastly, that measures that governments can put to ensure compliance.

Search strings used in putting together the Literature review from the University of the Witwatersrand available databases (among others, are: Proquest, Science Direct, EBSCOHost, and Google Scholar) were *Tax Compliance, microenterprises, and Challenges in Tax compliance by microenterprises.* The literature sourced has been current to the past ten years, with the bulk sourced from the past five years. This review is not exhaustive of all issues, but brings into perspective some of the key themes and arguments around the challenges faced by tax compliant microenterprises.

2.1 Microenterprises in perspective

Microenterprises are considered as key catalysts for economic growth due to their job creation tendency which economically empowers labour force in any economy (Smulders & Stiglingh, 2008; SARS 2012). Among other indicators, efforts towards creating an enabling environment for their development, and the rising support offered by different governments to small businesses are evidence of their importance. In most developing countries, small businesses are regarded as key

drivers towards addressing poverty and unemployment, especially for the less skilled labour force (Arendse, *et al*, 2006; Bodin & Koukpaizan, 2008; Smulders & Naidoo, 2013). However, small businesses operate in a regulated environment in which for all their business undertakings, they have to be tax compliant to the tax regulations by the government. Coolidge (2010) and Klein (2005) concur that these regulations are not without their challenges for small, medium or micro businesses.

2.1.1 Defining microenterprises: A world view

There is no single internationally agreed upon definition as different countries around the world define microenterprises differently. This is so because in different countries, sets of variables are considered in their classification which has led to them being defined differently in different literatures.

The **United Kingdom, for** instance categorises microenterprises based on the number of employees employed by that business. The United Kingdom Department of Trade and Industry applies the following criteria to categorise the number of employees the firm employs:

- Micro firm: 0 – 9 employees
- Small firm: 0 – 49 employees
- Medium firm: 50 – 249 employees
- Large firm: over 250 employees

In **India**, micro, small and medium enterprises as stipulated in the Micro, Small and Medium Enterprises (MSME) Development Act (2006) are defined based on the investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services. According to the MSME Development Act (2006), a micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees (500, 000 rupees or 87, 000 rands). A medium enterprise is where the investment in plant and machinery is more than five crore rupees (50, 000, 000 million rupees or 8, 071, 000 rands) but does not exceed ten crore rupees (100, 000, 000 rupees or 17, 000, 420 rands). A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees (2, 500, 000 or 435, 500 rands) but does not exceed five crore rupees (50, 000, 000

rupees or 8, 071, 000 rands). In the case of the enterprises engaged in providing or rendering of services, as

1. A microenterprise is where the investment in equipment does not exceed ten lakh rupees (one million rupees or one hundred and seventy four thousand five hundred rands).
2. A small enterprise is where the investment in equipment is more than ten lakh rupees (one million rupees or one hundred and seventy four thousand five hundred rands) but does not exceed two crore rupees (twenty million rupees or three million four hundred and eighty four thousand rands).
3. A medium enterprise is where the investment in equipment is more than two crore rupees (twenty million rupees or three million four hundred and eighty four thousand rands) but does not exceed five crore rupees (fifty million rupees or eight million and seventy one thousand rands).

2.1.2 Defining microenterprises in South Africa

In order to have a clearer view on how microenterprises are defined in South Africa, it is of importance to ascertain what "SMME" and "Small Business" means as often these terms are used interchangeably (with microenterprises also included). The 1996 National Small Business Act defines an SMME as:

> *"…a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more persons which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy" (National Small Business Act, 1996).*

SMMEs in the South African context are classified into five categories, namely: survivalist enterprises; microenterprises; very small enterprises; small enterprises; and, medium enterprises. The survivalist enterprise is generally seen as providing an income below the poverty line. Medium enterprises employ usually 100 and 200 employees and are usually difficult to demarcate as they fall in the category big and small businesses. They are owner managed or manager controlled with shareholding. In terms of classification they have an annual turnover of between R4 million and R50 million and this enterprise has a gross asset of between R4 million and R18 million depending on the industry of their classification.

Table 1: Generalised definition of Small Business in South Africa

SIZE OF ENTERPRISE	NUMBER OF EMPLOYEES	ANNUAL TURNOVER	GROSS ASSETS
Medium	Fewer than 100-200, depending on industry	Under R4m to R50m, depending on industry	Under R2m to R18m, depending on industry
Small	Fewer than 50	Less than R2m to 25m, depending on industry	Less than R2m to 4.5m, depending on industry
Very Small	Fewer than 10 to 20 depending on industry	Less than R 200,000 to R500,000, depending on industry	Less than R150,000 to R500, 000, depending on industry
Micro	Fewer than 5	Less than R150,000	Less than R150,000

Source: *National Small Business Act, 1996*

Small enterprises employ between five and 50 employees and constitute the bulk of the established businesses in the country. These businesses are controlled by a few directors or are owner managed. They usually operate from small offices and are registered for tax. It is not easy to classify the business in terms of assets and turnover due to the various businesses sector differences, for example, professional services, retailing, manufacturing, to mention a few.

Microenterprises are considered as businesses with a turnover of below the VAT registration limit of R300, 000. Many of these microenterprises are informal and provide livelihood to millions of people in South Africa (Annual Review of Small Business, 2004). Smulders, Stiglingh, Frazsen, and Fletcher (2012) alluded to the fact that from an economic as well as taxation perspective, no single consistent definition of a "small business" is available (microenterprises included). The discrepancies from these definitions, pave the way for microenterprises to define themselves in a manner that is regarded convenient or suitable, which in most instances results in them not being tax compliant.

Although what constitutes a microenterprise varies widely around the world, this paper derives its definition from that stipulated by the South Africa's tax custodian: South African Revenue Service (SARS). A micro business is a company with a gross income (sales or turnover plus other income) not exceeding R1 million and total assets (current and non-current) not exceeding R5 million, and that is not classified

as a Body Corporate or Share Block Company (SARS, Income Tax Return For Companies, 2013).

2.1.3 Discrepancies in defining microenterprises

Although similar, the fact that other definitions of microenterprises are provided elsewhere in different literatures presents challenges for researchers on how they are defined. They often vary from country to country, in most instances around the size, gross assets, turnover, and industry sector of the businesses: and also along the value specifications of these aspects.

Besides the different definitions that different countries assign to microenterprises, it also emerged that within the same country, microenterprises are defined differently for different reasons. Kushnir (2006) exemplified that there is often more than one agency that have their own definition (for instance: statistical institutes, private banks, governmental MSME promotion agencies and others). Kushnir (2006) further stated that out of 120 economies covered, 26 economies have more than one MSME definition. Such inconsistencies have not been without their own effects in the misinterpretations of what constitutes a microenterprise.

2.1.4 Creating an enabling business environment

The International Finance Corporation (2012) assessed that in order to create an enabling environment a country needs the growth of MSMEs; there is need for “three main pillars” to be functional and fully support the sector. These pillars were identified as:

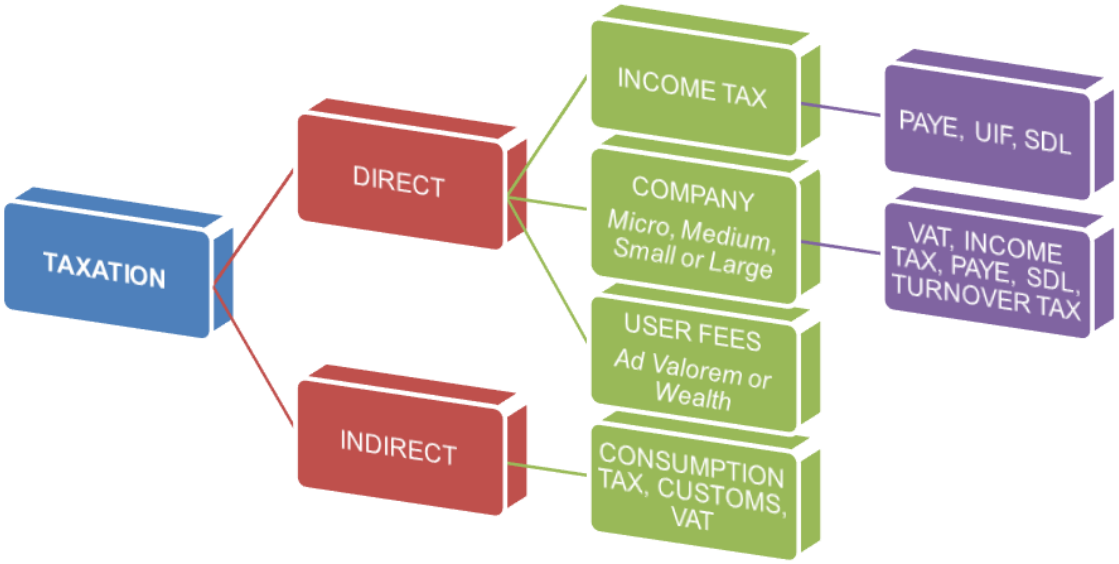
- Legal and regulatory framework;
- Government support; and
- Financial infrastructure support.

MSMEs function in a highly competitive environment and require an enabling environment to sustain growth. As such, well-structured fiscal support, a strong policy framework, and incentives promoting innovation by financial institutions have the propensity to significantly promote the growth and survival of the small business sector. For the purposes of this paper, most attention will be on the legal and regulatory framework pillar where taxation comes in.

2.2 Taxation

Turner, Smith, and Gurd (1998) define tax as a compulsory financial contribution imposed by a government to raise revenue levied on: income or property of persons or organisations, on the production costs or sales of goods and services. Tax is essentially a fiscal instrument employed by the government in the collection of revenue from firms and the households or individuals. There are two categories of taxes that are levied on the individual as well as on companies. Figure 1 below presents a skeletal outline of taxation and the two categories.

Figure 1: A synopsis of taxation



Source: Author Compilation

Taxation is fundamentally one of the most flexible ways to raise per capita incomes and to support increases in real GDP growth rates (Bodin & Koukpaizan, 2008). Fourie and Burger (2009) assert that taxation is a sovereign right of any government used to transfer resources from private to public use in order to achieve the macroeconomic and political goals. McGee (2004) asserts that there are five main purposes for collecting revenue through taxes:

1. To give the government power to allocate resources;
2. To enable the government to provide or support social development;
3. To stabilise the economy;
4. To constitute and define the marketplace; and

5. To encourage optimal economic growth

In view of the above, it can be asserted that taxation is an effective domestic tool that governments have direct control over to develop the resources needed to meet their social, economic, and political goals if taxpayers are compliant to tax policies.

2.2.1 Tax Compliance

Devos (2014) underlined that across all tax compliance studies, there is no standard all-embracing definition of compliance in view that it can be defined in terms of either meeting the tax reporting requirements or in terms of the tax gap. Taxpayer compliance in terms of complying with the reporting requirements, entails that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue code, regulations and court decisions applicable at the time the return is filed (Devos, 2014). In terms of the tax gap, this entails looking at the difference between 'true' individual income tax liability and that which is finally collected on a voluntary basis or by enforcement action. For the purposes of this research, being Tax Compliant is the act of being obedient (Coolidge, 2010; McGee, 2004) to this regulation through being registered with the regulatory body and paying of taxes (for instance: VAT, turnover tax).

2.2.2 Theoretical basis of tax compliance

This section provides a theoretical basis of Tax Compliance in view that the phenomenon is not new. Exploring the associated theoretical framework channels a deeper understanding of tax compliance. According to Roth, Scholz & Witte (1989) in Devos (Devos, 2014) the main theoretical approaches to tax compliance have commonly been divided into two:

a. The 'economic deterrence' approach, and
b. The wider behavioural approach (which incorporates both social and fiscal psychological approaches)

The behavioural approach focuses on psychological variables, which include moral values and the perception of fairness of the tax system and the tax authorities. The economic deterrence model, which this paper finds to be more applicable to the

assessment of tax compliance of microenterprises, has commonly been used to examine tax evasion and compliance from a theoretical perspective. Factors that are examined in the economic deterrence model include:

1. Complexity of the tax system;
2. Level of revenue information services;
3. Withholding and information reporting;
4. Prepare responsibilities and penalties;
5. The probability of receiving audit coverage;
6. Progressive and actual level of tax rates; and
7. Penalties for non-compliance.

Despite a number of factors which have been examined under this model, the early pioneering work of Jackson and Milliron (1986) shows that there is no unanimous agreement on any one of these factors, thus indicating a positive relationship with taxpayer compliance (Devos, 2014).

2.2.3 Obligations of being tax compliant

The Organisation for Economic Cooperation and Development (OECD, 2004) asserts that there are four main obligations that taxpayers in being compliant need to consider under the revenue laws. While the exact obligations placed on taxpayers may vary, the four broad categories of tax obligations are:

1. Registration in the system;
2. Timely filing or lodgement of requisite taxation information;
3. Reporting of complete and accurate information (incorporating good record keeping); and
4. Payment of taxation obligations on time.

The above categories of obligations exist for almost all taxpayers, irrespective of jurisdiction. 'Compliance' essentially relates to the extent to which taxpayers meet four broad categories. If a taxpayer fails to meet any of the above obligations, then they may be considered to be non-compliant.

2.3 South Africa's tax system for microenterprises

According to Accountancy South Africa (ASA), South Africa's tax system is number one among the emerging economies for its efficiency and easing the compliance burden for taxpayers (ASA, 2011). The South African Revenue Service (SARS) is responsible for the collection of tax revenue for government in South Africa. Established in terms of the South African Revenue Service Act 34 of 1997 as an autonomous agency, SARS is responsible for administering the South African tax system and customs service (SARS, 2012a). SARS's responsibilities are to:

1. Collect and administer all national taxes, duties and levies;
2. Collect revenue that may be imposed under any other legislation as agreed on between SARS and a state entity entitled to the revenue;
3. Provide a custom service that facilitates trade, maximises revenue collection and protects South Africa's borders from illegal importation and exportation of goods; and
4. Advise the Minister of Finance on all revenue matters

The South African tax system is determined by the laws that the SARS Commissioner oversees. These include the Income Tax Act 58 of 1962, the VAT Act 89 of 1991 and the Customs Act 91 of 1964. The South African Revenue Service (SARS) is South Africa's tax collecting authority.

Smulders and Stiglingh (2008) and Zhang (2010) concur that the South African tax system is progressive, given that the more income received and or earned by the small business, the higher tax to be paid. Tax is categorised according to the tax rates which are revised annually by the Minister of Finance when tabling the budget speech in Parliament in February each year. The Minister of Finance presents the Budget each year, outlining the total government expenditure for the following financial year and the ways in which this expenditure will be financed. At the end of each tax year, individuals and companies are regulated to submit their returns to SARS for assessment.

2.3.1 Year of assessment (tax year)

SARS (Taxation in South Africa 2013 - 2014, 2013) outlines that a tax year for individuals and trusts covers 12 months commencing on the first day of March of a

specific year and ends on the last day of February the following year. Individuals and trusts may be allowed to draw up their financial statements in respect of their businesses to dates other than the last day of February. On the other hand, companies are permitted to have a tax year ending on a date that coincides with their financial year-end.

2.3.2 Filing of tax returns

Income tax returns must be submitted manually or electronically by a specific date each year (SARS, Taxation in South Africa 2013 - 2014, 2013). In order to promote or ensure compliance, the dates for filing the tax returns are publicly published for the information of the general public.

2.3.3 eFiling

SARS eFiling is an electronic system that comes in as a tool designed to improve the efficiency of the tax system while reducing the paperwork associated with manual submissions. This online system is available for free to all (businesses of individuals) for the submission of tax returns and related functions (SARS, Taxation in South Africa 2013 - 2014, 2013). eFiling allows individual taxpayers, tax practitioners and businesses to register, submit tax returns, make payments and perform a number of other interactions with SARS. Taxpayers registered on this system can conveniently engage with SARS online for the submission of returns and payments which in include, but not limited to: Income tax, Dividend tax, Pay-As-You-Earn (PAYE), Skills Development Levy (SDL), Unemployment Insurance Fund (UIF), and Value Added Tax (VAT)

2.3.4 Turnover tax for microenterprises

The constantly changing tax regulations for microenterprises led to the introduction of a simplified turnover-based system for microenterprises which was introduced from 1 March 2009. The turnover tax system came in as a replacement of Income Tax, VAT, Provisional Tax, Capital Gains Tax and Dividends Tax for microenterprises. The system provides for a single tax that does away with the need to account for income tax, capital gains tax (CGT), secondary tax on companies (STC) and value-added tax (VAT). Turnover tax is worked out by applying a tax rate to the taxable turnover of a microenterprise (SARS, 2012a). Table 2 below presents the 2012-2013 turnover tax marginal rates in effect for microenterprises.

Table 2: Turnover Tax Marginal Rates For Microenterprises 2012 - 2013

Taxable Income	Rate of Tax
R0 – 150 000	0%
R150 001 – R300 000	1% of each R1 above R150 000
R300 001 – R500 000	R1 500 + 2% of the amount above R300 000
R500 001 – R750 000	R5 500 + 4% of the amount above R500 000
R750 001 – R1 000 000	R15 500 + 6% of the amount above R750 000

Source: Tax Guide For Micro Business 2012 - 2013

Smulders and Stiglingh, (2008) observed that although each year the government targets to minimise the tax complications in budget speeches, complying with SARS regulations continues to pose challenges for small businesses (microenterprises included). In 2005, the then Finance Minister, Trevor Manuel acknowledged the existence of this dilemma:

> *"…we have directed attention this year at the costs and complexity for small businesses of the tax code, because there is compelling evidence that simplified arrangements can assist in creating an environment conducive to enterprise development" (Manuel, 2005, p. 28).*

The current tax system may be regarded efficient and effective, and yet it is arguably true that the reforms have not gone all the way towards remedying the plight of microenterprises (Timm, 2011). The tax legislations and reforms need to be constantly informed by current research to ensure informed decision making.

2.4 The advantages associated with tax compliance

Sandford *et al* (1989) cited in Smulders (Smulders & Stiglingh, 2008) highlights that tax compliance does not necessarily only result in costs, but may also result in benefits. In a survey conducted by Smulders *et al* (2012), it emerged that although costs are generally associated with tax compliance, there are benefits associated with complying as well. These include:

1. Improving record keeping;
2. Improving on the maintenance of accurate records;
3. Improving knowledge of the financial position of the business;

4. Improving on the knowledge of profitability; and
5. VAT compliance obligations provide up to date information.

Although the above benefits may exist when being tax compliant, the literature also revealed that there are associated challenges.

2.5 Emerging tax compliance challenges

From the literature reviewed, it is evident that the challenges faced by microenterprises when being tax compliant revolve around finances, expertise, regulatory measures, and constitutional ambiguity. Qabaka (2011) cited in Smulders *et al*. (2012, p. 185) assessed that:

> *"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."*

Listed below, are some of the key challenges which emerged from the literature. These can be seen as an impediment to the growth of one of the most important sectors in the economy.

a. The lack of expertise and proper knowledge about tax compliance

The vast majority of microenterprise owners are not knowledgeable of the processes and procedures with regards to tax compliance (Arendse, Karlinsky, Killian, & Payne, 2006; Bodin & Koukpaizan, 2008). This has more often than not resulted in microenterprise owners outsourcing mainly the accounting function for year-end reconciliations and tax submissions.

b. Constantly changing SARS concessions

Smulders and Naidoo (2013) highlight that since 2001, the National Treasury and/or SARS have been introducing these concessions as part of government's efforts to lessen the tax burden for businesses. This presents challenges for microenterprises as more often than not they find themselves lagging behind or find themselves in a maze of confusion as to which concession to follow. For instance, the SARS Tax Guide for Micro-business (2011) makes reference to the simplified tax system for

microenterprises that came into operation on 1 March 2009. Given that to adopt the turnover system is optional as one may choose to continue with the VAT system, indicates the existing double standards by SARS. This poses challenges for the microenterprises.

c. Constitutional ambiguity and unclear definition of microenterprises

Taxation of SMMEs seems to lack clarity, regardless of different reforms. microenterprises are generally considered to fall under the bracket name of SMME (see the National Small Business Act, 1996). This does little justice to microenterprises as often they find themselves paying higher turnover taxes, which should not have applied to them, but rather for the small or medium enterprises. Although the South African government has made different tax reforms, the conditions have largely remained unfavourable and poor for microenterprises. For example, the introduction of the new dynamic income tax return for companies (ITR14) by SARS in May 2013. It remains not clearly defined whether a business is a Micro, Small, or Medium business, which poses greater challenges for microenterprises. Regulations and red tape, however, are considered constraints to the expansion of Micro and Small Enterprises (MSEs) not only in South Africa, but the world over (Hasseldine, Evans, Hansford, Lignier, Smulders, & Vaillancourt, 2012).

d. Financial implications of being compliant

Turner, Smith, and Gurd (1998) maintained that tax compliance costs form a significant portion of the total regulatory challenges for MSEs. Compliance costs, fines and penalties that are associated with being compliant emerged to be among the greatest challenges that microenterprises are often faced with (Eichfelder and Schorn, 2009; Smulders, 2006), Besides the commendeble intentions of these intiatives, Hodges (2005) cited in Smulders (2006) pointed out that government was nonetheless costing small business more than the tax they pay through the challenges they face in complying with government regulations for one reason or the other. Coolidge (2010) and Klein (2005) contended that these challenges affect SMEs more than larger business as they are better placed to understand their position and also to meet regulatory costs.

e. Onerous tax compliance inspections

Eichfelder and Schorn (2009) assert that being compliant reduces both the time and financial resources of private businesses. For instance, the yearly submissions that microenterprises need to undergo when declaring themselves (either with the VAT or the Turnover systems) to SARS is tedious and time consuming for most microenterprises (Coolidge, 2010). This assertion is arguably true given that microenterprise owners in most instances primarily have done immense paper work associated with compliance to meet the requirements. This takes up time that could have been channelled towards more business innovations.

2.6 Measures by governments to ensure and enhance compliance

Given the importance that governments across the globe assign to revenue collection, different measures have been put in place to enhance compliance and also maintain a more conducive environment for microenterprise development. Locally and internationally, different measures and laws have been instituted to improve compliance.

The Internal Revenue Services (IRS) in the United States of America, for instance, committed itself to continue improving the quality, efficiency and service delivery through a wide range of initiatives intended to increase service coverage to taxpayers and to implement new and improved business processes (IRS, 2005). The IRS expanded existing community coalitions and partnerships to establish new ones in order to enhance taxpayer education, tax preparation assistance and self-sufficiency for improved taxpayer compliance.

The IRS (2005) asserts that in order to create a more conducive tax environment they go an extra mile in offering products and services towards addressing the growing needs of even those taxpayers with Limited English Proficiency (LEP). This they do through the development of specialised initiatives designed to provide multilingual products and services to taxpayers. In order to ensure and enhance compliance, the IRS also advanced its efforts in the transition from a paper-based system to an electronic-based system to assure quality and timely service through advancing its outreach programmes.

The Income Tax Department (ITD) is the one that administers tax collection in Nigeria. In its efforts to create a taxpayer friendly environment, the department committed to be partner in the nation building process through progressive tax policy, efficient and effective tax administration and improved voluntary compliance (Anyaduba, Eragbhe & Kennedy, 2012). The government committed to achieving this by having an enabling policy environment and enlarging the revenue mobilisation machinery to ensure the optimal collection of revenue under the law, while preserving the taxpayer's confidence in the system.

In Ghana, the government introduced long term measures which targeted the informal sector (microenterprises included) to ensure their compliance to the tax laws of the country. Annoh (2007) points out that these measures included:

i. simplification of tax laws and administrative procedures for easy understanding by the average self-employed taxpayer;
ii. the introduction of comprehensive taxpayer education, information and assistance programmes aimed at converting taxpayer resistance to compliance; and
iii. strategic customer services to enhance the integrity of tax administration.

The South African government has notably taken steps towards ensuring and enhancing compliance, including some of the above mentioned above measures in improving and strengthening its tax system. Initiatives such as the introduction of turnover tax for microenterprises and the introduction of e-filing for business. However, the chairman of the South African Institute of Professional Accountants (SAIPA), Retief (2011) in Smulders *et al* (2012) points out that the despite the notable improvement, more needs to be done to push for a more equitable tax regime that enables growth for this sector. In light of the above, it is arguably true that more can still be done towards the improvement of the current tax system to enhance compliance in an enabling environment.

2.7 Conclusion

This chapter reviewed literature (both local and international) around which this research is framed. It brought to light some of the key issues relating to tax compliance by microenterprises. It can be assessed that tax compliance challenges

are more pronounced for smaller enterprises. Coolidge's (2010) assertion that these challenges that small businesses often face deter business creation and growth in the developing and transition countries describes the consequences of being compliant. The challenges in many ways negatively impact the growth and development of small businesses (Coolidge, 2010; Klein, 2005; Smulders & Stiglingh, 2008; Turner, Smith, & Gurd, 1998). It can be assessed that more attention needs to be directed towards looking at the costs and complexity of taxation for the small business sector as it seems that the current tax system limits the economic potential of this sector.

The emerging issues raised in this chapter coming from prior research on tax compliance of microenterprises gave the researcher a clearer view of the gap that this research needed to fill in the broader knowledge. Bearing these in mind, the researcher had to carefully propose "how" the objectives of this research could be fully established when collecting relevant data. The following chapter presents the research methods used in conducting this research.

CHAPTER THREE

3 Research Methodology

The researcher sought to investigate the challenges faced by tax compliant microenterprises in South Africa. This entailed examining the challenges that they face to become or to stay tax compliant. The purpose of this research methodology section is to describe the various research tools or methods that were followed to conduct this research study (Creswell, 2003; Neuman, 2011). As such, this section discusses the procedures that were followed as the researcher. The research methodology used to conduct this research is divided into, and discussed in the subsections below, namely: research paradigm, research design, sampling, data collection procedure, data validation, and limitations of research, data analysis and ethical considerations.

3.1 Research Paradigm

Neuman (2011) affirms that before conducting a research, it is important that one establishes the research paradigm to be utilised in order to have a clearer vision when actually conducting the research. The research paradigm is described by Bryman (2012) as a set of propositions explaining or interpreting how the world is perceived. It can be narrowly construed as a way of breaking down the complexity of the real world. This research engaged the social construct of challenges faced by microenterprises in their business environment. It sought to uncover and explain the challenges encountered by tax compliant microenterprises in the Midrand area of Gauteng.

Due to its descriptive nature in attempting to explain this social construct (challenges faced); this research employed an Interpretive Social Science paradigm (Neuman, 2011, p. 101). This was triggered by the perception that the findings of this research had to be appreciative of reality, deriving meaning from the responses coming from respondents themselves. As such, the principal assumption and reasoning in adopting this paradigm was to enable the researcher to seek information, understand and interpret the challenges faced by microenterprises from the raw information coming from the respondents who were going to participate in the study.

3.2 Research Strategy

In line with the research paradigm adopted in this research, the research approach or strategy employed in this research was qualitative in nature. The researcher sought an understanding of the tax system in South Africa and business environment in which microenterprises operate when being tax compliant as explained by the respondents. Creswell (2003) highlights that such a strategy is necessary when one seeks interpretive explanations about how things or actions worked out as expressed in terms of socially constructed meanings and subjective views. This qualitative approach proved its worth in this research which sought subjective findings. De Vos, *et al* (2005) stresses this to be innovative or newer in view of familiar problems or when determining the history of a situation with the researcher being the primary data collector.

3.3 Type of qualitative research and research methods

This research was an interpretive examination of what it means for microenterprises coming to tax compliance. Adopting this approach allows for this research paper to be highly descriptive of the emerging issues raised by the research respondent when the research questions designed to probe their views and opinions on the challenges microenterprises faced were being administered. Neuman (2011) emphasises that adopting such an approach is recommended for researchers who seek to answer questions of meaning as described by the research respondents and when inductive findings are sought.

Whereas the scientific, quantitative approach has been used in previous tax compliance research (see for instance: Coolidge, 2010; Hasseldine, *et al*, 2012; Smulders *et al*, 2012;), the focus has been either more on quantifying the costs associated with compliance or the research was too broad (generalising the compliance issues relating to the Small Business sector which also includes microenterprises). However, the key assumption getting into this research was that such approaches lacked the depth to fully describe the challenges faced by microenterprises. Hence, the adoption of this interpretive qualitative approach allowed for inductive findings as they will be more appreciative and descriptive of the reality of the challenges faced by tax compliant microenterprises from the respondent's perspective.

The researcher sought to investigate the real issues relating to the challenges tax compliant microenterprises face. This was done through the use of a standard interview schedule comprised of semi-structured questions in order to compile answers from different viewpoints of triangulated respondents. The participants were purposefully selected on the basis of their unique status, experience, and knowledge of microenterprise tax compliance in South Africa. Therefore, this research was an investigative study, which focused on the compliance challenges as described by professional accountants and bookkeepers (referred to as "tax practitioners" for the purposes of this paper), a SARS official, and the microenterprise business owners in the Midrand area, Gauteng Province.

3.4 Sampling

Neuman (2011) defines a sample as a set of respondents selected from a larger population for the purposes of a research. Although it is widely acceptable for a single interview to inform a qualitative study, the researcher questioned the validity and reliability of information from one viewpoint; hence coming up with three clusters which made up the sampled population. The composition of the three samples drawn from this research is presented in Table 3 below. As highlighted earlier, these participants were purposefully selected because of their direct involvement, unique expertise in their respective fields and knowledge of tax compliance by microenterprises. The researcher conveniently (time and location suitable for respondents) conducted this study using a semi-structured interview schedule which used open-ended questions to allow the respondents to freely express their views relating to the challenges faced by tax compliant microenterprises.

Table 3: Sample Composition

Respondents sampled	Sample population
SARS Official	1
Tax Practitioners	3
Microenterprise owners	8
Total Sample size	12

Three clusters of respondents were identified and conveniently sampled to inform the research as depicted in Table 3. Taking into consideration that the confidentiality and anonymity of names and records was assured by the researcher to respondents upon their signing of the information and consent form (see appendix B), each interview has been given a code name. These code numbers shall be used throughout this discussion in reference to the below profiles of the respondents.

3.4.1 Cluster 1

This cluster is comprised of responses that were given to the researcher by the SARS Official. The SARS official was purposefully sampled to give a SARS perspective when it comes to tax compliance by microenterprises. From now on, this respondent shall be known as SO1. A brief description is provided below:

SO1 is the SARS representative that the researcher was directed to. She is stationed in Pretoria and she a specialist consultant specialising on issues related to small businesses. She has worked for SARS for over 7 years and has, in her own capacity, conducted research on small businesses in South Africa.

3.4.2 Cluster 2

This cluster is composed of 3 Tax practitioners (bookkeepers or accountant) stationed in the Midrand area. The rationale behind choosing tax practitioners was because of their experiences and knowledge of taxation in South Africa and the challenges faced by microenterprise owners since they offer them bookkeeping and accounting services which also includes tax consulting. Brief profiles of these respondents are provided below.

TP1 is an Accountant who works for his company which does consulting for business owners (this includes microenterprises Boulders Centre of Midrand). His expertise includes bookkeeping and tax consulting. He has been in the trade for over 5 years.

TP2 is an Independent Chartered Accountant who has done a significant amount of work for microenterprises. He does audits and also bookkeeping for various companies in the area. He is also registered as a tax practitioner. He has been in the trade for over 7 years.

TP3: The researcher was referred to this practitioner by one of the microenterprise owners who was upfront about not being knowledgeable about the tax system and

that any questions should be directed to the person who does his books. TP3 is stationed in Centurion but much of his client base is in Midrand. He was willing to participate.

3.4.3 Cluster 3

This cluster is made up of 8 tax compliant microenterprise owners or representatives who agreed to participate in this research. They are in different economic sectors: services and retailing. Brief profiles are also provided below:

MO1 is a South African white businessman. He is a digital publisher and is also advancing his interests in the tracking business. He has been in this business for 5 years, despite 3 years of his business venture being in Pretoria.

MO2 is an Indian South African in the clothing retail industry. She has been trading in this industry for 3 years in the Boulders Shopping Centre.

MO3 is an Indian South African in the retail sector dealing with cosmetics and other women's products. She has been on the market for 4 years.

MO4 is an employee who works in a Chinese owned business in the shoe industry, doing repairs. Upon his insistence that he will not be able to communicate as well in English, the owner authorised his assistant to talk to the researcher.

MO5 is a Pakistan national owning a business that sells carpets, curtains and other decorating accessories. He has been in operation for 5 years.

MO6 is an Indian who owns a clothing retail shop in the area. He has been in operation for 4 years.

MO7 is a white owner in the dry cleaning services. They clean clothing items and household furniture needing the same services.

MO8 is a Nigerian owned electronic gadgets shop that also serves as an internet cafe in the area. He has been in business for 6 years.

The above profiles have left out some personal details purposefully as the researcher was bound by ethical standards of not giving out any information that could lead to the anonymity of the respondents being compromised. This study was looking at the challenges faced by microenterprise businesses (regardless of

owner's Nationality) and therefore, foreign owned microenterprises were also included. The criterion used in their selection to participate in this research was on the basis of them being registered and compliant to SARS. The short listing of these respondents had been established by the researcher upon conducting the pre-scan of the research environment.

3.5 Data Collection Procedure

A pre-field scan of the environment was conducted by researcher prior to engaging respondents. This informed the researcher of whom to interview and when, whilst also getting to know where and how to get the necessary documentation. It was not a simple task as anticipated prior to this research to get respondents to be willing to participate in the study, let alone, open up to some of the research questions. This was besides the fact that the researcher had explained that the research was purely for academic purposes. The words "tax compliance" as it emerged, led to some microenterprise owners not willing to participate presumably out of fear of being victimised.

However, those who were willing to participate in the study allowed the researcher to be able to conduct the research within the specified timeframes for this research. E-mail correspondences and telephonic reminders were sent out to the prospective participants as part of the formal gesture requesting their participation in the research. Upon some rigorous inquiry with the SARS offices to get a relevant representative to participate, the researcher was granted permission to conduct the research. This led to the researcher going to Pretoria where the SARS official was stationed.

The written semi-structured interview schedule was administered to all respondents flexibly. The purpose of the schedule (See Appendix A) was to allow for consistency and also improve on the reliability of the findings since the same questions could be asked to different respondents flexibly. This allowed for probing and changing of the sequence of questions to accommodate respondents and issues that were coming up (Neuman, 2011). Permission to record interview sessions was also sought prior to the interview and consent had to be given through signing the consent form (See Appendix B). As such, semi-structured questions allowed for flexibility in asking the

same questions differently in order to probe for more relevant responses from the respondent.

3.6 Data Presentation and Analysis

In view that the research methodology utilised in conducting this research was qualitative, therefore semi-structured interviews were conducted with all respondents using the same interview schedule. This interview schedule was used to solicit responses from the participants while also serving as a guide to govern the interview process. In some instances, probing questions were also used by the researcher in areas where the respondents lacked clarity. When presenting the data the researcher will look at the direct responses coming from the clusters using the interview questions. This entails deriving meaning from the codes as expressed by the respondents. Direct responses in some instances will be used by the researcher to preserve the authenticity of the emerging issues.

Bryman and Burgess (2002) assert that qualitative data analysis is the act of classifying and sifting of data to make sense of and establish meaning. The researcher firstly had to read all participants' transcribed data which had been collected from the interviews to get a general sense of the ideas being presented. The second step saw the researcher revisiting chapter one in order to establish the purpose of the research so as to sift significant statements and phrases relating to tax compliance challenges of microenterprises. Meaning could then only be established through the coding of noteworthy statements.

The third stage saw the researcher clustering the emerging issues into themes as part of sifting for the relevant information. Taylor-Powell and Marcus (2003) recommended that emerging issues need to be organised into themes which will evolve from the clusters to theme categories. A colour-coded system was used to hyphenate explicit themes or categories to perform a preliminary analysis. The emerging themes on the challenges faced by tax compliant microenterprises are as follows:

1. Challenges relating to a lack of expertise in tax compliance issues;
2. Challenges relating to SARS evolving rules and regulations;
3. Challenges relating to technological adjustment;

4. Challenges relating to the financial implications of being compliant;
5. Challenges relating to burdensome tax compliance preparations; and
6. Challenges relating to constitutional ambiguity and unclear definition of microenterprises.

These themes are discussed in more detail in Chapter Five which is the fourth and final stage of analysis. In this section the researcher revisits the literature review section (Chapter Two) in order to fully establish the findings of this research. It was on this basis that the researcher was able to analyse and come up with this report.

3.7 Data Validation

Given that much research is designed to understand and improve practice (Merriam, 1995), the question of trustworthiness of findings has often been put under the microscope to ensure that findings can be trusted and believed. Data validation entails offering a fair, honest and balanced account of social reality (Neuman, 2011). Merriam (1995) maintains that data validation means how reliable, dependable or consistent the research findings are congruent with reality. In this case, questions relating to the validity of the findings based on a small, non-random sample, and the researcher bias can be asked.

This qualitative study's validity was determined by the use of different strategies to check the validity and reliability of the findings. Firstly, triangulation of the data sources was used as interviewees were selected from dissimilar professional backgrounds and interviewed using the same interview schedule. The crux of this strategy was to compare the emerging themes from different respondents.

Secondly, member checks were used by the researcher to determine the accuracy of the findings by taking the emerging issues from each respondent's transcript and consult if they agree. Creswell (2003) asserts that member checks solidify credibility when transcripts are sent to respondents for review and verification. Validation was therefore solicited from the participants to compare the researcher's descriptive results with their views and assessments in the interview sessions. In doing so the researcher minimised researcher bias as the respondents had to agree with what they expressed.

3.8 Ethical Considerations

Before engaging in discussion with the respondents, the researcher had to seek permission from the relevant authorities and personnel where participants were also requested to sign a consent form (See Appendix B). The researcher also needed to explain to the respondents the governing terms in conducting the research. This involved explaining to them that their participation was voluntary; that the research was for academic purposes and also that all identifying information was going to be kept anonymous and confidential.

3.9 Limitations of Research

Since the time and financial resources to carry out a rigorous study were limited, the study was only carried out in Midrand. This limitation prompts the researcher to recommend similar research to be conducted countrywide in order to fully establish and compare the emerging issues. The external validity of this research is challenged due to these resource constrains. Merriam (1995, p. 57) defines external validity as the extent to which the findings of the study can be applied to other situations. The researcher is cognisant of the fact that in different parts of the country, different challenges for microenterprises may emerge, hence the proposition of similar studies to be conducted countrywide in South Africa.

Not all microenterprise owners were willing to participate in the study, presumably out of fear of the consequences of participating in the study. This brings into question the reliability of the information coming from those microenterprise owners who volunteered to participate in the study. This limitation's impact of this study was, however minimum in view of the vast population of microenterprises in the Midrand area in Gauteng. As such the researcher managed to get the required interviews from the respondents which made the study possible.

The purposeful sampling method which was used, may question why these respondents were purposefully selected over others. This limitation is explained by Merriam (1995) and Neuman (2011) who concur that in any research study (qualitative or quantitative), not all respondents would be willing to participate for different reasons. The participating respondents' reliability could be questioned; however, through triangulating the respondents (microenterprise owners; SARS

official & tax practitioners) strengthened the findings of this research. For instance, interviewing the SARS official revealed that although tax compliance is generally associated with tax compliance costs, there are benefits which come with being compliant. Such responses might not have emerged if the researcher had limited the scope of study only to microenterprise owners.

3.10 **Conclusion**

The purpose of this Chapter was to describe the various research tools and methods used in conducting this research study. Creswell (2003) and Neuman (2011) concur that clearly defining the research method forms the crux of the research as it will determine the extent to which the researcher's findings are congruent with what the researcher sought to do. As such, this section discussed the procedures that were followed by the researcher when conducting this research. Given that this research sought inductive knowledge, an Interpretive Social science paradigm was carefully selected. This research was a qualitative research which conveniently sampled its respondents from three clusters of data sources, namely: SARS official, microenterprise owners, and Tax practitioners. There were ethical considerations in the collection of data, which are discussed in this Chapter. Participants were requested to compare the researcher's descriptive results with their expressed views during the interview sessions as part of data validation.

The following Chapter presents a comprehensive description of the researcher's findings as presented by the research respondents.

CHAPTER FOUR

4 Data Presentation

The purpose of this section is to provide a comprehensive account of views and assessments of the challenges faced by tax compliant microenterprises as described by the respondents in the interviews. The engaged qualitative research methodology allowed for the respondents to express in detail their assessments and views in answering the questions. As the interview schedule (Appendix A) questions were being administered flexibly to all respondents, key statements, relevant to the research objectives were drawn from the three clusters. In this section the researcher will look at these direct responses to the questions as they came from the three clusters during the interviewing process.

Boyatzis (1998) cited in Neuman (2011) asserts that good thematic coding captures the qualitative richness of the phenomenon used in the analysis, interpretation and presentation of the research data. This process involves distinguishing between the patterns in the data, discernment in the use of concepts, having tacit knowledge (in-depth background knowledge), and the processing of relevant information. This Chapter essentially presents a rich narrative of the respondents' answers in the interviews, paying particular attention to the respondents' use of concepts, reference to events and other topical markers.

The interview schedule used to solicit responses from the participants was drafted in such a manner that it responds to the research objectives in Chapter 1 and the following sub-sections will guide this section:

- The meaning of being tax compliant for microenterprises
- The challenges encountered by tax compliant microenterprises
- Government efforts in creating a conducive tax compliance environment for microenterprises

The respective questions from the interview guide will be looked into in more detail under the above subsections. This entails deriving meaning from the codes as expressed by the respondents from each cluster. Direct responses in some

instances will be used as a means to express and preserve the authenticity of the emerging issues.

4.1 The meaning of being tax compliant for microenterprises

The purpose of the questions that unpacked this research objective was so as to present a general outlook of what tax compliance meant for microenterprises. The generalised questions were purposefully construed so as to give the respondents an unlimited platform to express their views of what it meant for them. The following questions were presented to the respondents.

a. Would you kindly describe the tax system for businesses in South Africa?

When this question was presented in each of the interviews, it raised different responses from the respondents with each answering it based on their knowledge and understanding. How they described the tax system as observed by the researcher was also largely influenced by their line of work, which as it emerged, was divided along the three clusters. The South African tax system as it emerged from all the interviews can be defined of described in terms of the different types of taxes that apply to businesses. The respondents, regardless of their affiliations, each described the tax system in terms of at least one of the tax categories that apply to companies in the Republic.

Cluster 1

SO1 in cluster 1 described the system in terms of its efficiency and how often regulatory measures put in place by SARS are often misinterpreted or misunderstood.

> *"The South African tax system is one of the well-organised on the continent… the system is constantly being reviewed or designed in such a manner that it is user-friendly, to cater for all types of businesses from the smallest to the largest… We have done our homework and continue draw comparisons from the international arena of our system in order to improve… for example, at present there are options available for businesses for manual submissions of returns or the electronic submissions option which we are currently working more on because of its associated benefits…"*

Coming out clearly from this cluster was that government or SARS consider their system as efficient and user friendly for all sizes of businesses and individuals. It also emerged that in coming up with system upgrades, SARS derives some of its solutions based on international standards. However, further inquisition with probing questions revealed that they are not weary of the fact that there are complaints which appear in their strategic objectives as more can still be done towards improving the system.

Cluster 2

Respondents in this cluster expressed their deeper knowledge when responding to this question. TP1, TP2 and TP3, concurred that the tax system is described by the different taxes that apply in the Republic. TP2 in cluster 2 gave a more comprehensive insight:

> *"...The tax system in South Africa is as follows: We have VAT, we have PAYE, and we have Company Tax, we have STC; Capital gains tax, Customs and Excise. These are the main forms of company taxes. Obviously it gets more detailed when you look at each of these six categories…"*

TP3 made reference to the turnover tax system that the government had introduced to facilitate better compliance for microenterprises. Of interest to note was that there was no mention of it in the other two clusters when this question was asked by the researcher the first time. In itself, it signalled that there is a lack of knowledge about how it works or it was simply overlooked by the respondents who might have made reference to income tax.

> *"… SARS introduced an annualised turnover tax system for microenterprises which I believe was a noble stunt by the government to consider the previous concern that microenterprises had… what SARS has tried to do here is to create a better, less stressful system for microenterprises…" (TP3)*

The existence of such a tax system shows that SARS has made initiatives to ensure compliance by simplifying the tax system for microenterprises as indicated by TP3. Tax compliance for most businesses often requires regular periodic declaration with the Revenue Authority. From this cluster it emerged that government, in its efforts to

lighten the work load associated with regular periodic declarations for smaller businesses, it introduced the annualised turnover tax system.

Cluster 3

A majority of the respondents in cluster 3 were not of the same view as they described the system more in a negative light as they pointed out the existing imperfections. MO1, MO2, MO5 and MO7 concurred that the system, although the government affords them the opportunity to do business, the tax system takes more of their business time to stay compliant as they constantly have to ensure that their books are in order. For instance, MO2 pointed that "… what we have to do to be compliant is time consuming…" This point was also consistent with what came out from Cluster 2 where the government introduced the annualised turnover tax system to try minimising activities involved in being compliant to once a year.

There was an element of similarity in the responses from MO2, MO5 and MO8 which pointed to their foreign nationality and having to integrate in a new tax system different from what they were used to. For example, MO2 indicated that:

> *"… where I am from, the system was not like this. Here, it is worse… but in order to feed the family, we have to do as the system requires us to…"*

Coming out from the above statement and also the responses from MO5 and MO8 was that microenterprise owners who are of foreign nationality and operating in a different tax environment found the South African tax system to be more demanding, inconvenient or inconsistent due to the adjustments they had to make to be compliant in their new business environment.

MO1, however, was not entirely of the same view as he acknowledged the efficiency of the tax system. Although the extent to which he cited the system to be efficient could not be fully established, the respondent had this to say:

> *"... I think that SARS has considerably done well to improve its system to be more user-friendly compared to previous years... I can get my consultant to assist with the books and I can conveniently submit to SARS online… this is highly commendable"*

It emerged that although other microenterprise owners were experiencing difficulties with the regulations or system changes, others were benefiting when applying the system changes. For instance, the new electronic system that SARS introduced is user-friendly as indicated by respondent MO1. Sharing a similar view of the convenience that comes with the electronic system was respondent MO8. He highlighted that instead of having to deal with SARS issues in person and wasting precious time in long, slow queues as before, he could now make his submissions conveniently at his offices.

This question was purposefully incorporated and left open-ended in such a way that it allows for issues to come out without limitations to express as would have been the case with closed-ended questions. However, the researcher followed up with probing questions for all those who had not mentioned it to check how far their knowledge of the system went. The researcher observed that the SARS official in clusters 1 and the Tax practitioners in cluster 2 did not experience many problems in explaining the turnover tax. Although most of the microenterprise owners knew what it was, not all of them could fully express what it was. MO5 admitted that

> *"These are some technical issues which I may not be in a position to fully explain… I know what is… but I am just finding it difficult to put it into words..."*

Of interest to note was that the responses that came from cluster 1 (SARS) and cluster 3 (microenterprise owners) were observed to be significantly polarised as the respondent in Cluster 1 saw the system in a more positive light as opposed to the more negative depiction from cluster 3.

b. Based on your knowledge and experiences, what does it mean for microenterprises to be tax compliant?

Although "tax compliance" may have a generally agreed on definition, what it means to the different clusters in this research is not entirely different, but can significantly be viewed from different perspectives. One cluster may explore one side of the meaning while the other cluster expresses the other side.

Cluster 1

In response to this question, SO1 highlighted that proper tax education lacked among the microenterprise owners. She raised the issue that there is a misconception by microenterprises that being tax compliant means paying taxes on each portion of the profit made.

> *"It depends if they understand the Turnover or the VAT system… the problem is that they think if you register with SARS for tax then you are obliged to pay tax which in most instances, it is not like that because there is a threshold for Micro-businesses who are liable to pay tax…"*

Coming out of the above is that, microenterprises need to be registered with SARS for the Turnover tax system to apply. What it also means for the registered microenterprises is that, there is a threshold that applies to businesses in their category. SO1 added that

> *"… because of the system's progressive nature, those who earn less, will not have to pay or pay less. So in most cases, they wouldn't register because they assume that if you register with SARS then you are in trouble and have to pay tax…"*

The tax turnover tax system for microenterprises is described as progressive and the misconception why other microenterprise owners have about registering with SARS is criticised.

Cluster 2

From the responses that the researcher got, Tax practitioners had a more neutral posture when this question was administered. Their clear knowledge of SARS tax compliance regulations and their experiences when consulting for microenterprises meant that in many ways they had a more balanced and clearer view of both sides. They each expressed how meeting the tax compliance regulation was not a desirable activity for microenterprises.

> *"From what I have observed and understand, tax compliance is an undesirable area for microenterprises as they see it as an infringement… eating on their profits. VAT is one which pushes businesses (small, medium or micro) on the*

edge of being non-compliant. However, if money has collected on behalf of SARS, there is need for compliance…" (TP3)

TP3 expressed that there is a misunderstanding on the part of microenterprises with regards to why they should cut on their profit margins in order to be regarded as compliant. Whereas this misunderstanding may exist, TP2 further detailed that if one charges VAT to consumers, it is money that the microenterprise business would have collected on behalf of the government, which by right needs to be paid over to SARS.

This misconception had also been raised in cluster 2 where TP1 emphasised that:

"…*there is a client relationship that SARS is working on to improve its communication and client relations due to misconstrued perceptions… this is where most of our client miss it… their understanding of the tax system is limited and most of them do not bother to want to know as such matters take up their time… It is not all microenterprises that are meant to pay tax … if they fall out of the taxable threshold then they will not have to pay anything".*

TP2 and TP3 also raised that for microenterprises, being tax compliant means being in possession of a Tax Clearance Certificate. TP2 expressed that companies that do tenders, are regulated to include Tax Clearance Certificates as a requirement which will be used as a short listing tool. This forms a part of SARS' efforts to push for compliance on all businesses including microenterprises as it would mean that when one is not compliant, it would be difficult to effectively apply for tenders. TP3 further expressed an issue, which had been raised by SO1, that although it may sound unfair or repressive:

"… *Every entity small, medium ought to understand that they are corporate citizens… and being a corporate citizen means being able to register and declare oneself to the revenue authority…"*

Cluster 3

MO1, MO2 and MO7 in cluster 1 also shared the same view that tax compliance means more unpaid hard work. It means committing time and resources to meet the requirements. MO1 highlighted that:

"It means a lot of hard work, particularly if I am the only one who has to ensure that all SARS things are up to date and in order… I may have one or two assistants to help around but I can't afford an accountant to keep updating my books. In fact, it is because most of us run around wildly every second of the day to make money… the shadow of the tax man will always be haunting us with the knowledge that if we do not comply, we risk losing more business…"

Although microenterprise owners end up having consultancy assistance to balance their books, the expenses that they incur is a cost to their business. In the case that the books are not up to date, the meaning of compliance becomes a hustle for those who will now have to scramble for what they can in order to make their submissions to SARS. MO3 stressed that:

"... tax compliance means the tax season is open which for most of us means having to find money to pay taxes because the system is very stringent…"

Although others in this cluster did not make any reference to it, MO8 in generalising this question made reference to others that know *"how to cut corners with SARS officials".* The researcher did not want to lose trust with this respondent that he desisted further probing questions. There is no doubt that the issue of cutting corners comes out as an area of concern that requires further investigation.

Being foreign owners, MO4, MO5 and MO8 in cluster 3 were in agreement that being compliant in a different tax system meant that they had to learn the system fast enough and adjust to avoid the risk of losing more. MO4 speaking on behalf of his employer expressed that:

"… My employer is trying to understand the system and have things in place, but for the two years that he has been operational, he has had to bring someone over and do the books for him. I will be reminded that pay increases are difficult because we are paying money to government… we need more business".

Adjusting to a new tax system as expressed by M04 poses a challenge for foreign microenterprise owners. Evidently, the questions of meaning proved how similar or dissimilar the research respondents were. The questions and the different viewpoints allowed for the researcher to get more out of the interviews.

4.2 The challenges encountered by tax compliant microenterprises

The objective of this question was to directly inquire from the relevant data sources, the challenges that tax compliant “microenterprises” face. This meant giving chance for research respondents to freely express their views and thereafter appreciate the relevant emerging issues as narrated by the research respondents. To allow for consistency and avoid dwelling on off topic issues, this section is subdivided into the following questions which were presented to the respondents:

a) In your opinion, what challenges do microenterprises encounter when being tax compliant?

The responses coming from the respondents were highly descriptive as the question gave room for them to express and exhaust their views. Although there were certain differences which can be traced along the lines of the professional backgrounds of the different clusters, there was a general consensus among all the clusters.

Cluster 1

From this cluster it emerged that the biggest challenge that microenterprises have is that of being less knowledgeable about the tax system. The manner in which they view the tax system influences their negative attitude towards it. It also emerged that the microenterprise owners lacked the proper knowledge about tax regulations that apply for microenterprises. SO1 underlined that:

> *“From what I know and have observed, it is clear that they are not educated, they are less knowledgeable compared to people who are running macro and large businesses..."*

A point that was also made in this statement was that, larger businesses are more capable to comprehend with the tax system compliance regulations as they also have better knowledge of the tax systems than smaller businesses. SO1 further highlighted that:

> *"… Remember that most of the people who run bigger businesses are more educated and would have done their strategic approximations prior to getting into business. This is not the same with microenterprises…"*

From the above, SO1 maintained that microenterprise owners are less skilled to be able to read and interpret some of the compliance issues. Their lack of education as indicated is a challenge that affects how they do their books and handle compliance regulation matters.

SO1 also stressed that although they had received positive feedback on the electronic based system, they were also receiving negative feedback with business owners struggling with the system.

> *"Based on the frequently asked questions on our website and from our call centres feedbacks, we have picked up there is a significant number of people are struggling with the system..." (SO1)*

The above shows that SARS is aware of the system challenges that business owners are experiencing in compliance processes. It is commendable that SARS has platforms in which it can receive feedback.

Being compliant requires one to make time to do the preparations for submission and balance the books as well. SO1 in indicated that

> *"When you are in business, one cannot overlook the need to make time to do reconciliations… the problem is that most business owners wait until the last time with the sudden realisation that submissions are imminent… that is when they start running around"*

Time spent on SARS issues was raised to be a challenge for microenterprises coming from this cluster. However SO1 blamed the lack of planning and poor time management on the part of microenterprise owners.

Cluster 2

The issues that came up from this cluster were not only raised in Cluster 1, but also in Cluster 3. A lack of proper skills, system related challenges, financial cost implications for microenterprises, and the time constraints associated with compliance were prominent challenges that were raised in this cluster.

Time spent in the preparation of tax submissions was echoed in this Cluster with TP2 describing the processes as tedious and cutting down on productive time which

microenterprise owners could have been doing business. TP1 and TP3 also amplified that as tax practitioners, they get their business from microenterprises more towards year end because microenterprise owners would not have time to prepare and will therefore need expert assistance.

Respondents in this Cluster concurred that it is financially challenging for microenterprises to meet the compliance cost involved. For instance, TP2 alluded to the point that:

> *"Financially capable microenterprise owners have us doing the thinking for them when it comes to tax submissions… its good business for us, but you can be assured that it will cost them"*

The above indicates that financial costs associated with being compliant are significant given the nature of businesses that most microenterprises are in. The statement made by TP2 that "financially capable" microenterprises outsource their services indicates that being compliant poses financial challenges for microenterprises.

A point that was also made by TP1 and TP2 was that due poor time management, microenterprise owners in most instances submit to SARS late. This often results in penalties being enforced for late submissions. TP1 highlighted that:

> *"… In most instances, tax compliant microenterprise owners make their submissions well after which often attracts penalties for late submissions to SARS which they struggle to pay..."*

Penalties associated with late submissions as it emerged from the above statement, adds to the financial costs that microenterprise owners face when being compliant.

Emerging from this Cluster was also the challenge that microenterprises struggle in utilising the electronic systems available to them. TP2 indicated that a contributing factor was a lack of the equipment due to the out of office nature of most microenterprises which leads to most of them not being able to know the system requirements. TP1 highlighted that:

"... the challenge comes with fully comprehending the eFiling system…it is all there… however, they find it difficult to rely on it or to go through the eFiling system..."

As evidenced above, the microenterprise owners struggle in utilising electronic system. Knowing the eFiling system requires time to learn the system to the point that one can be able to work with it comfortably.

Cluster 3

Responses that came from this Cluster were coded for difficulty in using the electronic system, challenges associated with costs in being compliant, time constraint challenges and a lack of expertise. These issues had also been raised in Cluster 1 and 2,

Time spent on tax compliance issues as a challenge for microenterprises came out from the responses in this cluster. Upon administering this question MO1 pointed out that with tax compliance:

"… You need to spend a lot of time to on your accounting systems and focus because you need to keep up to date and most microenterprises do not have that type of energy…"

As evidenced above, time resource is a challenge that microenterprises have to stay up to date with their compliance documentation. MO7 also emphasised that their prime objective is to do business, but in order to be compliant they have to make time.

"… you know we are more interested in selling… unfortunately we have to make time at some point and comply with the government regulation to prepare for our tax return submissions…"

MO2 also highlighted that:

"… before the tax season for businesses, I spent considerable time to try putting my books in order to submit to SARS in order to get my tax clearance certificate…"

Evidently, the preparation of SARS tax compliance submissions is considered an inconvenience as it means making time to do the preparations by microenterprises.

It also came out from this cluster that the penalties associated with non-compliance or late submissions attract penalties and fines which are a challenge for microenterprises. For instance, MO3 underlined that, despite the considerable efforts that he made in preparation for tax submissions, "… it all came together a little too late…" He stated that there were errors in what he had compiled and he ended up having to consult with a tax practitioner in order to make his submissions correctly. MO6 also indicated in 2011 and 2012 he had to pay penalty fees for late submission of VAT.

The lack of tax expertise on the part of microenterprise owners also came out as a challenge from this cluster as was the case in clusters 1 and 2. MO1 stated that:

> *"Quite often, we find ourselves not being able to contract out accounting services given the small scale nature of our business and profit margins… Consequently, we find ourselves having to do all the work on our own…"*

The same point had also been raised by MO3 who had tried to do the reconciliations on his own, only to find out that it had an error and had to seek specialist advice.

It also emerged that, microenterprise find it difficult to stay up to date with the evolving tax systems. Although they are being designed to be simpler and more user friendly, there is a challenge that comes with them not being able to keep track of these changes. The availability of the eFiling system to businesses came into the spotlight as its features are still little known and less used by microenterprise owners.

> *"…you will find that in terms of using technology some cannot use eFiling system which is conveniently available … it is a job that can be done in five minutes by somebody who is more literate..."*

The researcher observed that out of the eight microenterprise owner respondents, only two (MO1 and MO8), knew more about the eFiling system to actually utilise the system in submitting their returns. When probed about their lack of orientation with the electronic system, the non-users responded that their work environment is not

conducive for them to use computers or to spend time working on them. The researcher conceptualised that the primary reason for MO1 and MO8 to be able to use the system was that they are in office environments where they work with computers on a regular basis that they took time to browse through and learn the system.

From the evidence above, it can be assessed that the challenges faced by microenterprises in being tax compliant are a threat to the sector. A follow up question was then administered to the respondents to further understand how far these challenges were being an impediment towards the development of microenterprises. The following section will shed more light on government efforts towards creating a more conducive tax compliance environment for microenterprises.

4.3 Government efforts in creating a conducive tax compliance environment for microenterprises

The purpose of the questions asked in this section was to hear the subjective views of the research respondents on what government can do to create a more conducive tax environment. The following question was designed as a direct inquiry from the respondents on what steps could be taken by government.

a) What can government do to ensure that compliance by microenterprises does not stand as a challenge to their growth and development?

Cluster 1

Responses that emerged from this cluster were coded to understand the client and need to educate taxpayers more on compliance issues. It emerged that in a dynamic business environment, government efforts to remedy the challenges faced by microenterprises required further research to inform government of the rising concerns.

> *"Times are constantly changing and as SARS, there is a need for us to continuously learn or understand our clients and take necessary steps towards*

creating a better tax environment… this obviously requires joint efforts and cooperation between government and business" (SO1)

When considering the areas to improve, the government needs to engage the affected parties before implementing new tax reforms. The somewhat top-down approach in most instances poses challenges for microenterprises, which contributes to their lack of knowledge.

It emerged from this cluster that the lack of understanding by microenterprises needs to be attended. For instance, SO1 explained that:

"At present even the formalised microenterprise owners live in fear because they do not know..."

The above evidence shows that SARS is aware that that microenterprise owners need to be educated more on compliance matters to remove the fear of the unknown for them to operate knowing all there is to know about tax compliance rules and regulations.

Cluster 2

The responses that emerged from this cluster were coded for tax incentives for tax compliant microenterprises and increased taxpayer educational programmes. The respondents in this cluster indicated that in order to create a more conducive environment for tax compliant microenterprises, there is a need to incentivise compliant microenterprises to also pave the way for compliance by those not complying. TP1 further maintained that:

"Over the years government as the receiver of revenue has attempted to bring all sorts of, you know added benefits to attract entrepreneurs/tax payers to comply… we mentioned the 31st of May was a cut off for the tax we also saw the turnover tax system which allowed flexibility microenterprises to comply on an annual basis…"

It also emerged from this cluster that it is of importance that more efforts are made to conscientise microenterprise owners of the features of the tax system for specifically

microenterprises. Such efforts should fully explain the rules and regulations for compliance while also explaining the benefits of staying tax compliant.

> *"... I think we would like to see the tax man free seminars conducted on a national basis, they must be out there and make this work for a businessman... I think there should be a position where SARS should engage the tax payers which I believe that is lacking at the moment..." (TP2)*

SARS, as indicated above needs to reach out more to the taxpayers and educate them more on compliance issues to remove a lack of understanding.

Cluster 3

This question did not receive much constructive reception from respondents in cluster 3 who offered more details on the challenges they face than the solutions to the challenges they face. The responses in this Cluster were coded for increased educational platforms for taxpayers and constant update of users on system upgrade for microenterprises to meet the current standards.

The same issue of increased platforms raised in Cluster 2 was also raised in this cluster. MO1 suggested that increased platforms where SARS interacts more with microenterprises need to be effected.

> *“As I mentioned there should be a bit of latitude and the ability to meet with SARS and discuss problems and address those problems without having to be victimised and without the imposition of harsher penalties against that business…” (MO1)*

SARS standards as highlighted in Cluster 1 are constantly changing. Therefore, constant updates to users on system upgrades need to be effectively communicated to all users to meet the upgraded standard. MO7 highlighted that:

> *“… The challenge is that before microenterprise owners can fully comprehend the available avenues, SARS normally introduces new standards…”*

There is a need for improved communication when it comes to tax regulations given that most microenterprises are not well acquainted with some of the “technical issues” (MO1) that come with system changes by SARS.

Although the effectiveness or the successes of the current tax system for microenterprises was made reference to, the researcher did not probe the issues further as they superseded the scope and purpose of this research. Further research is therefore called for to look into the effectiveness and successes of the SARS tax system.

4.4 Conclusion

This chapter provided a detailed description of views and assessments from three categories of the sampled population about the challenges faced by microenterprises in becoming tax compliant as described by the respondents in the this research. The voices of the respondents were captured to give more weighting to the topical markers of the themes that were coming up. The themes that emerged in this chapter shall be further discussed in Chapter Five which serves as the analysis section of this research.

CHAPTER FIVE

5 Data Analysis

The purpose of this research was to investigate the challenges faced by tax compliant microenterprises in South Africa. A qualitative analysis was embarked on by the researcher in which a sample (see Chapter 3) was purposefully drawn from the Boulders Centre in Midrand. The main research question was targeted at bringing to light the challenges that tax compliant microenterprises encounter in being tax compliant. The research was intended to aid our understanding of what it means for microenterprises when being tax compliant. Bringing to light the challenges faced was also intended to be informative on areas needing to be improved or reformed in order to create an enabling business environment for the microenterprises. As such, an interview guide was developed in such a manner that it addresses these issues and relevant data was drawn from three clusters. The responses they gave in Chapter 4 created a platform for the emerging issues to be further analysed.

Bryman and Burgess (2002) and De Vos, *et al* (2005) concur that qualitative data analysis is the act of examining and classifying data to make sense of it and establish meaning. The collection of sufficient data for analysis meant that the researcher could proceed and analyse the data. Chapter four marked the beginning of this process where the researcher had to read all participants' transcribed data which had been collected from the interviews to get a general sense of the emerging ideas. Taylor-Powell and Marcus (2003) recommended that emerging issues need to be organised into themes. In this Chapter, the researcher clusters the emerging issues into themes as part of sifting for the relevant information and revisits the literature review section (Chapter Two) in order to fully establish the findings of this research.

5.1 Analytical framework

Tax plays a pivotal role within the context of generating revenue for the government while enabling it (government) to provide the citizens with such welfare goods and service. According to Margaret and Chris (2009), taxes and tax systems are

fundamental components of any attempt to build nations and this is particularly the case in developing nations. Taxes underwrite the capacity of states to carry out their goals; they form one of the central arenas for the conduct of state-society relations and they shape the balance between accentuation and redistribution that gives states their social characters. In summary, taxes build capacity, legitimacy and consent. The key components of any tax system are tax policies and tax administration. No tax is better than its policies. An essential objective of tax policy is to ensure the maximum possible compliance by taxpayers of all types with their tax obligation.

Turnover tax, VAT, UIF, PAYE and SDL were raised in Clusters 1 and 2 as statutory payments that tax compliant microenterprises are obligated to declare. While the exact requirements placed on taxpayers may vary, the four broad categories of tax requirements that apply for business (microenterprises included) in being compliant are:

1. Registration in the system;
2. Timely filing or lodgement of requisite taxation information;
3. Reporting of complete and accurate information (incorporating good record keeping); and
4. Payment of taxation obligations on time.

Tax compliance has a philosophical basis and for one to analyse data, one needs to reflect on the core principles for consideration. In Chapter two (p. 13), the economic deterrence model was discussed and it will be incorporated in this analysis. Roth, Scholz & Witte (1989) in Devos (Devos, 2014) highlighted that factors considered in tax compliance include:

1. Complexity of the tax system;
2. Level of revenue information services;
3. Withholding and information reporting;
4. Preparer responsibilities and penalties;
5. Probability of receiving audit coverage;
6. Progressive and actual level of tax rates; and
7. Penalties for non-compliance.

Therefore, this assessment put into consideration the rising issues of this model such as: the complexity of the tax system; level of revenue information services; withholding and information reporting; progressive and actual level of tax rates, and penalties incurred for non-compliance.

5.2 Emerging themes relating to the meaning of tax compliance

The increased focus on SMEs reflects a growing emphasis on their potentially critical role in fostering innovation, employment and growth. The researcher purposefully sought to establish what tax compliance meant for tax compliant microenterprises before engaging the research respondents on the challenges they face. The objective was to get a general feel of what tax compliance meant for microenterprises. The increased focus on SMEs also reflects a growing emphasis on their potentially critical role in fostering innovation, employment and growth. Based on the responses coming from the research respondents, South African microenterprises are sceptical of being tax compliant due to the challenges associated with tax compliance. They viewed SARS regulatory measures as detrimental to their enterprises or growth and may result in some of them ceasing to do business.

There was a general consensus from microenterprise owners that more awareness programmes by government needed to be conducted before microenterprise owners can fully comprehend their tax system. Of interest to also note, was how some microenterprise owners responded to some of the questions by stating other elements considered by different agents of government. In the South African case, the way in which the National Small Business Act, SARS and the Department of Trade and Industries (DTI) define microenterprises for instance, BEE, EE or tax purposes, differs. Kushnir (2006) previously highlighted that there is often more than one agency that have their own definition (for instance: statistical institutes, private banks, governmental MSME promotion agencies and others). Kushnir (2006) further stated that out of 120 economies covered, 26 economies have more than one MSME definition. Such inconsistencies have not been without their own effects in the misinterpretations of what constitutes a microenterprise.

5.3 Challenges faced by microenterprises

Chapter two presented an international insight into some frequently emerging challenges that microenterprises encounter in being tax compliant. The challenges emerging from the research findings (Chapter four) revolved around limited finances and expertise; unclear regulatory measures, and constitutional ambiguity. From the themes emerging from this research, the researcher could also link the existence of similar issues that had been raised in the Literature review section in Chapter two.

5.3.1 The lack of expertise

The lack of expertise in the preparation and submission of tax related issues emerged from the responses that the researcher got from the research respondents. The lack of will to declare honestly their turnover and the lack of knowledge of proper system of bookkeeping and accounting were highlighted by the respondents as the contributing factors to their lack of expertise. It also emerged that the vast majority of microenterprise owners were not well acquainted with the processes and procedures with regards to tax compliance. Arendse, Karlinsky, Killian, and Payne (2006) suggested that there is a relationship between the scale of business and their level of expertise: the smaller, the lower their level expertise. Arendse, *et al* (2006) reiterated that this is primarily because, the owners are in charge of the business and in most instances will not be able to afford an employee to that for them.

Although the majority of microenterprise owners had something to say when asked the questions of meaning of taxation in South Africa, a lack of general know-how of the tax law and tax procedures surfaced as a recurrent theme from the cluster. Clusters 1 and 2 also shared the same sentiments about the misconceptions that microenterprise owners have about being tax compliant. Bodin & Koukpaizan (2008) suggested that what was partly to blame for such misconceptions was the complexity of tax regimes (for instance: multiple taxes, several different bases, requirements for multiple filings per year, among others).

Their lack of expertise in the preparation and submission of tax returns, coupled with their limited knowledge of tax laws and procedures, has more often than not resulted in microenterprise owners outsourcing mainly the accounting function for year-end reconciliations and tax submissions. The development of information technology and information sharing through the internet has resulted in a tendency by organisations

to seek cost savings by outsourcing services previously performed within the organisation (Eichfelder & Schorn, 2009). Although outsourcing the tax compliance function is increasingly growing among the larger enterprises as a cost effective measure, the reverse is true for smaller businesses (more so, for microenterprises) who have to incur more costs as outsourcing drains more on their meagre income.

5.3.2 SARS evolving rules and regulations

It emerged from the research respondents that the constantly changing rules and regulations by SARS pose a great challenge for microenterprises in complying with the regulations. This is so because every now and then, business owners need to adjust to a new rule or regulation. These double or triple standards by SARS posed a major constraint. For instance, the SARS tax guide for micro business (2012a) makes reference to the simplified tax system for microenterprises that came into operation on 1 March 2012.

> *"A microenterprise that is registered for turnover tax can however, choose to remain in the VAT system from 1 March 2012" (SARS, 2012)*

Given that to adopt the turnover system is optional as one may choose to continue with the VAT system indicates the existing double standards by SARS. This poses challenges for the microenterprises regarding the system they should adopt.

Smulders and Naidoo (2013) highlighted that since 2001, the National Treasury and or SARS have been introducing these concessions as part of government's efforts to lessen the tax burden for businesses. Although these changes are commendable, the burden on microenterprises cannot be overlooked. This challenge means that more often than not, microenterprises find themselves lagging behind or find themselves in a maze of confusion as to which concession to follow.

5.3.3 Technological adjustment challenges

From the responses that the researcher got from the respondents, it is debatably true that technology offers solution by automating the process of calculating, reporting, and remitting use tax. On the one hand, technology can be viewed in a positive light while on the other hand it can also be viewed in a negative light. Timm (2011) asserts that the lessons that can be drawn from Brazil and India by Africa,

which is the embracing of technology, which minimises human intervention to help reduce the risk of over or underpayment as much of the software solutions feature dynamic, on-demand tools that deliver reports quickly and easily to improve on accuracy.

Klein (2005) highlighted that software solutions include unique features which further enhance the benefits of use tax automation. For example, SARS e-filling's features is a sophisticated tax calculation engine that contains the most up-to-date taxability rules, jurisdictional assignments, and geo-spatial technology to determine tax rates at the invoice or VAT level. Automated solutions like SARS e-filling prevent accounts payable staff from having to remember exactly what is taxed, when, and where. And SARS e-filling uniquely integrates with existing accounting systems, as well as any e-commerce application.

5.3.4 Financial costs of being compliant

Turner, Smith, and Gurd (1998) suggested that tax compliance costs form a significant portion of the total regulatory challenges for MSEs. In becoming compliant additional accounting costs on a monthly basis are also incurred in maintaining tax schedules, to verify tax rate accuracy, examine accounting logs for errors, and manually correct invoices by the contracted tax practitioners. Annoh (2007) contended that it is unfortunate that most microenterprises lack tax professionals on staff, and instead rely on outsourcing.

The costs associated with tax compliance, such as in systems development and tax expertise outsourcing were highlighted by the research respondents as a challenge for microenterprise. More often than not as it emerged from Chapter 4, microenterprise owners have to meet the costs that come with revamping their systems and also in outsourcing accounting and bookkeeping services. This is in line with an observation made by Hodges (2005), cited in Smulders (2006), who highlighted that government was nonetheless costing small business more than the tax they pay through the challenges they face in complying with government regulations for one reason or the other. It also emerged that due to late submissions, microenterprises had penalties imposed upon them by SARS. The financial costs for microenterprises as it emerged from the research were:

- The costs incurred in outsourcing accounting and bookkeeping;
- Costs associated with modernising their systems to keep up with the times; and
- Costs associated with late declarations in the form of penalties and fines.

These costs associated with being compliant form a part of the greatest challenges that microenterprises are faced with. Besides the commendable efforts in the form of incentives for compliant businesses, Coolidge (2010) and Klein (2005) contended financial costs associated with compliance affect smaller businesses more than larger business as they are better placed to understand their position and also to meet regulatory costs. Further research is recommended to scale the monetary cost implications of these costs.

5.3.5 Onerous tax compliance preparations

Being tax compliant means sacrificing business in order to meet tax compliance regulations for microenterprises given the nature and sizes of their business. For instance, the yearly submissions that microenterprises need to undertake when declaring themselves (either with the VAT or the Turnover systems) to SARS is tedious and time consuming for most microenterprises as it emerged from the respondents. microenterprises lack the staff or resources needed to streamline this task and instead rely on manual processing of each and every invoice, which is inefficient, inaccurate, and costly. This has led to most microenterprises contracting out this function in an attempt to put their houses in order and become compliant.

Eichfelder and Schorn (2009) assert that being compliant reduces both the time and financial resources of private businesses. Arendse *et al* (2006) also asserts that compliance challenges are pure red tape. From the responses, it emerged that time spent by microenterprises to understand the rules and applying them, and interacting with the authorities to clarify matters arising is burdensome. Microenterprise owners stated that, the time spent would have been used to productive use by looking for more business.

5.3.6 Constitutional ambiguity and unclear definition of microenterprises

Taxation of microenterprises seems to lack clarity regardless of different reforms. It emerged that there was a general sense of not fully comprehending whether they

were small businesses or microenterprises due to the different definitions that different arms of government have applied. For instance, according to the National Small Business Act (1996), microenterprises are generally considered to fall under the bracket name of SMME. This does little justice to microenterprises as often they find themselves failing to fully declare the nature of their business for tax purposes. Although it could not be established from the research respondents, the likelihood of them declaring themselves to SARS as small businesses is undeniable.

In its bid to encourage compliance from microenterprises, respondent in cluster 1 suggested that one of the benefits of being registered as microenterprise under the turnover tax system is that the entity will be subject to a low rate of tax on turnover without having to keep a record of their expenses and deductions. The same issue had been raised in the Tax guide for microenterprises (2012a) that minimal record submissions will be required from them as they will submit their returns once a year. However, little is known about this tax system by microenterprises. Although the South African government has made different tax reforms, the conditions have largely remained unfavourable and poor for microenterprises. It remains not clearly defined whether a business is a Micro, Small, or Medium business, which poses greater challenges for microenterprises.

5.4 Measures to ensure compliance

Given the importance assigned to revenue collection, different measures need to be put in place to enhance compliance. Locally and internationally, different measures and laws have been instituted to improve tax compliance. Measures taken by the Revenue Services (IRS) in the United States of America, Income Tax Department (ITD) in Nigeria and by the government of Ghana in Chapter 2 will be considered in this section as we look at measures that can be taken to ensure compliance in South Africa.

5.4.1 Measures in addressing the lack of expertise

The lack of tax compliance process expertise by microenterprise owners emerged consistently as a challenge needing to be resolved. Across the three Clusters there was consensus that microenterprises lack tax compliance expertise. Different measures were implemented in the US, Ghana and Nigeria to try addressing the lack

of tax compliance expertise by smaller businesses. For instance, the IRS expanded its existing community coalitions and partnerships to establish new ones in order to enhance taxpayer education, tax preparation assistance and self-sufficiency for improved taxpayer compliance (IRS Strategic Plan: 2005 - 2009, 2005). This they do through the development of specialised initiatives designed to provide multilingual products and services to taxpayers. The IRS further offered products and services towards addressing the growing needs of even those taxpayers with limited English proficiency. As such, programmes designed to educate taxpayers need to be strategically designed for microenterprise owners in areas (from preparation to submission) in which they lack understanding. The weaknesses of taxpayers also need to be studied and recommendations made to address the challenges.

5.4.2 Measures addressing the challenge of SARS evolving rules and regulations

Changes that SARS effects to tax compliance regulations need to be addressed to allow for consistency where microenterprises are also aware of the rules and processes to be followed. The respondents in Cluster 3 proposed the need for proper and timely communication to the taxpayer by SARS. Across the three clusters, it was proposed that educating the tax payers changes will significantly provide a basis for microenterprise owners to be up to date with compliance regulations. Annoh (2007) stated that in Ghana, the government introduced comprehensive taxpayer education, information and assistance programmes aimed at converting taxpayer resistance to taxpayer compliance.

As such, SARS needs to communicate to the taxpayers about the changes to be introduced prior to implementation and thereafter, educating the taxpayers should follow. There is also a need to raise awareness through readily availing educational material and other regular compliance publications. SARS also needs to maintain a customer oriented focus by routinely soliciting information about the needs and characteristics of its customers and implementing programs based on that information.

5.4.3 Measures addressing technological adjustment challenges

Addressing system related challenges in any environment requires strategy to ensure acceptance in transformation by system users. In order to ensure and

enhance compliance, the IRS and the ITD advanced their efforts in transitioning from a paper-based system to an electronic-based system to assure quality and timely service. Through educational outreach programmes, the IRS managed to get a positive response from microenterprise owners who were comfortable with the introduced tax reforms. The same measure can be proposed to the South African Government to ensure a smooth transition whenever system upgrades occur.

5.4.4 Measures addressing the financial costs of being compliant

In its efforts to create a taxpayer friendly environment, the ITD committed to partner in the nation building process through a progressive tax policy (Anyaduba, Eragbhe, & Kennedy, 2012). It is commendable that the tax system in South Africa is progressive in the sense that the higher one earns, the higher the tax they are liable to pay. SARS needs to also increase self-assessment participation through education and outreach and by focusing their compliance efforts towards educating microenterprise owners The government commitment towards spearheading such an initiative that will empower microenterprise owners will considerably lessen their cost in consultation and penalties as they will be well informed.

5.4.5 Measures addressing onerous tax compliance preparations

In its efforts to create a taxpayer friendly environment, the ITD committed to be the partner in the nation building process through progressive tax policy, efficient and effective tax administration and improved voluntary compliance (Anyaduba, Eragbhe, & Kennedy, 2012). Annoh (2007) highlighted that strategic customer services to enhance the integrity of tax administration while also lessening time spent by microenterprises with limited knowledge of the tax system.

As such, SARS needs to intensify its commitment more towards helping people understand their tax obligations and making it easier for them to participate in the tax system. Their efforts need to be channelled more towards minimising the burden for compliant taxpayers and complemented by enforcing efforts against non-compliant taxpayers to achieve the overall goal of full participation in self-assessment tax system.

5.4.6 Measures addressing constitutional ambiguity and unclear definition of microenterprises

At National level, there is a need for clarity on all compliance issues to remove elements of constitutional uncertainties. Annoh (2007) points out that the simplification of tax laws and administrative procedures will make it easier for an average self-employed taxpayer to understand compliance regulations. Essentially, microenterprises need to be assisted in the setting up of institutional mechanisms that is adequate in clear operating environment. Targeted communication to specifically microenterprises will go a long way towards making public SARS compliance regulations. This recommendation may be considered impractical given the large pool of both registered and unregistered microenterprises. This paper recommends that the government also engages Tax Practitioners through different platforms, so as to gather on the ground information given that Tax Practitioners are more knowledgeable about some of the challenges that tax microenterprises encounter.

5.5 Conclusion

Most countries boost their revenue or fiscus through the collection of tax. In an attempt to meet budgetary targets, tax authorities have been advancing their systems in order to curtail non-compliance. Regulations are vital to the fair and sustainable working of market economies, but even the most socially necessary regulations create costs as well as benefits, and some of these costs may be unnecessarily high. It is very important to distinguish between a regulation and the challenges created by complying with tax regulations.

In this Chapter, the researcher clustered the emerging issues into themes as part of sifting for the relevant information which emerged from Chapter Four. As part of the analysis the researcher also revisited the literature review section where some of the emerging issues had also been raised in prior research. This research design in conducting this research was appropriate because the responses of the participants addressed the questions getting into the research. In this process the researcher had to set aside own experiences or understanding in order to understand those of the participants in the study (Creswell, 2003). This allowed the researcher to engage in explanations and analysis of what the research participants experienced, observed

and meant. This chapter presented an analysis of the rising issues to contribute to the broader knowledge of the tax system of microenterprises in South Africa.

CHAPTER SIX

6 Conclusion and Recommendations

microenterprises are arguably the most potent dynamic sectors of the South African economy, and like any other small business (micro, medium or small) are more vulnerable to the compliance burden created by the tax regulatory framework. Although the South African government has introduced various strategies and measures (tax concessions) towards reducing the associated compliance burdens, challenges still occur when microenterprises are being tax compliant. The purpose of this research was to investigate the challenges faced by tax compliant microenterprises in South Africa. The researcher applied a qualitative methodology intended to aid understanding of what it means for microenterprises to be tax compliant.

The research objectives were:

1. To understand what being tax compliant means for microenterprises;
2. To contribute to the development efforts by the government of microenterprises; and
3. To recommend to SARS on areas to improve before implementing tax reforms.

6.1 Conclusion

This paper explored what tax compliance meant for microenterprises. In doing so the researcher ushered in a more conducive environment to question the research respondents of the challenges that microenterprises face. In epitome, microenterprises in contemporary South Africa find it not only more costly, difficult, tedious, but also unclear when it comes to complying with the Tax Regulations of microenterprises. This, as it emerged, is making it increasing difficult for microenterprises to grow or develop (e.g. Expansion of their production and improve on the number of employees) due to the time and resources that have to be channelled towards being compliant. In line with other various local and international studies conducted elsewhere, this research revealed that tax compliance costs

comprise a larger proportion of the compliance challenges that microenterprises are often faced with.

Microenterprise owners are left with little option but to comply as risks of non-compliance are worse, including penalties, interest, and even jail time if fraud is proven. Hence, identifying the challenges faced by microenterprises in managing their tax compliance affairs, and mapping reasonable solutions in a step forward towards ensuring microenterprises who make the sound and honest choices about their tax responsibilities operate in a more conducive tax environment.

This research does not only acknowledge the necessity of taxes in any country's development, but IT also appreciates the need for an effective tax system that is clear to all taxpayers and efficient. Microenterprises operate in a regulated environment in which they are liable of paying taxes that apply to their business strata to Government. However, being tax compliant is not without its challenges for microenterprises, which this research was tasked to investigate by focusing on microenterprises in Gauteng's Midrand area. Given that this paper was also tasked with providing policymakers with recent information that can be used to make informed decisions when either improving tax systems or in finding solutions towards the creation of a more conducive business environment for microenterprises, the following section presents what can be done to remedy tax compliance challenges for microenterprises.

6.2 Recommendations

Bringing to light the challenges faced by microenterprises when being tax compliant is intended to contribute to the development efforts by the government of microenterprises and also improve SARS's efficiency in tax collection.

- Microenterprises need to be assisted in setting up institutional mechanisms that are adequate in clear operating environment.
- Need to raise more awareness through readily available education material and more regular compliance publications.
- Targeted communication specifically to microenterprises will go a long way towards making public SARS compliance regulations. This recommendation may be impractical given the large pool of registered and unregistered

microenterprises. This paper recommends that the government engages Tax Practitioners via different platforms, so as to gather on the ground information given that Tax Practitioners are more knowledgeable about some of the challenges that tax microenterprises encounter.

- SARS needs to intensify its commitment towards helping people understand their tax obligations and to making it easier for them to participate in the tax system. Their efforts need to be channelled more towards minimising the burden for compliant taxpayers and complemented by enforcing efforts against non-compliant taxpayers to achieve our overall goal of full participation in our self-assessment tax system.
- SARS needs to also increase self-assessment participation through education and outreach and by focusing their compliance efforts toward educating microenterprise owners.
- SARS needs to maintain a customer oriented focus by routinely soliciting information about the needs and characteristics of its customers and implementing programs based on that information.

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7 APPENDICES

7.1 Appendix A: Interview Schedule

Interviewee Biography				
Name				
Sex	Male		Female	
Nationality				
Profession				
Organisation				

1. Would you kindly describe the tax system of businesses in South Africa

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2. Based on your knowledge and experiences, what does it mean for microenterprises to be tax compliant?
    - PROBE: Are the regulatory measures in place user friendly in terms of, for example, requirements or clarity?

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3. In your opinion, what challenges do microenterprises encounter when being tax compliant? (PESTEL)

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4. How do the challenges affect microenterprises?
    - PROBE: To what extent have these been an impediment to the normal running or vision of micro business owners

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5. What can government do to ensure that compliance by microenterprises does not stand as a stumbling block to their growth and development?
    - PROBE: The measure that have been put in place, what have been their shortcomings?

- PROBE: What needs to be worked on or improved?
- PROBE: What can microenterprise business owners do?

7.2 Appendix B: Information and Consent Form

INFORMATION SHEET AND CONSENT FORM

Study: ……..

Who I am

Hello, I am Simon Letsoalo. I am a student with the University of the Witwatersrand studying towards a Masters in Public and Development Management.

What I am doing

I am conducting a research on the challenges faced by microenterprises in becoming tax compliant in South Africa.

Your participation

I am kindly asking for your participation in this research based on your knowledge and opinions. If you agree, I will ask you to participate in one interview, which should approximately take less than an hour. In order to accurately record what you would have said, I am also requesting your permission to tape record the interview.

Please note that your participation is voluntary and you are not being forced to take part in this study. The choice of whether to participate or not is yours. If you choose not to take part, you will not be affected in any way. If you agree to participate, you may stop participating in the research at any time and tell that you do not want to continue. In doing so, there are no penalties and you will not be prejudiced in any way.

Confidentiality

Any study records that identify you will be kept confidential. The records from your participation may be reviewed by people responsible for making sure that research is done properly, including the ethics committee of the University of the Witwatersrand. (All these people are required to keep your identity confidential). In other words, records that identify you will only be available to me, my research supervisor and the Wits ethics committee, unless you give permission for other people to see the records.

The responses or information you provide are anonymous and confidential, not accessible to any other, and the only reference to you will be a code number or a pseudonym (another name) in any publication.

Benefits

There are no benefits in your participation in this study as it is purely academic. Your participation will be helpful in writing up of a research report on the challenges faced by microenterprises in becoming tax compliant.

Who to contact if you have been harmed or have any concerns

This research has been approved by the University of the Witwatersrand Ethics Committee and the Wits Graduate School of Public & Development Management (P&DM). If you have any complaints about ethical aspects of the research or feel you have been harmed in any way by participating in this study, you may contact the P&DM Academic Delivery Unit manager Helen Mzileni on +2711 717 3562 or e-mail to Helen.Mzileni@wits.ac.za. If you have concerns or questions about the research, you may contact my research supervisor Mr. Dikgang Motsepe on +2711 717 3500 or e-mail to Dikgang.Motsepe@wits.ac.za

CONSENT

I hereby agree to participate in this research on the challenges faced microenterprises when being tax compliant. I understand that I am participating freely and without being forced in any way to do so. I also understand that I can stop participating at any point should I not want to continue and that this decision will not affect me negatively in any way. I understand that this is an academic research project whose purpose is not necessarily to benefit me personally in the immediate or short term. I understand that my participation will remain confidential

I hereby agree to the tape recording of my participation in the study

…….. **Date…….**

Signature of participant