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The perceived fairness of turnover tax in the South African tax system

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2013-03-15
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The Perceived Fairness of Turnover Tax in the South African Tax System

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Date: March 2012

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Declaration

I, Adam Dylan Gluckman, declare that this research report is my own unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Commerce in the field of Accountancy at the University of the Witwatersrand, Johannesburg. All sources that I have used or referred to have been indicated and acknowledged as such by means of complete references. It has not been submitted before for any other degree or examination at any other institution.

Adam Dylan Gluckman: _____

Date: _____

Abstract

South Africa implemented a simplified Turnover Tax system with effect from the commencement of years of assessment 1 March 2009 in order to help improve the culture of tax compliance. To date the number of applicants has not been significant and a potential reason for this is that it is not fair. Fairness and equality within a tax system is important in order to discourage evasion. The purpose of this research is to explore the perceived fairness of the current Turnover Tax system. Using the principles of a fair tax system as advanced by Adam Smith (1776) a correspondence survey was issued to identify whether the Turnover Tax principles enhance or undermine fairness. The criticisms and provisions of the Sixth Schedule to the Income Tax Act No. 58 of 1962 were investigated to determine whether Adam Smith's (1776) maxims are promoted or undermined and in turn whether they are perceived as being fair or not. Based on the responses and analysis of the survey, it was deduced that the Turnover Tax system is not being perceived as completely fair. As a result changes need to be implemented to in order to improve the overall compliance and effectiveness of the tax.

Key Words

Fairness	Tax compliance
Turnover Tax	Simplified Tax
Micro Businesses	Correspondence Analysis

Acknowledgements

A special thank you needs to be extended to:

Mrs. Magda Turner, for her dedication; patience; technical expertise and support while supervising this report and its supporting research proposal.

Mr. Warren Maroun, for his overall help with the analysis of the correspondence data and his commitment; insight and support while supervising this report and the supporting research proposal.

Professor Kurt Sartorius and Professor Benn Sartorius, for their help with the manipulation of the statistical data needed for the report.

Mrs. Michelle Aucock, for her help with the editing of the correspondence survey.

All those whom participated in the correspondence survey and gave up valuable time to help with my research.

1 Introduction

1.1 Context of the study

The collection of tax revenue is important for the government to ensure its funding, however; for the taxpayer it is also important to be treated in a way which is procedurally fair (Bird and Zolt, 2003; Hartner et al., 2008; Owens and Parry, 2009; Smith, 1776; Tanzi and Zee, 2001; Vivian, 2006).

In 2005, a survey was performed by members of the Department of Taxation at the University of South Africa, to establish some of the obstacles faced by small businesses in order to comply with tax requirements. Results showed that small businesses might face up to eleven different taxes. These different taxes all have their own costs and administrative consequences, which if not complied with, may result in fines, penalties and interest being levied. If for example a business fails to estimate correctly its second provisional tax payment within eighty percent of its final tax due then penalties are payable, or if Value-Added Tax (VAT) is not paid by the due date then a penalty of ten percent is payable on the outstanding amount. These examples indicate two potential areas where penalties and interest may become payable. It is for this reason that many smaller businesses may evade paying tax. In the past government has tried to provide relief for small businesses but the survey shows that more than fifty percent of the respondents were unaware of the tax incentives that were available. (Abrie and Doussy, 2006; Coolidge, 2010; South African Revenue Service, 2011a; South African Revenue Service, 2011c).

Small, medium and micro businesses contribute between thirty to forty percent of South Africa's gross domestic product (Foreign Investment Advisory Service: World Bank, 2007 :10). In reality, many small businesses do not pay tax as they generate small profits or are

overwhelmed by the complexities of the current tax system (South African Revenue Service, 2008).

Small businesses have the potential to make the economy grow, reduce poverty and increase jobs. High costs associated with compliance that may be incurred by these businesses comprise: registration fees, tax practitioners' fees and accounting systems which need to be implemented. These costs can average up to R20 693 per annum, before tax has been paid. (Foreign Investment Advisory Service: World Bank, 2007 :1-10; Govender and Citizen Surveys, 2008; Smulders, 2006).

In a survey performed by the Foreign Investment Advisory Service (FIAS), the most burdensome aspects of the four main taxes, namely Income Tax; VAT; Provisional Tax and Employees Tax, were identified. These being capturing and processing errors made by the South African Revenue Service (SARS) and the time taken to correct these errors for both Income tax and Employees tax. As well as penalties and interest incorrectly raised by SARS for Provisional Tax and the period of time required to register as a VAT vendor. To counteract some of these problems, a simplified tax regime for small businesses would need to be introduced. (Foreign Investment Advisory Service: World Bank, 2007: 5-6).

South Africa identified the need to simplify the tax system for small businesses and implemented the Turnover Tax system with effect from 1 March 2009 and applicable in respect of years of assessment commencing on or after that date (s 48A of the Income Tax Act No. 58 of 1962 (the Act)). Turnover Tax is a simplified complete tax system for micro businesses, individuals and companies, where the qualifying turnover of that person for the year of assessment does not exceed an amount of R1 million (para 2 of the Sixth Schedule to the Act). Taxes such as Income Tax into which Capital Gains Tax (CGT) is incorporated, VAT, Provisional Tax and Secondary Tax on Companies (STC) are substituted by one single

tax (Arendse, 2009; South African Revenue Service, 2010; South African Revenue Service, 2011b).

Turnover Tax was implemented with the intention of improving tax compliance however; Turnover Tax may not always be as advantageous as thought to be. Careful consideration and calculations need to be performed in order to assess whether Turnover Tax is favourable for the business concerned (Hassan, 2009). In an environment where individuals do not like to pay taxes and often do not see the benefits of the taxes paid, fairness is key (Bird and Zolt, 2003; Hartner et al., 2008; Maroun, 2007). Turnover Tax was implemented in order to simplify very complex tax rules and regulations. The fact that Turnover Tax is perceived to be simpler to comply with does not necessarily mean that the associated tax payable is fair. This simplified tax system may potentially be burdening the taxpayer even more than the complex Income tax system (Hassan, 2009). If this is the case then the taxpayer may not be in an improved situation monetary wise and ultimately may not be treated fairly.

The fairness and equality of tax is thus an important matter and is one that dates as far back as the 1700's when economists Montesquieu (1748), Smith (1776), and Mill (1848) discussed this issue. The principle of fairness will be re-examined, explored from the context of Turnover Tax and a discussion made as to whether the Turnover Tax system, which has been in existence for two years complies with this principle. Currently the number of businesses that have joined the Turnover Tax system has not been prolific and a potential reason for this is that the system is not fair.

1.2 Purpose of the study

The purpose of this research is to explore the perceived fairness of the current Turnover Tax system, which has recently been implemented in South Africa, from the perspectives of both the government and the small business owners.

In order to better address this problem the characteristics of a fair tax system as advanced by Smith (1776) will be examined in Chapter 2 and, in turn, the following sub-problems will be investigated.

- Whether the criticisms and provisions of the Sixth Schedule to the Act promote or undermine the fact that, the subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state (Smith, 1776: Maxim 1).
- Whether the criticisms and provisions of the Sixth Schedule to the Act promote or undermine the fact that, the tax which the individual is bound to pay ought to be certain and not arbitrary and the fact that the time of payment, the manner of payment and the quantity to be paid, ought all to be clear and plain to the contributor and to every other person (Smith, 1776: Maxim 2).
- Whether the criticisms and provisions of the Sixth Schedule to the Act promote or undermine the fact that, every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it (Smith, 1776: Maxim 3).
- Whether the criticisms and provisions of the Sixth Schedule to the Act promote or undermine the fact that, every tax ought to be so contrived as to take out of the

pockets as little as possible, over and above that which it brings into the public treasury of the state (Smith, 1776: Maxim 4).

1.3 Significance of the study

Time and cost compliance as a percentage of turnover decreases significantly as the size of the firm increases. A simplified tax system is therefore necessary if tax compliance of smaller businesses is to be increased (Govender and Citizen Surveys, 2008; Stern and Loeprick, 2007). Although tax liability may not be reduced with Turnover Tax, compliance costs are reduced. The implementation of the Turnover Tax system encourages continual record keeping, which in time, once the company grows, will stem into a normal tax requirement (National Treasury, 2008: 63).

To date only about seven thousand seven hundred (7700) businesses have registered for Turnover Tax. Of those registered for Turnover Tax only twelve percent are new taxpayers (National Treasury, 2011a: 75). South Africa has 1.9 million businesses registered for tax (Business Report, 2011). The small number of new Turnover taxpayers indicates that its implementation to date has not been as successful as hoped. Perhaps a possible reason for the lack of registrations to date is that the system is not perceived by potential Turnover taxpayers as being fair. In the 2011 National Budget speech, Minister Gordhan announced some adjustments to the Turnover Tax legislation, together with these adjustments it was emphasised that improvements need to be focused on business tax, specifically Turnover Tax. One of the suggestions was that SARS and other state institutions will perform door to door initiatives to educate and complete the picture for the informal sector (National Treasury, 2011b: 33). These statements show that the government and SARS feel that small business tax is an important aspect of business tax in South Africa and so it would be important from a tax collection and compliance perspective to understand if the tax is being perceived as fair.

Currently, businesses that are registered for Turnover Tax are taxed based on their taxable turnover for their year of assessment. If a business makes a loss for the year they are still required to pay tax (the Act). These are two areas of potential unfairness and may prevent a likely Turnover taxpayer from registering if they feel it is not fair. This research fills a gap in that it will investigate whether the current method of taxing micro businesses per the Sixth Schedule to the Act is perceived to be a fair method to tax a business. It will be advantageous to reaffirm whether the principle of fairness as discussed by Adam Smith (1776) is enhanced or undermined with regards to Turnover Tax from both the government and the businesses point of view (Hayek, 1960).

In order to add to our understanding of the perceived fairness of Turnover Tax, the research will interpret the results of a correspondence survey to be conducted using participants who understand tax extensively. This analysis will be used to further our insight into whether specific arguments and counter arguments regarding the perceived fairness of Turnover Tax are within Smith's (1776) definition of tax fairness.

1.4 Delimitations and assumptions

Firstly, the research will adopt the definition of 'fairness' advanced by Smith (1776) and will not attempt to consider the debate surrounding the adequacy of this definition. This is reasonable given that Smith (1776) provides a seminal account of notions of tax fairness (Maroun et al., 2011; Vivian, 2006) allowing the research to use a generally accepted construct of 'fairness' and hence retaining its focus.

Secondly, the Sixth Schedule and s 48 of the Act will be read when considering the fairness of Turnover Tax. Other definitions and sections within the Act may be used to gain an understanding of different methods of taxing. Sections of the Act that do not pose an issue regarding Turnover Tax's method of taxing businesses will not be considered.

Thirdly, the intention of the research is to explore the perceived fairness of the Turnover Tax system and not its technical constructs. As a result, only a brief analysis of the provisions in the Act dealing with the Turnover Tax system will be provided.

Fourthly, the research will neither attempt to re-perform the empirical work quoted in existing sources nor corroborate the results. The results are assumed to be correct and further empirical work will be deferred for subsequent research given the apparent lack of South African statistics on the effects of Turnover Tax.

Fifthly, the research is inspired by an interpretive epistemology. In this context, the objective of the research is to explore the perceived fairness of the Turnover Tax system and not to actually 'measure' its fairness.

Lastly, and related to the previous delimitation, respondents are selected using a purposeful selection technique. This, together with the interpretive-inspired nature of this research, means that an element of bias is inevitable. Further, while respondents are only selected if they are knowledgeable of the Turnover Tax system, total accuracy cannot be assured. This is discussed in more detail in Chapter 3 of this report.

1.5 Limitations of the study

Due to the limited number of tax experts, sample sizes will be limited to that which is available and may thus be restricted. This means that extrapolation of findings to broader groups is not advised. Such is, however, an inherent limitation of qualitative research. The intention of the paper is simply to explore the perceptions of tax fairness, to add to the existing debate and not to 'quantify' the tax's utility. For this reason, a more positivistic focus is inappropriate – the research does not seek the answer to the most fair and perfect Turnover Tax system but rather aims to illuminate the perceived fairness of the current system based on

Smith's (1776) definition. A similar approach was adopted by Maroun et al. (2011) where the perceived fairness of CGT was explored and a similar methodology applied with great success.

Future changes with regard to Turnover Tax cannot be anticipated, and so the research will only focus on the current legislation and that which has been proposed in the 2011 National Budget speech.

The research is limited to South Africa, as Turnover Tax relates only to South African taxpayers and lastly as the study deals with individual's perceptions, total bias cannot be fully eliminated. Most importantly any correlations between the row and columns in the survey are inferential in nature and do not prove that Turnover Tax is fair.

1.6 Definition of terms

Unless otherwise mentioned all technical terms have the same meaning as those contained in the Sixth Schedule to the Act. Where necessary, a description of terms or concepts under investigation will be provided in the report before the relevant term or concept is examined. Finally, Smith's (1776) tax maxim is used as a 'fairness' benchmark for the purpose of this research, and is discussed in more detail in Chapter 2.2 of this report.

2 Literature Review

This chapter will outline the identified issues and the need for fairness within an income tax system and within this research report specifically the Turnover Tax System. Adam Smith's (1776) maxims dealing with the fairness of tax systems will be utilised as a 'fairness benchmark' against which certain aspects of Turnover Tax are assessed using a correspondence analysis (Chapter 3). The purpose is to explore the perceived fairness of the

Turnover Tax system, presenting results in a manner balancing the need for a rich description of results (Creswell, 2009) with the presentation of research findings in a clearly understandable fashion (Ahrens and Chapman, 2006; Bendixen, 1996; Maroun, 2007; Maroun et al., 2011; Merchant, 2008).

To this end, Smith's (1776) tax fairness maxim will be scrutinised and used as the basis for the fairness criteria for the correspondence analysis. The literature on hand will then be utilised in order to identify issues within the current Turnover Tax system. Based on these issues identified and areas within the Sixth Schedule to the Act, the correspondence survey which is being used to gather the data for the research will be developed.

2.1 The need for fairness

To date the Turnover Tax system has not been a prolific success, perhaps a reason for this is that it is not a fair tax system. If this is the case then micro businesses will not elect to use Turnover Tax and as a result will either account for tax in terms of the normal Income Tax rules or might not register for tax purposes and as a result will most likely attempt to evade tax. Tax evasion and the lack of new taxpayers ultimately defeats the intended purpose set out by the South African government, which was to encourage compliance (Business Report, 2011; Hartner et al., 2008; South African Revenue Service, 2008). Thus the concern of whether the Turnover Tax system is fair is relevant. (The research will adopt the definition of 'fairness' advanced by Smith (1776) and will not attempt to consider the debate surrounding the adequacy of this definition).

There are three reasons why a tax should be fair: firstly in order to allow for tax to be aligned with the democratic processes of a country; secondly to allow for the efficient collection of taxes and lastly to allow for the well-being of society (Montesquieu, 1748 ; Post, 2005; Vlassenko, 2001).

The Constitution of the Republic of South Africa No. 108 of 1996 (the Constitution) demands there to be a need for equality. Taxation in South Africa must therefore assist in bringing this spirit of equality and fairness into light and promote the Constitution (Katz Commission, 1994; Maroun, 2007; Post, 2005).

If a tax is seen by an individual to be inequitable, it may pose a problem when it comes to collection of taxes as evasion will be prevalent. If this system is however seen as fair, the likelihood of collection and reduced evasion increases. As a result equity is an important part of fairness. (Hartner et al., 2008; Maroun, 2007; Vlassenko, 2001).

In a society where people do not like taxes, fairness once again becomes important to ensure the well being of society. Excessive and unjust taxes can lead to social unhappiness and potential revolutions (Farrar, 2011; Katz Commission, 1994; Maroun, 2007; Vivian, 2006). In order to justify these taxes, government needs to show the benefits of the taxes collected. It is thus necessary for taxes to be fair. If taxes are fair, suitable benefits are being provided for with the revenue collected; then the individuals who pay the taxes are to a certain extent happier. If individuals feel that they are being treated fairly, then they may be content with less favourable outcomes as long as they can see some benefits. (Hartner et al., 2008; Montesquieu, 1748 ; Smith, 1776; Vivian, 2006; Moran, 2008). Thus fairness is essential to ensure society does not evade tax or worse, revolt.

The goal for fairness in tax is therefore a necessity which is critically important. Adam Smith's (1776) maxims of a fair tax provide a guide of what a tax system should incorporate in order to ensure its perceived fairness.

2.2 Tax fairness per Adam Smith

Adam Smith is considered by some to be the father of modern political economy. In 1776 The Wealth of the Nations was published, in which Adam Smith (1776) argued that there were four maxims of a fair tax system which, when combined, would create a fair and effective tax system (Association of Chartered Certified Accountants, , 2009; Chittenden and Foster, 2008; Lambert, 1992; Moran, 2008; Smith, 1776). A good and fair tax system is one which is guided by a set of suitable rules or principles. These rules or principles allow for a balance between the interests of the government and the interest of the taxpayer. Adam Smith's (1776) maxims set out to provide a guide which offers the characteristics of a fair tax system. (Akrani, 2010). These four maxims are simplified into four key words, equity, certainty, convenience and simplicity/efficiency (Association of Chartered Certified Accountants, , 2009; Chittenden and Foster, 2008; Lambert, 1992).

Most commissions of taxation at some point refer to Adam Smith's (1776) maxims of tax when making decisions and often use it as a starting point for their discussions. The Katz Commission and Margo Commission are two examples where the maxims have been considered (McLean, 2005; Vivian, 2006). Former Prime Minister of The United Kingdom, Gordon Brown, too announced that he had Smith's (1776) maxims by his side while working on the 2002 United Kingdom Budget. This shows that Adam Smith's (1776) maxims are internationally used and are not unique to South Africa. It also confirms that the maxims are still relevant to modern times and can still be used as a guide in determining a fair tax system. (McLean, 2005).

Writers such as David Ricardo (1817) and John Stuart Mill (1848) all discussed Adam Smith's (1776) maxims in their work. Mill (1848) wrote that the maxims were discussed so competently by Smith (1776) that he could do no more but merely elaborate on them. (Mill,

1848; Ricardo, 1817; Vivian, 2006). It has also been noted that the contributions of Smith (1776) have been used by ministers and members of parliament in their decisions on tax. (Groves, 1974; Vivian, 2006). From a fairness perspective, most modern tax systems still follow some of the concepts of Smith's maxims (Association of Chartered Certified Accountants, , 2009). Even though over time Smith's (1776) maxims have not developed with the changes in society and economies, his maxims are still very often used as a starting point as was shown in the Katz and Margo Commissions. Using Adam Smith's (1776) maxims as a means to assess fairness of tax from a South African context is thus suitable and will therefore be used as a correspondence tool in order to assess Turnover Tax's perceived fairness.

In order to use Smith's (1776) maxims as a correspondence tool to assess perceived fairness it is essential to understand what the maxims are really saying. This will be discussed below.

Maxim 1

> "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is in proportion to the revenue which they respectively enjoy under the protection of the state". (Smith, 1776). (First fairness criteria in correspondence analysis, Appendix 1)

This maxim can be summarised into one word: equity. According to this maxim, tax should be paid in proportion to the taxpayer's income. The amount of tax payable should be based on the taxpayer's ability to pay the tax to the government. Wealthier individuals should be required to pay more than poorer individuals. (Akrani, 2010). In analysing Smith's (1776) first maxim we consider three main aspects: firstly tax is paid on a proportional basis and not a progressive one; secondly the taxpayers should have the ability to afford the tax due and thirdly tax should be charged based on revenue. (Maroun, 2007; Vivian, 2006).

The first component of this maxim to consider is what does 'paid in proportion to the taxpayer's income' mean? Most proponents of Adam Smith have interpreted it to mean that it is a tax based on a proportional basis, meaning income tax is determined based on a single rate for all taxpayers no matter what you earn. The other option is a progressive tax, which is a tax where your tax rate increases as you earn more money. Based on the literature it would seem that Smith (1776) supports a proportional tax. There are two potential justifications for this; firstly, once a taxpayer has incurred normal day to day expenses, the taxpayer is not in a position to incur a full tax burden but only a portion thereof. Once the taxpayer's income increases beyond the normal life necessities, the tax burden which is affordable increases. The second reason for not using a progressive system is to account for indirect taxes like VAT. In this sense everyone should make at least some contribution and so the use of indirect taxes becomes important. Indirect taxes played a part in going against the use of a progressive tax system (Bad Conscience, 2010; Friedman, 2011; Maroun, 2007; Maroun et al., 2011; Vivian, 2006). Turnover Tax uses a progressive tax rate system and as this has not been identified by tax writers as a concern, it will not be discussed further in this report.

The second component of maxim one is that taxpayers should have the ability to afford the tax due. The original interpretation of this is the ability to bear taxes and not the ability to pay, which has become the modern interpretation. This distinction is important as Smith's (1776) interpretation looks at the importance of the taxpayer's ability to bear the burden and not the government's attempt to collect revenue. This same point was reiterated by Montesquieu (1748 : XIII). A further distinction between ability to bear and pay and one which is said to be the most important is that those who cannot afford to pay a tax must not be subject to one, even if it is a small one at that. Before a tax can be levied the cost of life's necessities should be deducted. This is a fundamental tax principle in that if a taxpayer has no ability he should not pay until his costs of living have been satisfied. This shows the balance

between the needs of the taxpayer and those of the government. The costs of living must relate to the taxpayer's obligations, and as a result a taxpayer must be left in a position after paying tax to support himself and his family. (Maroun, 2007; Vivian, 2006).

Maxim 2

> "The tax which the individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person".(Smith, 1776). (Second fairness criteria in the correspondence analysis, Appendix 1)

This maxim can be summarised into one word being certainty. The tax which is being levied should be certain and there should be no elements of subjectivity or confusion. Prior to the tax being paid, the taxpayer needs to be certain as to how much should be paid, when it should be paid and how it should be paid. In being a certain tax, it must not only be certain and understandable for the tax professional but for the person who is being taxed. If it is not understandable to those who are required to pay it, then the taxpayer's cannot play their part in supporting and adhering to the system. This certainty concept is also beneficial for the government as it will improve compliance and reduce evasion because if certain, the tax will be easier to comply with. The government may also be able to budget better if they can predict with a bit more reliability and certainty how much they will receive in taxes. (Akrani, 2010; Economic Concepts, 2010; Lambert, 1992).

Maxim 3

> "Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it".(Smith, 1776). (Third fairness criteria in the correspondence analysis, Appendix 1)

This maxim can be summarised into one word being convenience. The method and timing of payment should be convenient for the taxpayer. For example taxes should not be payable in the middle of the month when money is scarce. If the tax is convenient and easy to pay then more individuals and businesses will be able to pay it and thus evasion will be reduced. (Akrani, 2010). This maxim is often ignored (Lambert, 1992).

Maxim 4

> "Every tax ought to be so contrived as to take out of the pockets as little as possible, over and above that which it brings into the public treasury of the state". (Smith, 1776). (Fourth fairness criteria in the correspondence analysis, Appendix 1)

This maxim can be summarised into one word being simplicity or efficiency. Tax administration should be simple and easy to comply with. The expenses relating to the collection of taxes should also be affordable and as low as possible for the taxpayer. (Akrani, 2010; Economic Concepts, 2010).

Having examined the meaning of tax fairness as per Smith (1776), the research shall consider prior literature on the Turnover Tax system focusing on arguments and counter arguments regarding potential sources of unfairness. Before this can be done, a brief description of the tax is required.

2.3 Turnover Tax Structure

As part of the government's scheme to encourage entrepreneurship and create an environment for small and micro businesses to survive and grow, the National Treasury and the SARS announced a plan in 2008 to reduce the tax burden for businesses with a qualifying turnover of less than R1 million. Qualifying turnover is the total receipts from carrying on business activities excluding amounts of a capital nature and certain government grants (para 1 of the Sixth Schedule to the Act; South African Revenue Service, 2010). This resulted in

the implementation of the Turnover Tax system. Together with this system came the increase in the VAT threshold for taxpayers to register as a vendor, from R300 000 to R1 million in terms of s 23 of the Value-Added Tax Act No. 89 of 1991 (the VAT Act). This was done mainly because a business cannot be registered for VAT and Turnover Tax at the same time. In the 2011 National Budget speech it was announced that from 1 March 2012, a business will not be prevented from registering for both VAT and Turnover Tax (National Treasury, 2011a). Hence, this provides the basis for the twenty-first statement considered by the correspondence analysis in Appendix 1.

Not only does Turnover Tax aim to reduce tax but also to reduce compliance costs, time spent on completing different tax returns and most importantly to encourage growth and formalisation (South African Revenue Service, 2008).

Turnover Tax is an elective tax; it is imposed in terms of s 48A of the Act and is applicable to years of assessment commencing on or after 1 March 2009. Turnover Tax is a stand-alone tax separate from Income Tax, Donations Tax and STC. The amount payable is based on rates that must be fixed annually by Parliament (s 48B of the Act). Only a person that meets the requirements of a micro business as defined in terms of the provisions of para 2 of the Sixth Schedule to the Act may elect in terms of the provisions of para 8 of the Sixth Schedule to the Act to comply with the Turnover Tax system. In terms of s 48B (2) of the Act the tax is payable on the taxable turnover of a micro business. Accordingly, this paragraph provides the basis for statements two, three and eight considered in the correspondence analysis in Appendix 1.

The provisions of the Sixth Schedule to the Act apply to both incorporated and unincorporated businesses. A person qualifies as a micro business if that person is a natural person or company (para 2 of the Sixth Schedule to the Act). If a person trades in more than

one business, the turnover of both businesses will be aggregated to determine if the business qualifies for Turnover Tax (para 5 of the Sixth Schedule to the Act). This paragraph forms the basis of statement nineteen within the correspondence analysis in Appendix 1.

Public benefit organisations and clubs are not permitted to make use of the Turnover Tax system as they already enjoy special dispensations (para 3 of the Sixth Schedule to the ActSouth African Revenue Service, 2008).

2.4 Turnover Tax Legislation

The Turnover Tax is a single tax that substitutes Income Tax, of which CGT forms a major part, STC and VAT. Statement four in the correspondence analysis (Appendix 1) is based on this fact. The tax rate as per the Appendix 2 - Table 5, is multiplied by the taxable turnover calculated for the period (para 5, 6 and 7 of the Sixth Schedule to the Act). The tax will be levied for a year of assessment beginning 1 March and ending on the last day of February (s 48A of the Act). Two interim provisional payments are required and a top-up if necessary (para 11 of the Sixth Schedule to the Act). A business must register for Turnover Tax before the year of assessment begins and must be registered for at least three years unless disqualified (para 8 of the Sixth Schedule to the Act). As of 1 March 2012, the three year compulsory registration period will be lifted and a micro business can deregister before the three year period has elapsed (National Treasury, 2011a). Accordingly the twenty-second statement is included in the correspondence analysis in Appendix 1.

Once a business exits Turnover Tax, it cannot re-register for a further three years (para 8 of the Sixth Schedule to the Act). If a micro business is a close corporation, co-operative or company, then STC will not be payable up to a dividend distribution of R200 000, thereafter STC is payable as normal (s 64B(5)(*l*) of the Act) (South African Revenue Service, 2008).

Taxable turnover for a year of assessment in terms of para 5 of the Sixth Schedule to the Act consists of all amounts, not of a capital nature, received by the registered micro business during the specific year of assessment from carrying on business activities in South Africa, taking into account special inclusions and exclusions. The special inclusions in terms of para 6 of the Sixth Schedule to the Act include: Fifty percent of proceeds on the sale of a capital asset, investment income of a company as defined in s 12E of the Act, other than dividends, and an add-back of all of the previous year's tax allowances in the first year of being a registered micro business, if required by the Act.

Paragraph 7 of the Sixth Schedule to the Act specifically excludes from taxable turnover investment income as defined by s 12E of the Act (for a natural person), government subsidies and amounts that accrued to the taxpayer before registration as a micro business as long as the amount was already subject to tax.

In terms of para 9 of the Sixth Schedule to the Act a micro business can deregister on a voluntary basis after three years of forming part of the Turnover Tax system. This will subsequently change on 1 March 2012 where a business will be able to voluntarily deregister at any time. When a micro business no longer qualifies as a micro business the business has twenty one days to notify SARS that it no longer qualifies and must deregister (National Treasury, 2011b; para 10 of the Sixth Schedule to the Act).

Para 11 of the Sixth Schedule to the Act requires two interim payments and a top up payment if necessary. The first payment is due on the last day of August. This payment is calculated by estimating the taxable turnover for the year and multiplying it by fifty percent. This amount cannot be less than the previous year's unless SARS approves otherwise. The second payment is based on an estimate of taxable turnover less the amount previously paid. This amount is due before the last day of February. Interest at the prescribed rate as defined in the

Act is charged if payments are missed and is calculated based on the number of days payment is outstanding. If the estimate for the second payment is less than eighty percent of actual taxable turnover, an additional tax of twenty percent on the difference between eighty percent of actual taxable turnover and the estimated amount, is payable. This penalty may be waived where SARS recognises that the micro business was not negligent and did not deliberately underestimate the amounts payable. A final assessment is required for the actual taxable turnover due on a date set by SARS and any additional amounts outstanding are required together with the assessment (Arendse, 2009: 12).

In terms of para 14 of the Sixth Schedule to the Act the micro business has certain record-keeping requirements that the micro business needs to comply with. This includes maintaining a record of amounts received, dividends declared, each asset with a cost price of greater than R10 000 and liabilities with amounts which exceed R10 000 for the year of assessment.

2.5 Responses to the implementation of Turnover Tax

Where a business has a low overhead structure as in most service industries, Turnover Tax will be an attractive alternative. The problem with the Turnover Tax system is that a number of persons do not qualify as a micro business as defined (para 3 of the Sixth Schedule to the Act). The following is a list of those who are disqualified.

- A person who owns any shares or interest in the equity of another company other than permitted investments, for example investments in South African listed companies, collective investment schemes and venture capital companies;
- Personal service providers or labour brokers without an exemption certificate;

- A business that trades as a close corporation, co operative or company if more than twenty percent of its total income consists of income from professional services or investment income.
- A natural person if more than twenty percent of its total income consists of income from professional services.
- Where the total amount received from the disposal of immovable property, to the extent that it was used for business purposes, and any other asset of a capital nature used mainly for business purposes exceeds R1.5 million over a period of three years or less.
- A company, close corporation or co operative, with any of its members or shareholders being a person other than a natural person, with any of its shareholders holding any shares or having any interest in any other company other than permitted investments or if the company is a public benefit organisation or an approved recreational club.
- A partner in a partnership if any of the partners is not a natural person, is/are a partner in more than one partnership or if the partnership's turnover exceeds R1 million.

(Arendse, 2009; para 4 of the Sixth Schedule to the Act; South African Revenue Service, 2010; South African Revenue Service, 2011b).

The above disqualification criterion forms the basis of statements five, six and seven within the correspondence analysis in Appendix 1.

Turnover Tax has only been in implementation for a short period, there are however still problematic areas which have been identified. If a business qualifies for various allowable deductions annually, its tax liability is close to zero (BDO Spencer Steward, 2009), it has an assessed loss, or makes a loss (Hassan, 2009) then Turnover Tax is not beneficial. The full

amount of tax would be required to be paid no matter what deductions you qualify for, or losses you incur. For businesses that realise a high turnover, but have a low taxable income, Income tax may be the preferred choice (BDO Spencer Steward, 2009). Large provisional tax lump sum payments are required to be paid on a bi-annual basis and so businesses may not have large amounts of excess cash to pay out which may result in potential cash flow issues which is not ideal for micro businesses (Hassan, 2009). VAT input is currently not claimable; this may be a potential factor that may have deterred certain businesses from registering for Turnover Tax. This will however change from March 2012 when businesses will be allowed to register for Turnover Tax and VAT simultaneously (National Treasury, 2011b; South African Revenue Service, 2010). Small businesses may also not have the skills to determine whether Turnover Tax is more beneficial and as a result thereof essentially may pay more tax than they should (Hassan, 2009; BDO Spencer Steward, 2009). The number of services disqualified from participation in the system, are very limiting and so the number of businesses that can make use of the system is often small. It is also assumed that because a business is a professional service, they can comply with sophisticated taxes. The professional service definition can be very vague and as a result businesses may find it difficult to ascertain whether they qualify for Turnover Tax or not. (BDO Spencer Steward, 2009; Willemse, 2010). One of the biggest drawbacks is that assessed losses cannot be utilised (Hassan, 2009; Willemse, 2010). Accordingly the above issues identified comprise numerous statements (one, nine, ten, thirteen, fourteen, fifteen and eighteen) within the correspondence analysis in Appendix 1.

A further issue identified in the literature is that rental income is classified as part of investment income and is thus excluded from taxable turnover for a natural person; dividends also do not form part of taxable turnover for a company (Viviers, 2009). Micro businesses are all taxed at the same rates no matter what the profit margin is or sector the business is

involved in (BDO Spencer Steward, 2009). An additional issue identified is that non business income, for example remuneration and investment income, is excluded from taxable turnover and taxed in the individual's hands as normal (Hassan, 2009). Hence statement two, eleven, twelve, seventeen and twenty are derived from the corresponding issues above and are included within the correspondence analysis in Appendix 1.

The above are some of the issues that have been identified in the literature to date. The advantages of Turnover Tax are that it is simple to comply with, compliance costs are reduced, administration requirements are less stringent and it promotes and encourages micro business to comply with tax. The most notable negative issues are that there are no deductions awarded; if a micro business makes a loss tax is still required to paid; there are numerous businesses that would benefit but are disallowed as a result of strict qualifying criteria and at times large provisional lump-sum payments may be payable. Although Turnover Tax has many pros, the cons seem to be over powering and as a result it has not been a prolific new tax since its implementation. This research is therefore aimed at trying to determine the perceived fairness of this system.

2.6 Maxim 1 and Turnover Tax

In analysing Smith's (1776) first maxim, Chapter 2.2 concluded that three aspects need to be in place in order to promote the maxim: firstly tax is paid on a proportional basis and not a progressive one; secondly the taxpayers should have the ability to afford the tax due and thirdly tax should be charged based on revenue. (Maroun, 2007; Vivian, 2006). In looking at Turnover Tax we need to determine whether these three aspects have been taken into consideration when designing the system. In order to achieve this, areas of concern from prior literature will be considered and discussed in terms of Smith's (1776) first maxim.

Turnover Tax assumes that if you form part of a certain profession listed under the professional services list and more than twenty percent of your income is earned from this profession; then you are prohibited from registering for this simplified tax even if your qualifying turnover is less than R1 million. (International Finance Corporation, 2007; BDO Spencer Steward, 2009; Willemse, 2010). This goes against the ability to bear concept in that just because you form part of a certain profession does not automatically mean you can afford to pay and comply with Income Tax and so perhaps automatic prohibition is not fair. Thus the ability of the taxpayer to bear the tax is not considered.

A second area of concern is that all sectors are taxed at the same rate, different sectors may have different expenses and so taxing all sectors at the same rate may not be fair. As discussed previously in Chapter 2.3, as a Turnover Taxpayer, you are taxed based on your taxable turnover. This does not take into account expenses that may be incurred and no deductions are given to compensate for these expenses. If one sector has a lot more expenses than another and they are taxed at the same rate then this contradicts the ability to bear principle in that the costs of living may be high but the tax payable is not adjusted via differing tax rates. (BDO Spencer Steward, 2009).

There are many disqualifying factors which may cause an individual or company to be disqualified from registering for Turnover Tax as discussed previously in Chapter 2.5. At times these factors are very limiting for example if an individual or company owns shares in another business they are prohibited from registering. As with the professional service definition, just because you own shares does not mean you can afford to comply and pay Income Tax and so the ability to bear principle is once again not considered. (BDO Spencer Steward, 2009).

When looking at partnerships, the collective income of all the partners must be under R1 million in order to be able to qualify to register for Turnover Tax. Again the ability to bear principle is violated in that just because one partner may be wealthy does not mean the other partners are or the partnership is doing well. The partnership may not have the ability to bear Income Tax just because of one partner. (BDO Spencer Steward, 2009).

A similar issue occurs where a person trades in more than one unrelated business. All activities of the person are added together in order to determine if the person qualifies for Turnover Tax. This goes against the ability to bear principle as just because one business is profitable does not mean all the businesses are doing the same. Thus some businesses may not be able to afford to bear the Income Tax as they may be making losses or have low profit margins as discussed below. (Hassan, 2009).

A further disqualifying factor is that if you sell capital assets which collectively exceed R1.5 million over a three year period you are disqualified. Once again just because you sell a profitable asset, it does not mean you can afford to pay Income Tax. A sale of a capital asset is normally a once off sale and so an individual or business may not be able to sustainably afford Income Tax, thus the ability to bear principle is violated. (BDO Spencer Steward, 2009).

Turnover Tax is an elective tax and so a choice is given. This takes into consideration the taxpayers ability to bear and not the government's attempt to collect revenue (BDO Spencer Steward, 2009). The fact is that if you are registered for Turnover Tax you normally are not registered for Income Tax. At times if you are not registered for Turnover Tax you may be required to register for Income Tax. This fact is not considered here, in that we are only looking at the fact that Turnover Tax is elective. (South African Revenue Service, 2010).

Start up companies and micro businesses are required to pay tax even if they are making a loss. This contradicts the ability to bear concept as if you are making losses then you cannot afford to pay tax. If this is the case, the taxpayers do not have the ability to burden the tax and the government is benefiting from the revenue. Another point to consider is that when a loss occurs, the costs of living are potentially greater than the money earned resulting in the loss. The interpretation of Smith's (1776) maxim indicates that no tax should be levied until all costs of living have been satisfied. This concept is potentially not being adhered to (depending on what the costs of living are and how they are interpreted). The reason as to why this principle is not being adhered to is because tax is payable based on turnover and not profit in order to help simplify the tax. No deductions are therefore given for the costs of living. Thus because tax is levied on turnover and the taxpayer's cost of living is not taken into consideration, the ability to bear principle is not adhered to. Thereby, by simplifying the tax it is essentially not promoting fairness. (Hassan, 2009; Financials Intact Accounting and Tax Services, 2008; BDO Spencer Steward, 2009).

BDO Spencer Steward (2009) points out that the transport service has not been excluded from registering for Turnover Tax and so a taxi business for example would be an ideal entity to make use of the system. The problem is that in certain provinces many taxi owners earn more than R1 million per annum, excluding them immediately. There are however taxi owners who earn less than R1 million and so Turnover Tax would be an option. The taxi owners may also qualify for many deductions including wear and tear, repairs, insurance and leasing if applicable and thus it may not be worthwhile for them to register for Turnover Tax as in all likelihood they would pay more. The taxi transportation system makes up the majority of South Africa's transport system and so even though it would be a beneficial revenue contributor for the government, Turnover Tax may not be advantageous to this business sector (BDO Spencer Steward, 2009). The example above illustrates that persons

who are allowed to register may not always benefit from the system and as a result this is a possible reason as to why the response to date may not have been positive. It is also contradicting Smith's (1776) maxim in that the costs of living (repairs, wear and tear etc.) are not allowed as a deduction and thus is not fair (Vivian, 2006).

Businesses with high profit margins are taxed at the same rate as those with low profit margins. This once again contradicts the ability to bear concept in that the costs of living are not taken into consideration. According to Smith (1776), if you have high costs of living, you should pay less tax. This does not occur within the Turnover Tax system as tax is payable based on turnover. There are thus no deductions which are given at all under Turnover Tax and so Smith's (1776) maxim is being contradicted. Even though the costs of living may at times be excessive resulting in no tax being burdened, individuals and businesses are still subject to indirect taxes for example VAT and so they are still contributing to the government's revenue. As a result, the lack of tax revenue being collected cannot be used as an excuse for not giving the costs of living as a deduction as tax is being indirectly burdened. (International Finance Corporation, 2007; BDO Spencer Steward, 2009; Vivian, 2006).

The fact that the tax rates are low compensate for the fact that tax is payable on turnover and not profit. This promotes the ability to bear principle. The tax rates are low accounting for no deductions; this in turn gives the taxpayers the ability to bear the taxes levied. These lower tax rates thus promote maxim one. (International Finance Corporation, 2007).

The third component of maxim one indicates that tax should be levied based on revenue. Revenue is defined in terms of International Financial Reporting Standards (IFRS) as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity (International Accounting Standards Board, 2009). Smith's (1776)

meaning of revenue is said to encompass all income of a taxpayer excluding that which is capital in nature.

Taxable turnover, on which Turnover Tax is levied, includes all amounts excluding that of a capital nature and as a result seems to comply with this component. There are however some additional inclusions in terms of para 6 of the Sixth Schedule to the Act which includes: fifty percent of proceeds on the sale of a capital asset, investment income of a company as defined in s 12E of the Act (other than dividends) and an add-back all of the previous year's tax allowances in the first year of being a registered micro business (only if the taxpayer was registered for normal tax before registering as a micro business).

The fifty percent of the proceeds of capital assets contradicts the maxim as Smith's (1776) revenue meaning specifically excludes amounts of a capital nature. The fact that dividends are excluded also poses a contradiction to Smith's (1776) maxim as a dividend constitutes income. Taxable turnover also excludes investment income as defined by s 12E of the Act (for a natural person) which goes against Smith's (1776) meaning of revenue as investment income accordingly constitutes an income. (Viviers, 2009). In addition to the above, non business income for example remuneration and investment income is not included as part of taxable turnover and taxed in the hands of the individual. The revenue definition as defined by Smith (1776) would include this, thus posing a further departure from Smith's (1776) fairness definition. (Hassan, 2009). Rental income is included as part of taxable turnover which is appropriate in terms of Smith's (1776) revenue definition (Viviers, 2009).

2.7 Maxim 2 and Turnover Tax

In Chapter 2.2 it was concluded that in terms of maxim two the tax which is being levied should be certain and there should be no elements of subjectivity or confusion. Turnover Tax was implemented with the aim of simplifying tax for micro businesses and reducing the

number of taxes payable as it incorporates VAT, Income Tax including CGT and provisional tax into one single tax. This promotes Adam Smiths's (1776) second maxim in that it makes tax easier to comply with. By reducing the number of taxes that individuals and business need to comply and simplifying the rules within Turnover Tax, it has become more certain. (Hassan, 2009; International Finance Corporation, 2007).

The fact that Turnover Tax requires tax to be paid based on a cash basis contradicts maxim one as mentioned previously in Chapter 2.6. It however simplifies the payment of tax and so promotes maxim two. The fact that there are not many complex exemptions and deductions and that the tax is payable at the same rate, makes the tax easy to understand makes this tax easy to comply with therefore increasing certainty and promoting fairness in terms of Smith (1776) (Hassan, 2009; International Finance Corporation, 2007). Additionally by adding all businesses together when determining the qualifying turnover of a business makes the qualifying criteria simplified thereby promoting maxim two. (Hassan, 2009).

The list of professional services within the Sixth Schedule to the Act, at times may be open to interpretation. The services within the list can be confusing for example; health care professionals are found within the professional services list and are prohibited from registering for Turnover Tax. A 'sangoma' provides health care services to its communities in exchange for money; would a 'sangoma' automatically fall within the professional services definition or is something more required for example a health care degree or diploma? This is just one example of how the definition is open to interpretation and so may pose a problem when individuals or business wish to register. There is thus ambiguity involved and so the tax may cause confusion which Smith clearly did not want to happen. (Willemse, 2010).

Micro businesses and individuals who wish to register for Turnover Tax are at times not sufficiently educated as to whether or not Turnover Tax is a feasible solution. Likewise

individuals who potentially qualify for Turnover Tax may at times be uneducated and so may not understand tax systems. Thus if insufficient education is provided then the tax potentially payable is not certain and so maxim two would not be adhered to (Hassan, 2009). Government has made a pledge to increase training and education in the 2011 National Budget speech and so the amount of certainty would be increased. Training and education will therefore promote maxim two.

2.8 Maxim 3 and Turnover Tax

In Chapter 2.2 it was concluded that maxim three requires the method and timing of payment to be convenient for the taxpayer. Turnover Tax is required to be paid on a bi annual basis. Only individuals or businesses whose turnover is less than R1 million can register as a result, it is often the case that these micro type businesses or start up companies do not have large sums of money on hand to pay over to the government. The provisional payments required may relatively speaking add up to a substantial amount and may not be afforded by the business. It may thus not be convenient for tax to be paid every six months. Maxim three is therefore not adhered too. (Hassan, 2009).

As from 1 March 2012 micro businesses will be able to voluntarily deregister from Turnover Tax at any point in time. Previously a three year period had to elapse before voluntary deregistration could occur. The previous provision contradicted the convenience principle, in that Turnover Tax may not have been the most convenient tax for the taxpayer and they were not allowed to deregister. The new provision has removed this convenience issue thereby promoting Smith's (1776) maxim. (International Finance Corporation, 2007; National Treasury, 2011b).

The method of payments within Turnover Tax has not posed any problems and so will not be discussed further in this research.

2.9 Maxim 4 and Turnover Tax

Smith's (1776) fourth maxim concluded in Chapter 2.2 that the tax's administration should be simple and easy to comply with. The fact that all sectors are taxed at the same rate makes Turnover Tax simple to comply with. As a taxpayer you do not need to determine which sector you fall into thereby simplifying the tax administration and promoting maxim four. This however may result in a contradiction of maxim one as previously discussed in Chapter 2.6 (BDO Spencer Steward, 2009).

The fact that this tax is levied based on turnover and has no deductions and only a few exemptions, results in a simplification of the tax administration, thus promoting maxim four. Turnover tax reduces the number of taxes and as a result reduces the tax returns needing to be completed by the taxpayer and the costs of compliance (Hassan, 2009; International Finance Corporation, 2007; BDO Spencer Steward, 2009). As a result of the decrease in the number of taxes, records which need to be kept are reduced thereby reducing administrative burdens and promoting maxim four. (Willemse, 2010).

The professional services list is open to interpretation; this may complicate the tax and thus go against maxim four (Willemse, 2010). Poor education on the tax may also result in complicated tax issues, for example whether a micro business qualifies to register or not or provisional tax calculations, not being solved, thereby resulting in professional help being required and increasing costs. Smith's (1776) maxim is thus not being promoted. (Hassan, 2009).

2.10 Summation

Understandably, it is impossible for everything within a tax system to be fair for the taxpayer. Within tax systems there need to be some qualifying rules and anti-avoidance principles or

else taxpayers will take advantage of tax situations. It is however important that a lot of the principles within a system are fair as inevitably it is not just for everything to be unfair. A balance needs to be met between what is fair and what is not fair. If taxpayers can see the benefits then inclusion of certain unfair principles may not be so detrimental. If everything is unfair then taxpayers will feel they are being abused and so evasion will be prevalent. This research assumes that Adam Smith's (1776) maxims promote the most fair system and so any contradiction or deviations from the maxims is deemed unfair. In modern society this is not the case as at times these diversions from Smith's (1776) maxims are necessary to prevent avoidance of tax and taxpayers taking advantage of systems. Ultimately there needs to be that balance between the tax system being unfair and the taxpayers accepting a certain amount of unfairness. Although difficult to achieve it is necessary for taxpayers to perceive a tax system as being fair.

3 Research Methodology

Creswell (2003: 18-19), defines the quantitative research approach as:

> "one in which the investigator primarily uses postpositivist claims for developing knowledge, employs strategies of enquiry such as experiments and surveys and collects data on predetermined instruments that yield statistical data".

A qualitative approach is one in which the inquirer often makes knowledge claims based on constructivist perspectives, or advocacy/participatory perspectives or both. A mixed method approach is one in which the researcher tends to base knowledge claims on pragmatic grounds. (Sale et al., 2002). A mixed method approach is beneficial for this research as it allows for quantitative and qualitative research to be performed in terms of a literature review, correspondence analysis and structured open-ended questions. This in turn allows for

cross validation in order to help gain a more comprehensive understanding (Onwuegbuzie and Leech, 2005; Sale et al., 2002).

This research has used a detailed content analysis of the existing prior professional and academic literature to derive each of the elements of the Turnover Tax system that may be regarded as unfair (Chapter 2). These statements are then contrasted in Chapter 4 with 'elements' of fairness per Smith (1776), using a correspondence analysis. This is discussed in more detail below.

3.1 Methodological Approach

Quantitative techniques may pose useful in supporting or contradicting available literature (Ahrens and Chapman, 2006; Creswell, 2003; Maroun et al., 2011; Merchant, 2008; O'Dwyer B. et al., 2011). A correspondence analysis has be performed in order to backup and challenge the literature review (Creswell, 2003: 31-32). Literature was gathered on issues with regard to Turnover Tax and a correspondence analysis was then performed in order to shed light on the perceived fairness of Turnover Tax. In order to gather the data for the correspondence analysis, a survey was issued. Surveys are used in order to gain knowledge about various topics including people's attitudes and beliefs (Kalof et al., 2008: 118). As a result the quantitative approach that was used is useful as it helps to reaffirm or oppose whether the issues within the literature available are within Adam Smith's (1776) definition of fairness. This was established with the use of a correspondence analysis. The correspondence survey that was used contained structured open-ended questions as well as defined statements based on relevant literature findings.

Correspondence analysis

A correspondence tableau was used (Appendix 1) where Adam Smith's (1776) maxims define the column headings and the prior literature (Chapter 2) informed the development of the statements or row headings analysed by the correspondence table. Participants were then asked to express their opinions as to whether or not a statement fits within Smith's (1776) principles of a fair tax which is explained further in Chapter 3.3.

Structured open-ended questions

The open-ended questions gathered information in a way which potentially could not have been gathered using structured statements as it allowed participants to express their true feelings without being restricted by the statement. The open-ended questions often reaffirmed what was being asked in the structured statements and sometimes provided a different response, in addition possible recommendations have been expressed (Bazeley, 2002; Creswell, 2003; Kalof et al., 2008). The open-ended questions were developed (Appendix 1) in order to gather information from participants about areas of Turnover Tax which they feel should be changed or implemented in order to make the tax more attractive or fairer to Turnover Taxpayer's. These questions allowed the participants to express their true feelings as to what they feel is required in order to improve Turnover Tax. If when answering the correspondence analysis survey, participants felt they would like to add something about a particular statement the open-ended questions provided them with the opportunity to do so.

Mixed Method approach

Collecting and gathering the data will be quantitative, whereas the interpretation of the graph is qualitative as qualitative research is predominantly interpretive (Creswell, 2003; Sandelowski, 2000). Predetermined defined statements were used which was easy to quantify however; careful consideration was given to the wording as if the wording was poor, the data

collected would not have been meaningful. The participant's beliefs based on the survey was used to add value to the literature review and ultimately help answer the research problem by helping to explore, based on Smith's (1776) principles, the perceived fairness of Turnover Tax (Kalof et al., 2008: 118-130). The maxims for a fair tax system addressed by Smith (1776) were not assessed in the survey but were used as a correspondence tool in order to assess Turnover Tax's perceived fairness.

3.2 Population and Sample

Population

All registered and knowledgeable tax experts, including tax academics, based in South Africa.

Sample Size

Only individuals who are tax experts were given the survey to answer (Creswell, 2003; Houghton et al., 2011). A comparable approach was used by Brivot and Gendron (2011) and Cohen et al. (2002) who carried out similar interpretative research aimed at the exploration of perceptions. The sample included tax experts from auditing firms, law firms and the universities within South Africa, thereby helping to gather a diverse range of taxpayer knowledge. To ensure reliability sixty tax experts were relied upon (Bendixen, 1996; Maroun et al., 2011). Due to the tax-related nature of the survey, the population size is small and so a small sample size was used. It was imperative that the participants had expert tax knowledge as without the knowledge the data gathered would have been meaningless. Small sample sizes added to reliability and validity of the research. It must be remembered that as the research is interpretive in nature, the use of large sample sizes to justify extrapolation of findings was not required (Brivot and Gendron, 2011; Cohen et al., 2002; Creswell, 2003).

An approach similar to this has been applied by O'Dywer B et al (2011) where a small sample was selected in order to study the legitimacy theory in governance setting.

3.3 Data collection and analysis

A correspondence analysis is a statistical tool used to investigate the relationship between two or more categorical variables using a principle component analysis approach as a form of factor analysis (Greenacre and Pardo, 2006). A correspondence analysis was used in order to analyse the data, as it is a good way to support data, it is useful in providing reasoning when sample sizes are small and it is relatively easy to comprehend and interpret (Bendixen, 1996; Maroun, 2007). A correspondence analysis has been performed in prior research on a similar topic where Maroun et al (2011) and Maroun (2007) examined the perceived fairness of CGT in the South African tax system. This thus shows the appropriateness of the method of collection and its ability to collect the data. The open-ended questions used gave additional insight into areas of concern which either were or were not addressed in the correspondence analysis (Kalof et al., 2008).

Prior to the survey (Appendix 1) being distributed, the statements and questions were reviewed by a tax academic and an expert on language from the University of Witwatersrand's School of Accountancy. This was done in order to ensure the statements and questions were structured correctly, were clear, understandable and were not ambiguous. A pilot study was then performed where participants were asked to comment on the survey, noting any specific statements or questions which were not understood or ambiguous as well as any areas of concern. No major issues were identified. The survey was then adapted taking into consideration any of the comments received. At this point the survey was sent to the University of Witwatersrand's Human Research Ethics Committee, where ethical clearance

was obtained in order to allow the survey to be sent out to respondents. The survey was then answered by participants on a voluntary basis. Participants were contacted via telephone or email, explained the purpose of the research and asked if they wished to fill out the survey. If they wished to, a copy was then sent to them for completion with an explanation of how to fill it out. This was done in order to ensure the surveys were completed correctly and to prevent result bias. Participants were explained that they were required to place an 'X' in the box if the statement related to one of Adam Smith's (1776) maxims. Should the statement have not related to any of them, then the respondent was requested to leave it blank. The open-ended questions needed to be read and answered accordingly.

Correspondence analysis

The respondents were required to mark each row with an 'X' if they felt that the specific statement related to one or more of Adam Smith's (1776) maxims. Once all surveys were completed, the data was collected and aggregated into a contingency table. When aggregating the data each 'X' was allocated with a value of one and where the block was blank no value was allocated. The data from the correspondence analysis was then analysed using Stata software programme with the aid of a statistics expert from the University of Witwatersrand's School of Accountancy. Results were generated and a two dimensional graph plot created. The various maxims are each plotted on a separate axis and the corresponding statements are then plotted in a space on the graph depending on its frequency. Dependant on which axes the statement correlates to is where the statement is plotted on the graph. These many axes pose a problem with interpretation as it is difficult to view a graph with many dimensions. Thus a two dimensional graph is needed for ease of interpretation. The correspondence analysis is thus an easy to interpret correlation between individual statements and elements of fairness as defined by Smith (1776). Due to the interpretive-inspired nature of the research, as well as the fact that the 'scale' in question is nominal, measures of internal consistency such as the

Cronbach Alpha are neither requited nor appropriate. The descriptive results of the data collected are summarised in Table 1 below.

Table 1: Descriptive Statistics

	Number of obs	729
	Pearson chi2(63)	157.35
	Prob > chi2	0
	Total inertia	0.2159
22 active rows	Number of dim.	2
4 active columns	Expl. inertia (%)	79.02

Dimension	singular value	principal inertia	chi2	percent	cumul percent
dim 1	0.318934	0.101719	74.15	47.12	47.12
dim 2	0.262396	0.068852	50.19	31.9	79.02
dim 3	0.21279	0.04528	33.01	20.98	100
Total		0.21585	157.35	100	

Table 2: Statistics for row categories in symmetric normalization

Row Categories	Overall			Dimension 1			Dimension 2		
	Mass	Quality	%inert	coord	sqcorr	contrib	coord	sqcorr	contrib
S1	0.026	0.929	0.083	1.407	0.914	0.162	0.203	0.016	0.004
S2	0.06	0.964	0.008	0.253	0.73	0.012	-0.158	0.234	0.006
S3	0.049	0.878	0.012	0.292	0.516	0.013	-0.269	0.362	0.014
S4	0.078	0.983	0.033	0.022	0.002	0	-0.583	0.981	0.101
S5	0.034	0.967	0.071	1.09	0.847	0.128	0.453	0.121	0.027
S6	0.048	0.999	0.119	1.21	0.872	0.22	0.508	0.127	0.047
S7	0.03	0.654	0.038	0.718	0.606	0.049	0.221	0.047	0.006
S8	0.077	0.779	0.026	0.42	0.768	0.043	0.055	0.011	0.001
S9	0.059	0.972	0.006	-0.197	0.539	0.007	-0.195	0.432	0.009
S10	0.034	1	0.045	-0.709	0.564	0.054	0.687	0.436	0.062
S11	0.034	0.313	0.093	-0.209	0.024	0.005	-0.805	0.289	0.085
S12	0.081	0.423	0.062	-0.296	0.167	0.022	-0.403	0.255	0.05
S13	0.007	0.567	0.005	-0.253	0.13	0.001	-0.512	0.438	0.007
S14	0.056	0.551	0.14	-0.09	0.005	0.001	-1.057	0.546	0.239
S15	0.016	0.934	0.007	-0.504	0.91	0.013	-0.089	0.024	0.001
S16	0.06	0.93	0.029	-0.493	0.744	0.046	0.272	0.186	0.017
S17	0.019	0.994	0.052	-1.063	0.62	0.068	0.91	0.374	0.061
S18	0.029	0.989	0.054	-0.936	0.691	0.079	0.677	0.298	0.05
S19	0.055	1	0.017	0.018	0.002	0	0.502	0.998	0.053
S20	0.045	1	0.055	-0.364	0.16	0.019	0.92	0.84	0.146
S21	0.047	0.74	0.024	-0.457	0.599	0.031	0.244	0.141	0.011
S22	0.053	0.744	0.02	-0.4	0.646	0.027	-0.171	0.097	0.006

Table 3: Statistics for column categories in symmetric normalization

Column Categories	Overall			Dimension 1			Dimension 2		
	Mass	Quality	%inert	coord	sqcorr	contrib	coord	sqcorr	Contrib.
fair1	0.296	0.994	0.31	0.783	0.865	0.569	0.334	0.13	0.126
fair2	0.236	0.466	0.196	-0.253	0.114	0.047	-0.491	0.352	0.217
fair3	0.215	0.506	0.199	0.016	0	0	-0.62	0.505	0.315
fair4	0.252	0.984	0.294	-0.696	0.614	0.383	0.596	0.37	0.342

The inertia (variance) attributed to each cell in the contingency table (Appendix 1) was calculated using the row profiles and masses. Using principal component analysis, the dimensions (axes) as well as the point-rows and point-columns were defined (Bendixen, 1996). The inertial contribution of the fairness criteria needs to be considered in order to determine whether or not the specific criteria should be considered in the analysis. An average inertial contribution of 25% (100% divided by four criteria) was calculated. Fairness criteria one and four are above the 25% limit and are thus included. Fairness criteria two and three are 19.6% and 19.9% respectively and so should have been excluded from the discussion. The two criteria however make up a large portion, 39.5% of the total inertia and were therefore still used in the analysis as in combination the contribution is still significant. The respective axes were determined based on looking at the correlation coefficients of the fairness criteria, the inertia of the fairness criteria and the coordinates of the criteria. The respective axes can be summarised in Table 4 below based on the above bi-plot interpretation.

Table 4: Axes Summary

Axes (Dimensions)	Label (Maxim)
Positive X axis	Not defined
Negative X axis	Fairness criteria/maxim 2/3
Positive Y axis	Fairness criteria/maxim 1
Negative Y axis	Fairness criteria/maxim 4

Similarly the inertial contribution of the row categories needs to be ascertained in order to see whether or not the category will form part of the analysis. Any statement with inertia greater

than the inertial contribution of 4.5% (100% divided by twenty two statements) was considered as part of the analysis and those that remained potentially indicated areas of unfairness which was not analysed further in the research. (Bendixen, 1996; Maroun, 2007; Maroun et al., 2011). The statements highlighted in Table 2 indicate which of the statements formed part of the research analysis after considering the inertial contribution. The coordinates, the correlation coefficients and the inertia of the statements were considered when analysing and interpreting the results. The correlation coefficients were then used to determine whether the statement is correlated to dimension two (x- axis) or dimension one (y-axis). It is important to note that the sign of the correlation has no indication of the strength of the relationship but merely acts as an indicator as to which dimension the statement relates to (Bendixen, 1996; Maroun et al., 2011). The inertia was also considered to decide whether the statement contributes a significant amount to the dimension. A statement may be strongly correlated; however the inertia may be trivial. If this is the case then a conclusion needs to be drawn up stating this fact and that the data will not provide the most meaningful result.

Structured open-ended questions

The responses to the open-ended questions were captured. They were then analysed and used to compliment and add to the credibility and richness of the data obtained from the correspondence analysis. If there were any differing opinions then, these were noted and discussed. Possible recommendations were also given as to how to improve the perceived fairness of the Turnover Tax system.

3.4 Validity and reliability

Validity is seen to be a connection between the research, data gathered and results drawn up. Internal validity ensures that the most suitable conclusion is ascertained from the research

that is obtained, whereas external validity refers to the ability to extrapolate the research to a larger population. Reliability ensures that the research is dependable, free from error and prejudice. It is necessary to ensure that the research is valid and reliable in order to make the work pertinent (Golafshani, 2003; Kalof et al., 2008; Roberts et al., 2006)

In order to ensure that the research is internally valid all information was obtained from literature which is reputable. To the extent possible the literature that was used and relied upon was from peer reviewed publications and announcements from government. All participants involved in the survey were tax experts and so would have had an understanding of the topic addressed. An expert was used to help interpret and manipulate the results in order to improve the internal validity. Ethics clearance was also obtained prior to the research survey being distributed (Appendix 3). This was done in order to ensure the survey was not socially or psychologically evasive or damaging towards the participants, allowing for all questions to be appropriately answered. The survey was reviewed, to ensure it was clear and understandable, before being conducted. A pilot study was also performed to help determine the appropriateness of the survey and whether the statements could be matched to the maxims (Leedy and Ormrod, 2001). A mixed method was used, which helped to validate the results and ensured reliability (Golafshani, 2003).

When analysing the results, consideration was given as to whether the results were logical and related to the statements used. External validity may be impaired from the perspective of the general population as a result of the small sample size used; however due the nature of the questions being asked the use of tax experts helped to ensure the statements and questions were understood and answered appropriately which improved the overall validity. Within the population different participants from different tax backgrounds were asked to answer the survey. This aided in improving the external validity as different tax perspectives resulted in

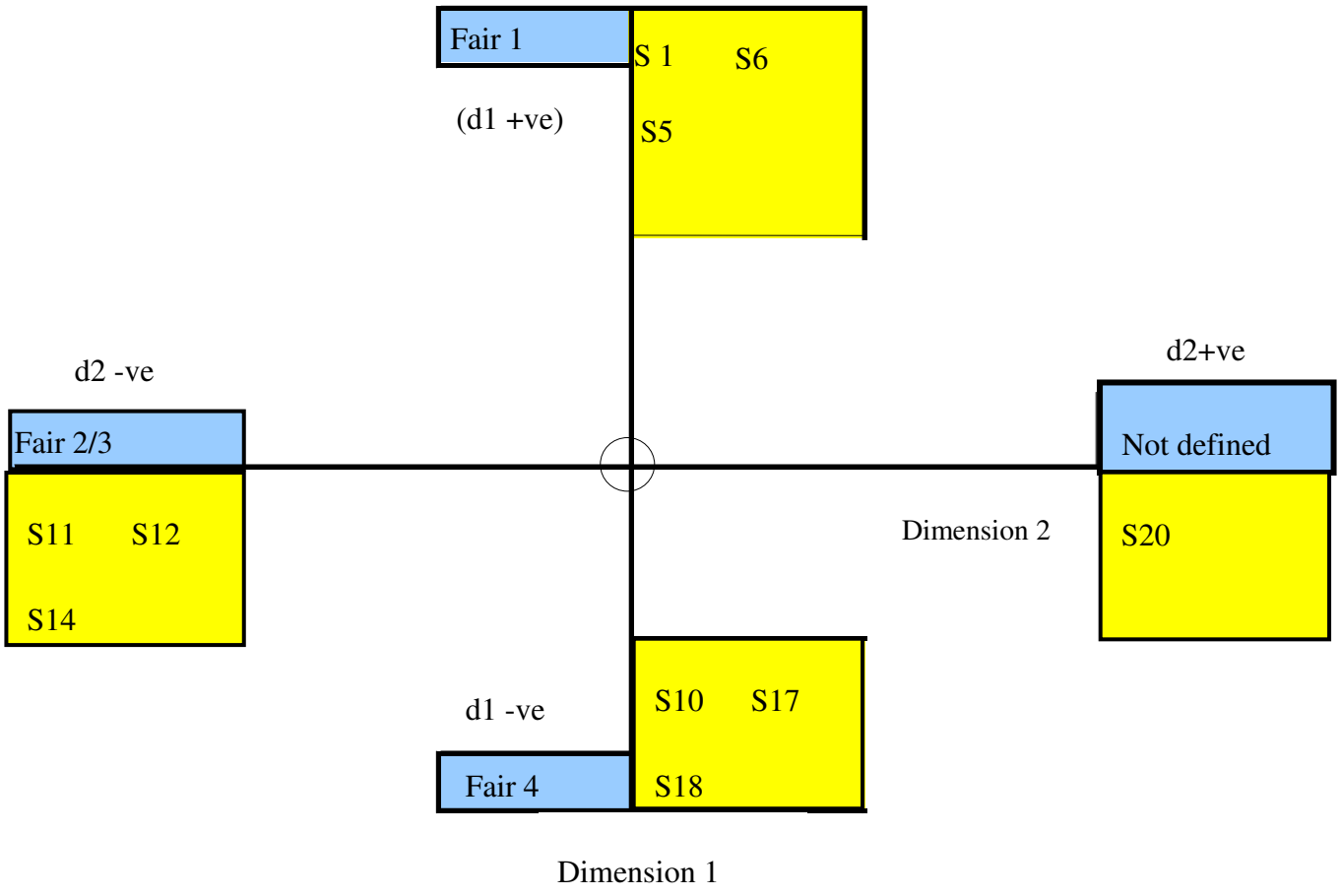
a better overall general opinion. The purpose of the research is to give an indication of the perceived fairness of Turnover Tax from a general perspective.

A standard survey with consistent statements was used for all participants in order to improve reliability. Reliability was improved by the review of the survey in order to avoid ambiguity; this was performed by an independent knowledgeable tax expert. The data which was manually captured was double checked by a different person to ensure the capturing was accurate.

4 Results

A correspondence bi-plot was developed in order to show the relationship between Smith's (1776) maxims and the statements identified (Figure 1). Figure 1 below only plots those statements with a significant inertia that is greater than 4.5% as was discussed in Chapter 3. Each maxim should be plotted and interpreted on its own axis creating a four dimensional figure. This would result in a one hundred percent retention value, meaning no information is lost in the results; however as this four dimensional figure is not possible given the technology on hand a two dimensional figure has been created. Table 1 indicates that this two dimensional bi-plot has a retention value of 79.02% which indicates that the results are still significantly explanatory (Bendixen, 1996; Maroun et al., 2011).

Figure 1: Bi-Plot



Statement S1 has a correlation coefficient of 0.914 implying that it is strongly correlated to the positive y axis, namely fairness criteria one. This confirms the fact that the statement which says that individuals in services listed under the professional services definition should be able to keep sophisticated records, comply with sophisticated taxes and thus should be prohibited from registering for Turnover Tax, promotes maxim one and is thus perceived as being fair. The inertial contribution is 16.2% indicating quite a substantial influence with regards to promoting maxim one. There is however a low correlation of 0.016 and a weak inertial contribution of 0.4% to the positive x axis demonstrating no meaningful relationship.

Statement S5 and S6 likewise have a positive correlation coefficient of 0.847 and 0.872 respectively indicating a strong correlation to fairness criteria one. The disqualification criteria as per the Sixth Schedule to the Act promotes maxim one and are thus perceived by the participants as being fair. There is a smaller correlation between S5 and S6 and the positive x axis of 0.121 and 0.127. This will not be discussed further as the positive x axis is not defined.

In contrast statement S20 is strongly correlated to the positive x axis with a correlation coefficient of 0.84 and a relatively high inertial contribution of 14.6%. The positive x axis is not defined indicating that non business income (remuneration and investment income) that is excluded from the taxable turnover of a micro business and taxed as per normal in the hands of the individual is not promoting any of Adam Smith's (1776) fairness criteria. The corresponding correlation coefficient to the negative y axis is 0.16; however the contribution is only 1.9% indicating that a small sample feels this statement relates to maxim four.

Maxim four has three statements which it promotes, statements S10, S17 and S18 which have correlations of 0.564, 0.62 and 0.691 respectively. S10 is positioned fairly close to the negative y axis with an above average inertial contribution of 5.4%. This statement which

reads that the list of professional services is very limiting as certain sectors are prevented from registering for Turnover Tax even if their qualifying turnover is below the R1 million threshold and thus substantially reduces the businesses who can register promotes maxim four to a certain extent. S10 also has a correlation of 0.436 to the positive x axis; the inertial contribution is 6.2% greater than that of the negative y axis. The positive x axis is however not defined and so S10 indicating no real correlation to any of Adam Smith's (1776) other fairness criteria.

The uncertainty of S10 to any of Smith's (1776) maxims is verified by the open-ended questions where participant seventeen indicated that there is "a definite need to amend the professional service definition". Participant thirty five answered "there should be less restrictions on persons permitted from registering from Turnover Tax, especially with regard to the disqualification of all professional services". This reiterates that the definition is not promoting fairness. Participant twenty five wrote that "taxpayers should not be limited just because they are a professional service firm; they can still as small businesses contribute to economic growth". This points out that the professional services definition is preventing businesses who maybe would like to register from doing so because of the profession they are in. This concept ties in with respondent twenty six who wrote that perhaps they should try to simplify the system even more, implying among other things that the definition is perhaps too complex and difficult to interpret. A potential area where SARS needs to make adjustments, is the professional services definition by making it less limiting, by disqualifying fewer services, being more specific, ensuring no ambiguities, ensuring it is easier to interpret and perhaps supplying a list of business who specifically qualify.

Statement S17 is moderately correlated to the negative y axis with a correlation of 0.62 and an above average inertial contribution of 6.8%. Maxim four is promoted by the statement that

businesses that have low profit margins are taxed at the same rates as businesses with high profit margins. A correlation of 0.374 is present and a contribution of 6.1% occurs to the positive x axis. The positive x axis is not defined, once again indicating there is no real correlation of S17 to any of Adam Smith's (1776) other fairness criteria. As the correlation and contribution discussed above was not overwhelming in identifying that there is a strong relationship it shows that there is perhaps some uncertainty with this relationship. This was emphasised when on analysing the open-ended questions, participant eight stated that different rates should be applied for different sized businesses or some form of special sliding scale implemented. This implies that there are some issues with taxing all business sectors at the same rates. This is thus a potential recommendation for the rates to be adjusted to compensate for different sectors profit margins. This may however complicate the tax which is what SARS is ultimately trying to avoid.

A similar analysis occurs with Statement S18 where the correlation of the negative y axis is 0.691 with a contribution of 7.9%. Again this shows that S18 which states that no deductions are awarded for any expenses incurred promotes fairness criteria four. The opposite coordinate however; shows that there is a fairly low 0.298 correlation with an above average 5% contribution towards the undefined positive x axis thereby showing a correlation to none of Adam Smith's (1776) other fairness criteria. Likewise with the previous statement, there is not a strong positive correlation to maxim four and no correlation to any of the other maxims, indicating there may be some conflicting views. Participants throughout the survey noted that there is need for a certain set of exceptional costs to be allowed as deductions. An example given by participant fourteen was; "what if you get robbed and some of your cash gets stolen, how will tax be payable?" Even though complications may occur with allowing deductions, it is necessary to provide these deductions in order to improve on the fairness. Education and

training must then be utilised in order to simplify the potential difficulties with allowing these deductions.

Statements S11, S12, S14 are all located in the quadrant, negative x and negative y. S11 has a correlation of 0.289 to the negative x axis with an inertial contribution of 8.5%. This implies little correlation between the statement that rental income is classified as part of investment income when looking at taxable turnover and maxims two and three. On the negative y axis there is a correlation between S11 and maxim four of 0.024 and a contribution of 0.5% thus showing an even lower correlation than that with the negative x axis. This therefore indicates that the participants do not feel that it is fair for rental income to be classified as part of investment income when looking at taxable turnover and it thus perhaps should be changed.

A similar interpretation can be made for S12, where the negative x axis has a 0.255 correlation with a contribution of 5% indicating little correlation between maxims two and three and the statement that dividends do not form part of taxable turnover. The negative y axis so too has a very small correlation of 0.167 and an inertia of 2.2%. As with S11 there is an indication that participants perceive that it is not fair that dividends do not form part of taxable turnover.

Finally, S14 has a correlation of 0.546 with the negative x axis demonstrating a moderate correlation between the statement that Turnover taxpayers are required to pay interim payments on a bi annual basis and maxims two and three. On the negative y axis there is an almost negligible correlation of 0.005 and a contribution of 0.1% implying no relationship between S14 and maxim four. The fact that there is only a moderate correlation to maxim two and three demonstrates that participants are not wholly confident of the fact that payments of Turnover Tax on a bi-annual basis are fair. This is emphasised by the fact that participant

twelve stated that the number of payments should be reduced to one per annum. This is something SARS may need to consider.

A further area to consider with regard to payments is that, it may be worthwhile considering collecting taxes monthly from Turnover taxpayers. This will allow micro businesses to pay smaller amounts of tax instead of lump sums every six months. Micro businesses may not have large amounts of cash on hand and so it may inevitably be more beneficial for SARS and the business concerned. SARS may also be more likely to receive smaller amounts more often from smaller taxpayers then larger amounts less often. It may also make the payment process less daunting for micro businesses and it will then force them to keep up to date with their books on a monthly basis. This in time will make their expansion into normal tax easier. Monthly payments will also prevent last minute rushes to organise and reconcile books before provisional tax is due. This will allow businesses to spend more time on their core business activities and help with their growth, which is ultimately one of Turnover Tax's main aims.

5 Recommendations and conclusion

In the analysis of the results in Chapter 4 above it was noted that there is some correlation between the statements and Adam Smith's (1776) maxims of fairness; however there was no perfect correlation and some statements had no correlation at all. This implies that Turnover Tax is potentially not being perceived as totally fair. Potential recommendations to improve the attractiveness and fairness were discussed in Chapter 4 above based on the open-ended questions answered by the participants. The open-ended questions asked what participants thought could be amended or implemented by SARS in order to make Turnover Tax more attractive and fairer for micro businesses or individuals and so further additional recommendations will be discussed below based on the answers.

A key issue identified by participants was that potential micro businesses or individuals are insufficiently trained and educated on Turnover Tax. As mentioned in Chapter 1 the 2011 National Budget speech announced that a key focus area for SARS was to improve education on the tax. This is a positive step. Recommendations given by participants were that: Education and training needs to be given on the requirements to register and the eligibility of potential taxpayers. This needs to be performed in a manner that gives the taxpayers a solid understanding of the tax in order to allow them to comply without any issues. Furthermore constant support needs to be provided through call centres; easier access provided to SARS offices for more individuals and businesses; continuous education campaigns need to be provided to assist with changes and the system needs to be promoted to the potential taxpayers in order to get them to register and comply. These responses to the open-ended questions reaffirm the statement which asks if sufficient education is provided. Based on the absence of a significant correlation to any of Adam Smith's (1776) maxims and the responses in the open-ended questions it appears as if the lack of education is perceived not to be fair and is a definite area which needs to be improved.

Respondents also noted that even though Turnover Tax has simplified tax compliance substantially, they felt that it is still too complicated for the businesses that the tax is targeting. Relaxation of anti-avoidance rules, reduction of the exclusion lists and provisions, simplification of definitions and more training would help to reduce the complexities of the tax. Respondent thirty two also specifically noted that the disqualification criteria are too complex and arbitrary and need to be simplified. Further, respondent thirty five also noted that if the automatic disqualification from Turnover Tax for capital disposals of greater than R1.5 million in a three year period was reconsidered it would make the system more fair.

Participants noted that taxing businesses at the same rates is not good enough and does not adequately compensate for the different profit margins of different business sectors. They also stressed that the current rates do not adequately compensate for the fact that tax is levied on turnover and not profit. Taking this into consideration, rates should be reduced and the threshold of R1 million potentially increased to compensate for the means of taxing the taxpayer. A further suggestion was that the tax-free threshold should be increased. A statement that the current rates currently compensate for the means of taxation was posed in the survey. No significant correlation to Smith's (1776) fairness criteria was noted implying unfairness and the confirmation by the proposed recommendation so too indicates a lack of fairness present.

Another key recommendation is to include a provision where businesses that make a loss or a very low profit are not required to pay tax. A statement within the survey stated that start-up companies or micro businesses that hardly make a profit, have low profit margins, or make a loss are still required to pay tax based on turnover. Based on the insignificant correlation to any of the maxims and the respondent's responses to the open-ended questions, it would seem that the participants deemed this statement to be unfair. The implementation of some sort of assessed loss provision may also pose beneficial. If taxpayers are assured they will not have to pay taxes if they make a loss and can make use of some form of assessed loss in the following year, it may encourage more compliance. This will mean that solid education programmes will need to be implemented as discussed in Chapter 4 above in order to ensure that the potential complexities of these potential provisions are not an issue. The issues with loss-making situations was reaffirmed by respondent one who noted that a credit system should be implemented to compensate for the fact that businesses in a loss situation do not have the benefit of tax losses being carried forward. A further respondent (number forty three) answered that a bracket should be implemented when a company makes a loss to

prevent tax from being payable. Therefore respondents are confirming that there is a need for some type of provisions to prevent loss-making businesses from paying tax.

A final recommendation was to allow Turnover Tax to replace all taxes and so allow taxpayers to only have to worry about one tax being payable. Currently Turnover Tax only replaces three separate taxes being Income Tax, STC and CGT.

In order for a tax to be fair in terms of Adam Smith (1776) it needs to be paid in proportion to the taxpayer's income; the tax being levied should be certain and not arbitrary; the method of payment should be convenient and the tax administration should be simple and easy to comply with. The correspondence analysis revealed that there is a strong correlation between statements S1, S5, S6 and fairness criteria or maxim one. S20 is strongly correlated to the undefined positive x axis, signifying a relationship to none of Adam Smith's (1776) fairness criteria and thus is deemed not to be fair. There is moderate relationship between S10 and maxim four, however some uncertainty exists as a result of the relationship S10 has to the undefined positive x axis. There is also a slightly stronger relationship between S17 and S18 and maxim four, however there is also a small amount of uncertainty given the relationship they have with the undefined positive x axis. S11 and S12 appear to have only a minor correlation to maxim two and three indicating a lack of perceived fairness with the statements towards Adam Smith's (1776) fairness criteria. Finally S14 is moderately correlated to maxim two and three; however some lack of confidence that fairness exists for this statement is present.

The ten statements analysed contribute 77.4% of the total inertial contribution. This indicates the majority of the participant's responses to the statements were analysed. The more who answered in favour of a statement promoting a specific maxim resulted in a greater inertial contribution. A resultant effect may be that the other statements with a below average inertial

contribution could be as a result of the fact that the participants felt there was no relationship between the statement and the maxim. Thus the statement did not promote Adam Smith's (1776) maxims of fair tax and so potentially implies that they are unfair. On the whole it seems that the issues from the literature identified are not being perceived as fair by the respondents. Of the twenty two statements only ten had an above average inertial contribution and were thus analysed. This potentially indicates as discussed above that there was a lack of fairness evident and thus no responses were given showing a promotion of unfairness. Within the ten analysed there were some issues where correlation was not significant and there was some correlation to an undefined axis. As a result there were only a few of the statements which promoted Adam Smith's (1776) fairness criteria. Accordingly, it seems that the majority of issues within Turnover Tax are not being perceived as fair.

On analysing the recommendations respondents were in favour of the professional services definition being relaxed, being less ambiguous and allowing more potential Turnover taxpayers to register. Micro businesses that make a loss or minimal profit should not be required to pay tax by allowing for some sort of deduction. Different tax rates should be implemented for different business sectors as different sectors have different profit margins, this would perhaps compensate for this fact and the fact that tax is levied on taxable turnover. Timing of payments needs to also be considered, either having only one payment to reduce administrative burdens or having more payments more often to reduce cash flow burdens. Some still felt that Turnover Tax was not simplified enough and needed to be relaxed even more by allowing more to register, increasing thresholds and removing the many confusing disqualification criteria. The most prevalent recommendation however from the open-ended questions was to improve the promotion of the tax and to increase the training and education given to potential Turnover taxpayers. This would ultimately result in improved compliance.

The correspondence analysis has added to the debate with regard to the perceived fairness of Turnover Tax. The intention of the research was never to quantify or generalise the findings, but rather to inform perceptions and gain an understanding from multiple perspectives. The inherent limitations of this research means a definitive conclusion with reasonable assurance is not possible as we are looking at individual's perceptions. Nevertheless the results obtained from the research add to the credibility of the issues identified in the literature available and in some instances, promote the opinions of the literature.

The Turnover Tax system, in its current format, is not being perceived as completely fair. Although the Turnover Tax system is currently a workable tax system, SARS should consider making changes to the legislation in order to support the growth and development of small businesses within South Africa. The SARS should consider further analysing the identified issues noted above, modify and adapt them to the current Turnover Tax system in order to assist in improving the efficacy, overall compliance and fairness of the Turnover Tax system.

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7 Appendices

7.1 Appendix 1

Correspondence Tableau

Read the statements that follow. For each statement identify which of Adam Smith's maxims promotes the statement by placing an 'X' in the appropriate block in the row. If the statement does not promote one of the maxims then leave the row blank.

	Turnover Tax Statement	**Adam Smith's Maxims** (*The Wealth of* Nations, 1776)			
		Maxim 1 Each taxpayer ought to contribute in proportion to their respective abilities.	**Maxim 2** The tax payable ought to be certain and not arbitrary.	**Maxim 3** The tax ought to be levied at a time or manner convenient for the taxpayer.	**Maxim 4** The tax ought to take out of pockets as little as possible.
1.	Individuals in services which are listed under the professional services list should be able to keep highly sophisticated records and comply with sophisticated taxes, and are therefore prohibited from registering for Turnover Tax (Willemse, 2010).				
2.	All micro business sectors registered for Turnover Tax are taxed based on the same				

	tax rates (BDO Spencer Steward, 2009).				
3.	Micro businesses are taxed based on their taxable turnover and the tax payable is levied on a cash basis (Hassan, 2009; International Finance Corporation, 2007).				
4.	Turnover Tax reduces the number of taxes payable as it incorporates VAT, CGT, Income Tax and provisional tax into one single tax and is thus simple to comply with (Hassan, 2009; International Finance Corporation, 2007).				
5.	A business/individual is disqualified from registering for Turnover Tax if: • That business or a shareholder in the business holds shares or has an interest in another company. • More than 20% of its total income consists of income from professional services and investment income. • More than 20% of its total income consists of income from professional services. • No exemption certificate is issued with regard to a personal service provider or labour broker. (BDO Spencer Steward, 2009).				
6.	A partnership is only allowed to register for Turnover Tax when the collective turnover of the partnership is below R1 million and not that of the individual partners (BDO Spencer Steward, 2009).				
7.	A micro business is disqualified from registering for Turnover Tax if its receipts				

	from disposals of capital assets (including immovable property mainly used for business and other capital assets used mainly in the business) exceed R1.5 million over a 3 year period (BDO Spencer Steward, 2009).				
8.	Turnover Tax is an elective tax (South African Revenue Service, 2010).				
9.	The list of professional services which limits micro businesses from registering for Turnover Tax is open to interpretation (Willemse, 2010).				
10	The list of professional services is very limiting as certain sectors are prevented from registering for Turnover Tax even if their qualifying turnover is below the R1 million threshold, and thus substantially reduces the businesses who can register (BDO Spencer Steward, 2009; International Finance Corporation, 2007; Willemse, 2010).				
11	Rental income is classified as part of investment income when looking at taxable turnover (Viviers, 2009).				
12	Dividends do not form part of taxable turnover (Viviers, 2009).				
13	Micro businesses are at times insufficiently educated to make qualified decisions as to				

	whether or not to register (Hassan, 2009).				
14	Turnover taxpayers are required to pay interim payments on a bi annual basis (Hassan, 2009).				
15	Start-up companies or micro businesses that hardly make a profit, have low profit margins, or make a loss are still required to pay tax based on turnover (BDO Spencer Steward, 2009; Financials Intact Accounting and Tax Services, 2008; Hassan, 2009).				
16	The current Turnover Tax rates compensate for the fact that the tax payable is calculated on turnover and not profit (International Finance Corporation, 2007).				
17	Businesses that have low profit margins are taxed at the same rates as businesses with high profit margins (BDO Spencer Steward, 2009).				
18	No deductions are awarded for any expenses incurred (BDO Spencer Steward, 2009; International Finance Corporation, 2007).				
19	Where a person trades in more than one unrelated business, the total turnover of all the business activities is added together in order to determine the qualifying turnover cap (Hassan, 2009).				

20	Non business income (remuneration and investment income) is excluded from the taxable turnover of a micro business and taxed as per normal in the hands of the individual (Hassan, 2009).				
21	A proposal in the 2011 Budget Speech will allow a micro business to be registered for VAT and Turnover Tax simultaneously (National Treasury, 2011b).				
22	A proposal in the 2011 Budget Speech will allow a micro business to voluntarily deregister from Turnover Tax at any time (International Finance Corporation, 2007).				

Questions

1. What do you think SARS should implement or change with regard to the Turnover Tax system in order to make the system more attractive to micro businesses?

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2. What do you think SARS should implement or change with regard to the Turnover Tax system in order to make the system more fair to micro businesses?

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7.2 Appendix 2

Table 5: Turnover Tax Rates 1 March 2011-28 February 2012

Turnover	**Marginal Rates (R)**
R0 – R150 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 and above	R15 500 + 6% of the amount above R750 000

7.3 Appendix 3

Ethics Clearance Certificate.

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON MEDICAL)
H111115 Gluckman

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER H111115**
PROJECT TITLE	The Perceived Fairness of Turnover Tax in the South African Tax System
INVESTIGATOR(S)	Mr A Gluckman
SCHOOL/DEPARTMENT	Taxation
DATE CONSIDERED	11 November 2011
DECISION OF THE COMMITTEE	Approved Unconditionally
EXPIRY DATE	30 November 2013
DATE 19 January 2012	**CHAIRPERSON** pp (Professor R Thornton)

cc; M Turner
W Marcun

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10005, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

Signature **Date** 21 / 02 / 2012

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES