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demonstrate critical thinking in many diverse aspects of tax administration, from legal reform to tax return simplification and the measurement of compliance costs. They also include developments from the disciplines of behavioural economics and psychology. There is reflection on the history and impact of the compliance pyramid – first developed in Australia and now embraced by many jursidctions throughout the world. Finally, there is the sharing of latest developments in tax risk management models and practices in the Australian Taxation Office, widely recognised as a leading modern tax administration.

It does give us great pleasure to present to you this special edition on tax administration and we feel very privileged to be part of this strong and supportive research community. We do hope you will consider being part of Atax's 11th Interrnational Tax Administration Conference, to be held in Sydney in early 2014. Further details will be made available on our School website (www.tbl.asb.unsw.edu.au) in the second half of 2013.

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

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

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

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

1.2 Need for the present study

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

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

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

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

4. EMPIRICAL RESEARCH FINDINGS

4.1 Measurement criteria

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

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

4.2 Profile of the respondents

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

Figure 1: The estimated turnover of the business

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

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

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

TURNOVER/STUDY	Current study	FIAS (2007)	Current study

4.3 Quantification of internal tax compliance costs

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

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

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

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

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

Taxes	VAT	IT	PAYE	CGT	Customs	

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

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

Activity	VAT	IT	PAYE	CGT	Customs	Excise duties	

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

From a broad overall time perspective, a comparison can also be made with the PricewaterhouseCoopers (PwC) and IFC (2011:69) Paying taxes 2011 report which records the time taken to prepare tax figures, complete and file tax returns, and also pay the three major taxes — VAT, income tax (including provisional tax and CGT), and taxes on employees (PAYE, SDL and UIF). A case study methodology is used to record this information whereby tax experts from a number of different businesses compute the taxes and contributions payable based on standardised case study facts. This global study reveals that it takes 200 hours to perform the abovementioned functions in South Africa. This is sligh77his glomediu8(p)-2(let-(h)larg8.2JTdses)-3.7(6(m)7.9(-2(le
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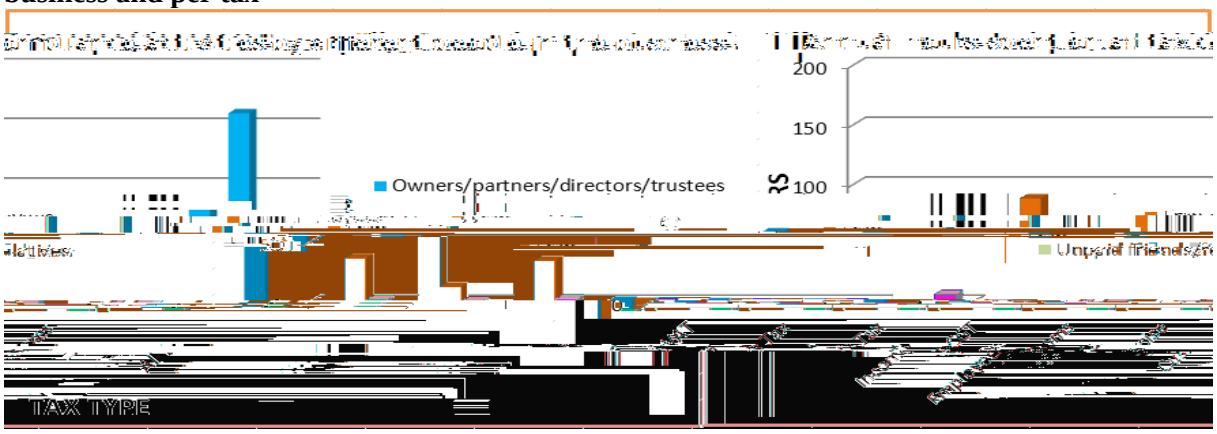
Figure 3: Annual internal hours spent on tax compliance activities — by different people in the business and per tax



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

4.3.3 Step 3 — Valuation of time spent on different taxes

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

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

As no indication of the size of the business paying these remuneration packages was provided in the Accountants on Call (2010) Salary Survey to ensure that these rates were reasonable in respect of payments made by small businesses, the average rates in terms of that salary survey were compared to the Chartered Institute of Management

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

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

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

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

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

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

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

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

b) Comparison to other research

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

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

COST OF EXTERNAL SERVICE PROVIDERS /	Current study (mean)	Current study (5% trimmed mean)	

4.5.1 Nature of the accounting system and reasons for keeping accounting records

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

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

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

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

4.6 Tax compliance benefits

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

4.6.1 Do tax compliance benefits exist?

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

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

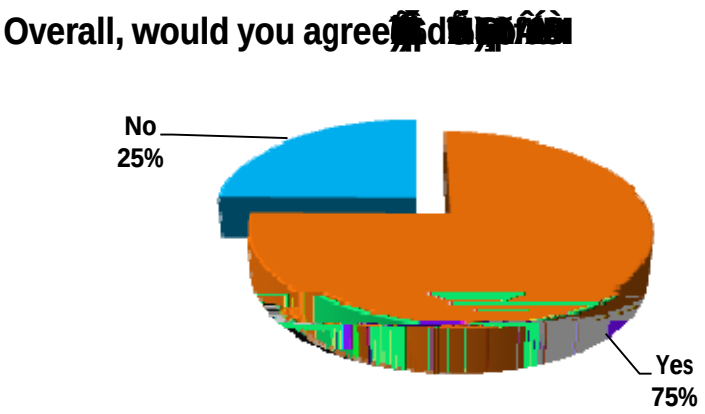


Figure 8: Benefits of complying with tax obligations

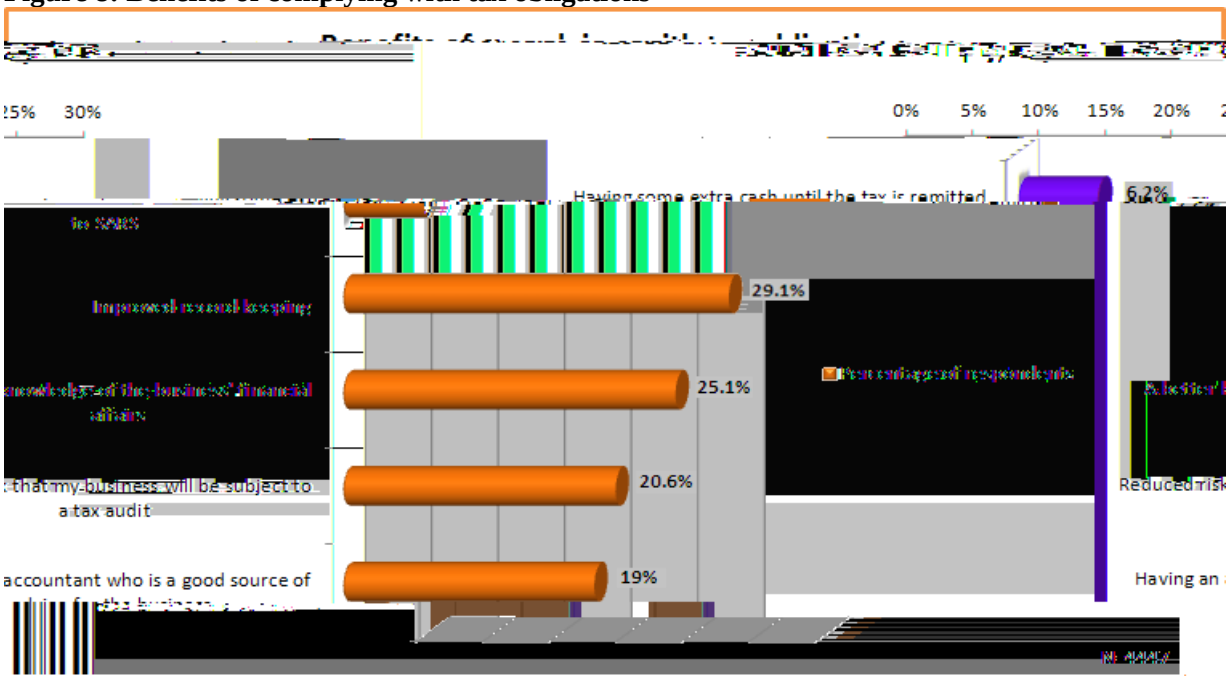
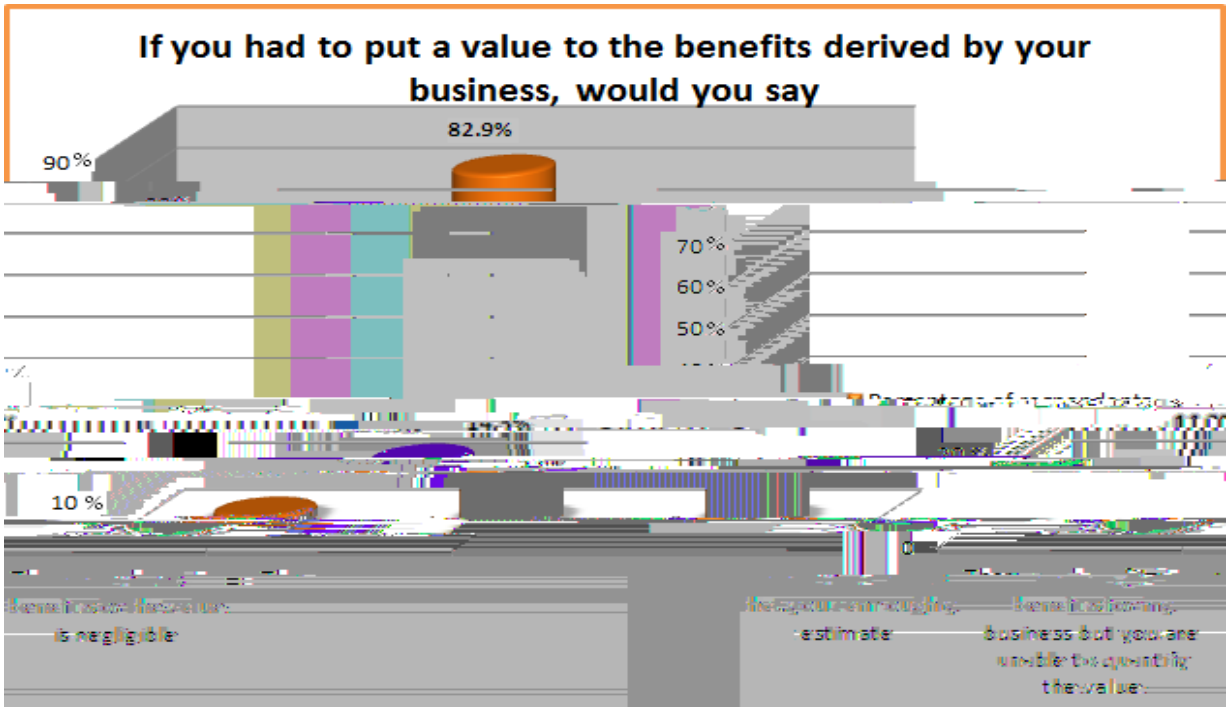


Figure 9: Valuation of tax compliance benefits by respondents



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

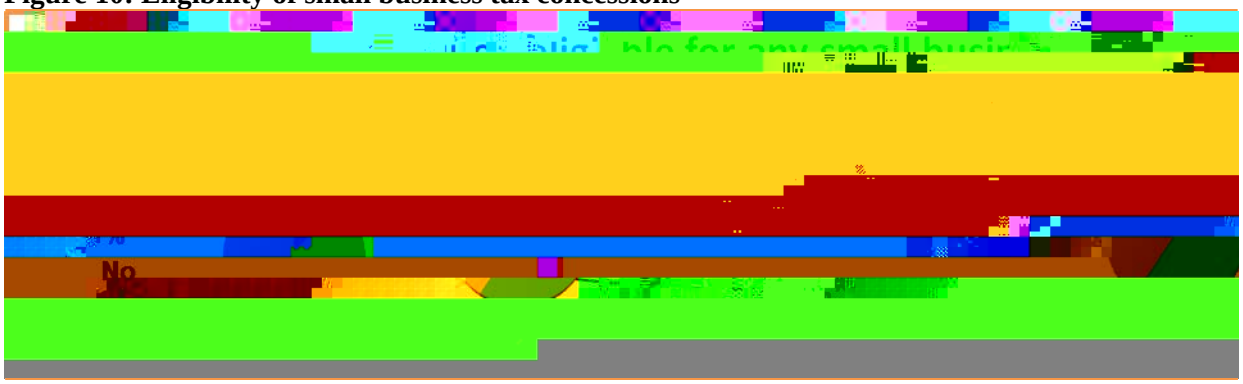
4.7 Small business tax concessions (SBTCs)

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

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

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

Figure 10: Eligibility of small business tax concessions



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

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

Table 16 : Perceptions about complexity of SBTC

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

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

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

5. CONCLUSION

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

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

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

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

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ANNEXURE A
SMALL BUSINESS TAX CONCESSIONS IN SOUTH AFRICA

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

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