FACTORS OF TAX COMPLIANCE THAT INFLUENCE SMALL BUSINESS GROWTH IN KZN

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Declaration

I, Yergenthren Naicker, declare that

i) The research reported in this thesis, except where otherwise indicated, is my original research.

ii) This thesis has not been submitted for any degree or examination at any other university.

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Acknowledgments and dedication

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Abstract

Small and medium enterprises play an important role for South Africa. They serve as a vehicle in creating jobs for local communities. KwaZulu-Natal (KZN) is the second largest province in the country and the necessity of developing sustainable small and medium businesses cannot be overemphasized. The South African government has identified and made the development of small businesses as one of their strategic objectives.

Despite the importance of these businesses for the country and province, there are many challenges that these businesses face. One of the most onerous and time-consuming challenges is tax compliance. Tax compliance was defined as the preparation, submission and payment of taxes due within the specified time periods and in order to achieve the objectives set out by government, it is necessary that the tax systems for small businesses be efficient and simplified in order to meet the needs of the sector.

The research has been undertaken to determine if tax compliance is a factor which has negatively influenced businesses in KwaZulu-Natal.

The literature review suggested that tax compliance is a significant factor for small businesses and the current system of taxation is ineffective. The research design was quantitative in nature. A questionnaire was completed by eighty-five small business owners and these findings were statistically analyzed.

The empirical research indicated that small business owners perceive tax as a threat for business growth and sustainability. In addition, these business owners also feel that the current initiatives introduced by the South African Revenue Services (SARS) is not helping to address the problems with compliance and they require more from the government and the SARS. The findings from this study will assist the SARS in understanding the specific challenges that small and medium business face and help to improving the current tax policies for small businesses.

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CHAPTER ONE: OVERVIEW OF THE STUDY

1.1 Introduction

The first chapter presents an overview of the study. The chapter commences with a context of the study by highlighting the progress of South Africa since 1994 and addressing the importance of small and medium businesses in achieving the South African government's strategic objectives. Small and medium businesses are required to comply with all the relevant tax laws, however the requirement of tax compliance for these businesses has become an increasingly serious challenge.

Research on tax compliance in South Africa has been done, however there has been limited research from a provincial perspective. KwaZulu-Natal is one of the largest provinces in the country and the need to understand the effects of tax legislation on the small business sector is important. The chapter defines the problem statement and lists the aims and objectives of the study. The research methodology adopted together with limitations of the study are also briefly presented. The chapter concludes with a tabulation of the contents of each chapter.

1.2 Context of the study

South Africa is a country that was previously dominated by coloniasm, racism, apartheid, sexism and repressive labour practices. The aftermath of the apartheid policies and practices has resulted in an unequal distribution of income, poverty and degradation amongst many South Africans. After the first democratic elections in 1994, one of the top priorities of the newly elected government was to address the need to reduce poverty in South Africa. (African National Congress, 1994)

Since 1994, the country has made exceptional headway in addressing some of these issues. The endorsement of the Constitution, setting up of institutions of democracy, and transformation of multiple institutions has paved the way for a new nation resulted in improved facilities including education, medical services, housing, water and electrification for many citizens. However, despite all the positive progress that has been accomplished, there were still some serious shortcomings in the development of the country. Millions of South Africans continued to remain unemployed and a large number of households were living close to the poverty line. As a result of these

shortcomings, the South African President, in 2010, appointed the National Planning Commission to establish a vision and national development plan. One of the essential objectives of this vision and plan is to eliminate poverty in the country by the year 2030. Increasing employment is considered to be the most viable solution to assist in eliminating poverty and to reduce the significant levels of inequality that the people of South Africa are faced with. The National Planning Commission is focused on expanding a robust, innovative and entrepreneurial economy. (National Planning Commission, 2011)

Small and Medium Enterprises are perceived to be one of the most effective mechanisms to assist economies in prospering and growing. Small businesses aid the creation of sustainable employment, contributes to an economies gross domestic product and assists with numerous other forms of economic and social development. (Krasniqi, 2007). Therefore, developing, nurturing and sustaining small businesses is one of the key strategies identified to assist in alleviating poverty and generating meaningful employment together with creating sustainable incomes for communities. (Dockel & Ligthelm, 2002).

Smaller and medium sized businesses however, do suffer from increased resource constraints and the amount of regulations needed to comply with are considered as a continuing constraint on business operations (Moody (2001) as cited in Hasseldine & Hansford (2002)). These smaller businesses face many risks, which threatens their existence as a going concern. The majority of South African small and medium sized businesses rarely survive and last for an average of three and a half years. Regulatory compliance costs are considered substantial and a large amount of valuable resources are consumed in order to ensure that these businesses in South Africa remain compliant with all the applicable laws and regulations. Alternative utilisation of these valuable resources may have been focused on advancing, promoting and bolstering business in the both the local and international context however, they are used for the excessive compliance requirements. (SBP, 2004)

One of the several issues that influence the overall regulatory environment for small and medium enterprises is tax compliance (SBP, 2003). Tax compliance issues are believed to be some of the most time consuming and troublesome regulations for SMEs in the country and the largest portion of regulatory compliance costs and

resources are directly attributable at ensuring tax compliance. (SBP, 2004). Tax compliance is perceived as a large regulatory expense and burden that disparages small-scale entrepreneurs (Junpath, et al., 2016), and smaller businesses are reluctant to enter into the formal economy by registering for tax. Despite the many advantages such as access to finance, improved access to business opportunities and improved legal standing of the business registering for tax now implies falling into the tax system (Junpath, et al., (2016) and Govender (2008). One of the main reasons for this reluctance is the complexity of tax systems and the relevant costs associated with compliance (SBP, 2003).

1.3 Problem statement

The cost and complexity of tax compliance for small, medium and micro enterprises in the country has been highlighted by the National Treasury and South African Revenue Services (SARS) as an important matter (Govender, 2008).

In KwaZulu-Natal, the failure rate of small businesses is extremely high, with a large proportion of them not developing into established firms. (Olawale & Garwe, 2010). This is contrary to the strategic objectives set out by the national government. One of the main reasons for business failure is the excessive regulatory burdens that are placed on small businesses. Although there has been literature on tax compliance and the costs associated with compliance, there has been limited research about the influence of tax compliance on the small business sector especially in KwaZulu Natal.

The study will answer the question "Is tax compliance a factor which negatively influences business performance and growth".

1.4 Aim and objectives

This study aims to identify the tax compliance challenges for SMEs in KZN as well as to evaluate if current tax relief initiatives are effective.

The objectives of the study were to:

- Identifying the specific taxes that small and medium businesses in KwaZulu Natal consider most complex and challenging.

- Determining the specific challenges, complexities and costs in respect of tax compliance for small and medium business in KwaZulu Natal.
- Determining if tax relief initiatives introduced by SARS have been successful at addressing compliance challenges for small businesses.

1.5 Research design

The research objectives were met by utilising a quantitative approach. A questionnaire was used to evaluate the perceptions of tax compliance from small business owners. Permission to distribute the questionnaire to the small businesses was obtained from the accounting practitioners of these businesses. Ethical clearance was obtained from University of KwaZulu Natal's Humanities and Social Science Research Ethics Committee. The questionnaire had a total of sixteen questions and was manually distributed to 216 small and medium business owners who had met the definition of an SME as defined in the study. A total number of eighty-five business owners completed and returned the questionnaire on or before the due date.

The questionnaires were first reviewed for completeness and accuracy before being analysed. Descriptive statistics which included the mean, median, mode, standard deviation and variances were calculated.

In chapter two a literature review highlighting the significance of small and medium sized businesses as well as the taxes that these business are exposed to will be presented. The chapter will also focus on tax compliance and some of the challenges faced by small and medium sized businesses in respect of compliance. To determine the rankings and complexities of tax, cross tabulations were used. A two-step cluster analysis was also used to evaluate the complexity of taxes in respect of business types. The hypothesis devised in chapter three was also tested using Chi Square test and a one sample t test.

1.6 Limitations of this study

The limitations of the study were as follows:

a) The research sample was limited to the location involved in the study.
b) The response rate to the questionnaires were approximately 40%.

c) Only formally registered businesses that had accountants were used in the study. No informal businesses were used.

The research sample was limited due to the location and number of respondents involved in the study. The sample was obtained from three accounting practices in the Pietermaritzburg area. These three practices did have clients across the province that participated in the study but the majority of respondents where from the Pietermaritzburg area.

Any significant results may not be necessarily generalizable across the province but will add value by giving policy makers a clear indication of what the major tax compliance issues are in the province.

1.7 Outlines of the study

The study has been arranged in five chapters as reflected in Table 1.1.

Table 1.1: Outline of the study

CHAPTER	CONTENT
1	Chapter one highlights the overall context of the study. The study is contextualised and filters into the development of the problem statement. In addition the aim and research objectives are presented. The research design and limitations of the study are also briefly explained.
2	Chapter two is a review of existing literature of small and medium businesses as well as tax compliance. The gap in literature identified is the justification of undertaking the empirical research.
3	Chapter three contains the methodology used to achieve the research objectives of the study, detailing the research design, nature, sample frame, research instrument and relevant sample size.
4	Quantitative analysis of the data is presented and analysed in chapter four. The objectives of the research and hypotheses developed in the previous chapter are also evaluated using the methodology that was devised.
5	Chapter five of the research summarises the results derived from the study, relating this to the objectives, with concluding remarks, limitations and recommendations.

1.8 Conclusion

Chapter one presented the context for the study. SMEs play a pivotal role in society and for communities especially in KwaZulu-Natal. Small and medium businesses are a means of addressing the unemployment and poverty challenges in the country. Despite the significance, regulatory compliance is a significant challenge for these smaller businesses. This study has sought to identify if tax compliance is a significant factor which negatively influences business growth in the province. The first chapter has presented the objectives, research methodology adopted as well as any limitations. An outline of the study highlighting the purpose of each chapter is also presented in this chapter.

Chapter two which is presented next, commences with a review of the existing literary work pertaining to small and medium businesses and tax compliance.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Chapter one presented an overview of the study, which highlighted the significance of small and medium businesses. These businesses play a pivotal part in the economies of numerous societies, countries and governments, and thus the focal point of governments is on the improvement of the small business sector to enhance economic growth (Olawale & Garwe, 2010). Small and medium enterprises generally provide the only realistic opportunities of employment in rural areas for developing countries, and governments worldwide strongly encourage entrepreneurship to assist with job creation and poverty alleviation. (IMF, 2007)

Whilst there are numerous small and medium businesses that emerge, a large proportion of them do not survive (Ladzani & van Vuuren, 2002). Reasons of failure vary for many different reasons but one of the most common problems is the heavy regulatory burdens placed on these small and medium businesses.

2.2 Small and medium sized businesses

In South Africa, approximately ninety one percent (91%) of formal business entities are small and medium sized entities. These entities contribute between fifty two percent (52%) and fifty-seven percent (57%) to gross domestic product (GDP) and provide about sixty one percent (61%) to employment (Abor & Quartey, 2010). The importance of small and medium sized businesses' to the economy is stressed by these statistics as they are a major contributor to gross domestic product (GDP) and employment. A successful economy is strongly driven and influenced by the generation, success and sustainability of SMEs and in South Africa, all stakeholders and political parties unanimously agree on the significance of promoting the establishment of SMEs as well as facilitating their growth. (Small Business Project, 2003)

Although there is general agreement that the small and medium size business market is significant in size and is important to economic growth, the definition of small and medium sized entities differs amongst many countries across the world. The definition

of small and medium sized businesses becomes problematic because of their diversity in different economies, countries, industries and business sectors (Nkwe, 2013). Small and medium sized businesses could possibly range from part time businesses with no employees to incorporated businesses with many employees. They could also fall in the parameters of rapid growing firms to exclusive private family firms that have not been altered in a long time (Tambunan & Xiangfeng , 2006)

Abor & Quartey, (2010) have also concluded that there is no single uniform definition of small and medium sized enterprises but the most commonly used definitions are based on the number of employees, total revenue and total assets. In practice, in South Africa and across the world, the number of employees and turnover bands generally provide the best guidance on the definition of what an SME is.

A common definition of small and medium sized entities worldwide is registered businesses with less than two hundred and fifty (250) employees. (IFC, 2010). The European Union also designates small and medium business as having two hundred and fifty employees (250) or less. However, in the United States, small and medium businesses are considered to be firms with fewer than five hundred (500) employees (OECD, 2005), and in China, the definition also includes number of employees, revenue and total assets of a company. Generally, a smaller enterprise in China is considered as an entity having fewer than three hundred (300) employees. (Xiangfeng, 2008).

In common with the other European countries, the Ministry of Economy in the Czech Republic also uses guidelines to classify businesses into petty, small and medium sized enterprises. Ordinarily, these businesses use a range of ten to two hundred and fifty (10 – 250) employees, assets in the range of two million euros to forty three million euros, and turnover that does not exceed fifty million euros. (Ponorica & Al-Saedi, 2015).

In Africa, Nigeria also defines SMEs using turnover and net asset value as a guide. Businesses with a turnover generally not exceeding five million Naira (Atawodi & Ojeka, 2012), and in Botswana, SMEs are businesses which have between six (6) and one hundred (100) staff and turnovers ranging between sixty thousand Pula and five million Pula. (Nkwe, 2013)

In South Africa, The National Small Business Act of 1996 defines a 'small business' as follows:

"… a separate and distinct business entity, including co-operative enterprises and nongovernmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub sector of the economy mentioned in column I of the Schedule.''

Smaller businesses can be classified as micro, very small, small or medium enterprises. In South Africa, the National Small Business Act defines the thresholds under which small businesses can be classified. (DTI, 2008)

Business Sectors in South Africa	Size	Full time staff complement	Average Yearly Revenue (Rm) (Less than)	Total Asset Value (fixed property excluded) (Rm) (Less than)
Agriculture	Medium	100	5.00	5.00
	Small	50	3.00	3.000
	Very small	10	0.50	0.50
	Micro	5	0.20	0.10
Mining and Quarrying	Medium	200	39.00	23.00
	Small	50	10.00	6.00
	Very small	20	4.00	2.00
	Micro	5	0.20	0.10

Manufacturing	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	52.00	2.00
	Micro	5	0.20	0.10
Electricity, Gas and Water	Medium	200	51.00	19.00
	Small	50	13.00	5.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10
Construction	Medium	200	26.00	5.00
	Small	50	6.00	1.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Retail and Motor Trade and Repair Services	Medium	200	39.00	6.00
	Small	50	19.00	3.00
	Very small	20	4.00	0.60
	Micro	5	0.20	0.10
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	64.00	10.00
	Small	50	32.00	5.00
	Very small	20	6.00	0.60
	Micro	5	0.20	0.10
Catering, Accommodation and other trade	Medium	200	13.00	3.00
	Small	50	6.00	1.00
	Very small	20	5.10	1.90
	Micro	5	0.20	0.10

Finance and Business Services	Medium	200	26.00	5.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.50
	Micro	5	0.20	0.10
Community, Social and Personal Services	Medium	200	13.00	6.00
	Small	50	6.00	3.00
	Very small	20	1.00	0.60
	Micro	5	0.20	0.10
Transport, Storage and Communication	Medium	200	26.00	6.00
	Small	50	13.00	3.00
	Very small	20	3.00	0.60
	Micro	5	0.20	0.10

Table 2.1: Ranges for the designation micro, very small, small and medium enterprises

Source: Schedule 1 to the National Small Business Act of 1996, as revised by to the National Small Business Act as amended in 2003 and 2004. (Department of Trade and Industry, 1996)

Table 1.2 is a summary of the different ranges for the division for micro, very small, small and medium enterprises in the country. The different industries have different thresholds for number of staff, revenue and total assets. From the above table, the number of full time employees ranges from a minimum of five (5) employees for micro businesses to two hundred (200) for medium enterprises, turnover ranges from two hundred thousand rands (R200 000) to sixty four million rands (R64 000 000) and total assets range from one hundred thousand rands (R100 000) to twenty three million rands (R23 000 000). In each sector a classification is made for, micro, very small, small and medium enterprises.

Across the globe, many different definitions are used as there is no single data source that has all of relevant information at a given point in time (Gale & Brown, 2013). In this study, SMEs will be defined with reference to only the employee and revenue thresholds mentioned above. For this study a SME is defined as an enterprise with a revenue in the range of R70 000 and R20 000 000 and businesses employing between five (5) and two hundred (200) people.

2.3 The importance of small and medium enterprises

The growth of any economy relies heavily on the advancement of SMEs. There is an ever increasing recognition of the importance that SMEs play in the expansion of economies and societies. SMEs are job creators and are the engines of the economy. (Abor & Quartey, 2010). Formal and informal businesses constitute approximately eighty to ninety percent (80 – 90 %) of the workforce and also contibutes to over fifty percent (50%) of gross domestic product (GDP) on average in many developed countries (Ponorica & Al-Saedi, 2015). The South African government has identified the small and medium business sector as one of the most viable means to improve job creation and generate future prosperity in the country (Llyod, 2002), and small business improvement is a significant feature in the countries economic development, poverty reduction and employment creating plan which is in line with the National Development Plan (DTI, 2008).

Economic growth, employment and wealth creation are generally the key factors for which SMEs are recognised (Booysens, 2011). SMEs make a significant contribution to GDP and a provides a bigger hand in creating work for South Africans (DTI, 2008) and the main source of job creation, development and innovation is generally perceived to be new businesses (Morteza Azimadeh, et al., 2013). In addition, small and medium businesses are considered to be much more flexible, they provide new services and products quickly and efficiently. These small and medium sized businesses are also able to apply robust solutions to the everchanging market conditions (Bondoc & Hagiu, 2011).

Small and medium sized businesses have a number of benefits which include, growing employment at a faster rate than the larger corporations, increasing the competitiveness of the market and reducing the monopolsitc strong holds of the large

corporates and they also promote and foster a culture of innovation and entrepeneurial skill (Todd & Javalgi, 2007). In South Africa, there is a much emphasis that is placed on the potential of small and medium sized businesses to generate employment and assist in the alleviation of poverty which is in one the key startegies of the national development plan (Booysens, 2011).

The South African government invests heavily in the creation and sustainability of SMEs. The government specifically pinpointed small business development as the opportunity to address the challenges of employment creation, fiscal and commercial expansion and equity redistribution in the country (Peters & Naicker, 2013). A number of initiatives have been aimed at growing and supporting the small and mediums sized business sector and a number of support agencies including Ntsika, subsequently replaced by SEDA (Small Enterprise Development Agency) were introduced. Financial support included Khula Enterprise Finance and the Apex Fund that provides micro finance loans. Some of the measures introduced in terms of policies were The National Small Business Act which was passed in 1996 and the BEE Code of Good Practice (SBP, 2009).

Not only in South Africa, but internationally, governments assist small and medium businesses. In the United States of America (USA), most employers are small and medium sized businesses and most employees are employed by these businesses (Gale & Brown, 2013). In Europe, small and medium sized enterprises have an important role in the welfare of local and regional societies and communities. Strategy Europe 2020 recognises that small and medium businesses aid in contributing to the economic development and robustness of European economies (Bondoc & Hagiu, 2011). In China, small and medium businesses account for more than ninety nine percent (99%) of all enterprises in China. These SMEs contribute at least sixty percent (60%) of the countries gross domestic product (GDP) and is responsible for generating more than eighty two percent (82%) of the employment opportunities in the country (Xiangfeng, 2008).

The role and size of SMEs

Country	Year	Arrangement of SMEs (% of SMEs)			SME Contribution	
		Micro	Small	Medium	SMEs per 1000 people	SME employment (% total)
Austria	2004	86	12	2	31	65
Belgium	2003	96	3	1	42	69
Bulgaria	2003	90	8	2	28	79
Finland	2003	94	5	1	42	59
United Kingdom	2004	95	4	1	74	39
Poland	2001	99	-	1	43	67
Sweden	2005	96	3	1	99	39
United States	2004	78	20	1	20	51

Table 2.2: The role and size of small and medium enterprises.

Source: Micro, Small, and Medium Enterprises: A Collection of Published Data, International Finance Corporation (IFC), Washington D.C. (2007)

Table 2.2 provides a brief summary of the situation in Europe and America. This information illustrates the importance of the different sub groups of small and medium sized enterprises as well as the significant part they play in contributing to employment. The contribution to employment is quite significant to many European countries. In Austria, Belgium, Bulgaria and Poland, small and medium enterprises contribute to over sixty percent (60%) of all jobs. In the United States, these businesses contribute to over fifty percent (50%) of employment. In the United Kingdom and Sweden, businesses contribute to almost forty percent (40%) of employment. These statistics indicate how important SMEs are highlight the contributions made towards employment.

2.4 The profile of SMEs in South Africa

The following subsection of this chapter provides an overview of the SME sector in the country.

2.4.1 Distribution of small and medium enterprises in South Africa

SMES	Number (2008 Q1)				Number (2015 Q2)			
	Total	Formal	Informal	Other	Total	Formal	Informal	Other
Total	**2 182 823**	**666 501**	**1 420 933**	**95 389**	**2 251 821**	**667 433**	**1 497 860**	**86 528**
Western Cape	223 933	114 976	95 212	13 745	230 324	110 107	110 188	10 030
Eastern Cape	218 865	56 579	154 631	7 655	197 366	50 670	141 739	4 957
Northern Cape	29 894	11 450	11 768	6 676	20 611	8 534	9 058	3 019
Free State	114 949	31 040	76 127	7 783	96 846	26 224	60 816	9 806
KwaZulu Natal	418 406	102 591	289 347	26 468	373 434	74 976	283 165	15 293
North West	109 860	25 817	76 855	7 188	112 856	27 430	79 153	6 273
Gauteng	687 556	270 093	405 180	12 283	785 321	306 231	465 100	13 989
Mpumalanga	193 259	29 760	156 814	6 685	185 399	35 208	141 129	9 063
Limpopo	186 101	24 193	155 001	6 907	249 663	28 054	207 512	14 098

Table 2.3: Small, medium and micro enterprises by province

Source: Stats SA, 2016

Table 2.3 illustrates the distribution of SMEs between the nine provinces of the country between 2008 and 2015. Overall the number of small and medium businesses increased from 2 182 823 to 2 251 821 business over the seven year period which represents an increase of only three percent (3%). This increase is significantly less than the fourteen percent 14% increase in gross domestic product over the same time frame. Limpopo and Gauteng had the biggest growth rate in its number of businesses

with thirty-four percent (34%) and fourteen percent (14%) respectively. The Northern Cape and Free State lost the biggest percentages of businesses with thirty one percent (31%) and sixteen percent (16%) respectively. KwaZulu-Natal lost a total of 44 972 businesses which represents a reduction of eleven percent (11%) in the number of businesses for the period 2008 to 2015. The number of informal businesses exceeded the number of formal businesses in all provinces for the period ending 2015. The rural provinces tend to have more informal businesses because of the number of hawkers and informal traders. Most of the countries formal small, medium and micro enterprises are based in Gauteng (46%) followed by the Western Cape (16%). The largest number informal, small and medium sized enterprises are located in Gauteng as well (31%) followed by KwaZulu Natal (19%) (SEDA, 2016).

2.4.2 Small and medium enterprises by economic sector

Most of the SMEs in South Africa conduct their business in the retail, wholesale and accommodation sector and the personal services, social and community sectors follow. (SEDA, 2016)

2.4.3 Demographic distribution of SMEs

The majority of both formal and informal small and medium enterprise owners are black who own seventy one percent (71%) of businesses. Whites own twenty percent (20%) whilst coloureds and Indians own the remaining nine percent (9%). Whites however own and operate fifty one percent (51%) of formal businesses whilst blacks are the largest owners of informal businesses with eighty nine percent (89%) (SEDA, 2016).

2.4.4 The financial profile of SMEs

Turnover of the small and medium business sector increased from 2010 to 2015. The major increases were in the real estate, community and construction sectors. The other sectors, which includes electricity, gas and water, manufacturing, mining, transport and trade sector mainly, increased due to inflation. The sector with the highest turnover was the manufacturing sector. The business services and the real estate sector have averaged the highest profits in this period followed by the trade sector. In terms of total expenditure, the trade industry is the largest amongst small

businesses. Finance costs in the real estate and businesses services sector are much higher when compared to other sectors for this period. In general, across the small business sector, expenditure increased relatively more than turnover and profit levels in most industries. Taxes that were paid by small and medium enterprises increased substantially between 2010 and 2015. Currently most taxes are paid by businesses in the trade and manufacturing sectors (SEDA, 2016).

2.5 Provincial statistics and unemployment in South Africa

South Africa has nine provinces and had an approximate population of 55.9 million people in 2016.

A breakdown of the population per province is noted in the table below.

	Population Estimate	% of total population
Eastern Cape	7 061 700	12.6
Free State	2 861 600	5.1
Gauteng	13 948 200	24.1
KwaZulu Natal	11 079 700	19.8
Limpopo	5 803 900	10.4
Mpumalanga	4 328 300	7.7
Northern Cape	1 191 700	2.1
North West	3 790 600	6.8
Western Cape	6 293 200	11.3
Total	55 908 900	100

Table 2.4: Estimates by province of mid-year population, 2016

Source: Mid-year population estimates by province, 2016. Compiled by Statistics South Africa. (Statistics South Africa, 2016)

As can be seen in Figure 2.4 above, Gauteng and KwaZulu-Natal make up most of the population in South Africa with almost forty four (44%) of the population living in these two provinces.

The impact of the 2008 and 2009 international financial crisis had a significant impact on KZN. The province suffered as a result but since then has risen faster than the rest of the economy however; since the end of the commodity boom, it has been affected by the general slowdown. Average growth from 2003 to 2011 averaged about four percent (4%) a year but from 2011 to 2014 it fell to 2.4%. In 2015 only thirty eight percent (38%) of the population eligible for work was employed in comparison to the country average of which was in excess of forty percent (40%) and sixty percent (60%) internationally. The province gained two hundred thousand (200 000) jobs from 2010 however the percentage of working age population with employment had remained virtually unchanged because of the population growth (Trade and Industry Political Strategies, 2016).

According to the quarterly labour report prepared by Statistics South Africa, employment levels increased in six of the nine provinces during the period 1 March 2015 to 31 March 2016. During this period KwaZulu-Natal, Gauteng and the Free State suffered job losses of 57 000, 16 000 and 12 000 respectively. With the second largest population in the country, KwaZulu-Natal recorded the most job losses for the period 1 March 2015 to 31 March 2016 and in addition, the official unemployment rate for the province increased from 20.5% to 23.5% in the space of one year (Stats SA, 2016). As at the end of September 2017 the unemployment rate for the province was approximately 24.6% and in the third quarter of 2017, KwaZulu Natal recorded forty seven thousand (47 000) job losses.

The growth in the number of small and medium sized businesses over the last decade has been lower than the economic growth rate (SEDA, 2016). While KwaZulu Natal accounts for about twenty percent (20%) of South Africa's population, it contributes approximately sixteen percent (16%) of the gross domestic product (GDP) (Trade and Industry Political Strategies, 2016). This indicates that there seems to be many challenges in the small business sector that is influencing business growth and performance.

Govender in his study in 2008 found that KwaZulu Natal only accounted for ten percent (10%) of the formal registered small and medium sized business population in South Africa. Ten years later KZN has lost roughly 11% of businesses since 2008. (SEDA, 2016). With only ten percent (10%) of registered small business in the country and the

increase in unemployment together with the increase in the failure rate of SMEs, these statistics indicate that there are serious problems in the province in terms of developing and sustaining small businesses.

2.6 Challenges faced by small businesses

Despite the significant contribution to economic growth, small businesses globally and internationally still face many challenges. Obstacles and challenges that businesses are faced with are significantly more than they were previously as the environments small businesses operate in, are significantly more complex and dynamic. To assist in the development of the economy within a country it is imperative to have knowledge of the factors and risks which impact small business success or failure (Sitharam, 2014).

Cant, et al., (2003) have estimated that less than 50% of new and developing businesses last more five years and argue that the failure rate of SMEs internationally is between seventy percent (70%) and eighty percent (80%). In South Africa, the failure rate is extremely high as well, with seventy five percent (75%) of small businesses not becoming established firms. (Olawale & Garwe, 2010).

There has been much research on identifying and understanding the various factors that influence business failure. According to Sitharam (2014), small business failure can be attributed to a number of internal and external factors as well as entrepreneurial culture. (Everett & Watson, 1998) identified and discussed the three types of risk that small business owners are exposed too. Economic, industry and firm based risk are the three risks that are considered the main determinants of business success or failure. They further argued that economic factors are associated with about thirty percent (30%) to fifty percent (50%) of small business failures. According to Olawale & Garwe (2010), there are many other different variables that act as obstacles to growth. Internal factors such as lack of finance and management skills together with external factors such as tough economic conditions and a lack of quality in infrastructure are considered to be some of the most important challenging factors that small businesses have to deal with in South Africa.

Limitations of access to finance for SMEs is considered to be a very common problem in South Africa. Financial institutions are more likely to invest and lend money to more

established businesses as opposed to start-up businesses who are looking for funding in order to expand and grow operations. According to the GEM South Africa 2014 report, some of the major factors for business failure are the lack of access to finance and poor profitability. In terms of infrastructure, ease of access to communications, transport, utilities, land and renting space at affordable prices are all important considerations for new businesses. (SEDA, 2016).

Oxford, et al., (2004) argued that small businesses face serious financial management capacity weaknesses. (Xiangfeng, 2008) identified weak linkages to the external market, weak technological innovation, poor physical infrastructure, high operational costs, inadequate financing and limited managerial and entrepreneurial skills as specific concerns and challenges for small and medium sized businesses. Sitharam, (2014) also agreed that management competency and skills shortages which includes experience in small business management is an important factor that also affects the performance of business. A lack of technical accounting and financial management skills is considered to be a significant threat to the performance and survival of small businesses. The Small Enterprise Development Agency also agrees with this and acknowledges that a shortage of skills, especially accounting and sales capabilities, are serious constraints to business and employment growth. (SEDA, 2016)

The high level of crime in South Africa is another serious factor that has influenced society and business. Both the formal and informal sectors are equally affected. Business owners are forced to spend more money on private security, which has a snowball effect on the cost of doing business and causes unnecessary expenditure that puts a strain on cash flows and also decreases profits. (SEDA, 2016).

Other important factors that influence the performance of SMEs in South Africa include competition, government bureaucracy, foreign exchange rates, inflation and interest rates. (Sitharam, 2014). The GEM (2014) report also highlighted government bureaucracy in South Africa, as a major hurdle for business sustainability and activity. Key issues identified in government bureaucracy, were the time delays in obtaining necessary permits and licences to trade. Government departments were considered inefficient in handling these duties. It was also argued that there is a lot of red tape around starting and managing a business, which includes the copious amount of

registration and compliance with the relevant Acts and regulatory bodies in South Africa (SEDA, 2016).

Specifically, tax laws and labour laws have been identified as the major laws and regulations that negatively affect business growth (Sitharam, 2014). Labour laws have been specifically pin pointed as a major problem when it comes to business growth, especially when it relates to the termination of staff (OECD, 2015). Small and medium businesses are also exposed to high labour costs in South Africa, which is a result of the high minimum wages that are sanctioned by the South African labour law (SEDA, 2016).

In a study conducted by SBP in 2004, it was reported that the regulatory environment imposed significant costs on business activities. These costs reduced the businesses ability to expand operations and create jobs. More importantly, the single largest growth inhibiting aspect identified was the pure red tape of regulatory compliance costs (SBP, 2004). Small and medium businesses and more importantly the new entrepreneur starting his business is faced with many different obstacles. Vast amounts of legislation and regulations that apply, taxes, consumer protection, access to information and corporate laws impose reporting and administrative burdens, with the constant threat of non-compliance and risks (Retief, 2010).

In terms of all regulations and laws, tax compliance costs are considered to be the largest component of all compliance costs incurred by businesses. (SBP, 2004). Value-Added Tax and other tax related issues are considered to be the most problematic regulations for these small businesses. (SBP, 2004).

Storey, (1994) as cited in (Krasniqi, 2007) argued that compliance costs for small firms are much higher than larger firms relative to their size and (Schiffer & Weder, 2002) also agreed that taxes and regulations is one of the areas that small and medium firms had more problems in as opposed to the larger firms. (Krasniqi, 2007) further argued that time consuming regulatory requirements and tax structures are also major obstacles to small business growth in transition countries. In addition to the cost of tax compliance, the complexity of ensuring compliance is another factor that is a challenge for small and medium sized enterprises in South Africa.

Govender, (2008) defined these tax compliance costs as all the costs incurred in ensuring proper compliance with relevant tax regulations. These costs include the following:

- Expenses related to record retention, filing and sorting records, invoices and receipts.
- Costs incurred in the preparation and submission of all relevant tax returns.
- Opportunity cost in respect of time utilized by SMEs in ensuring tax compliance.
- Costs of external advisors that are required for tax compliance and/or to address disputes with the tax authorities.
- Any costs to ensure compliance as well as any incidental costs and travel expenditure.

Clover & Darroch, (2005) argued that small and medium sized business owners in KwaZulu-Natal perceived a lack of government support for small and medium enterprises as a significant constraint to business survival and growth. Complex legislation and complex tax requirements such as VAT registration and VAT compliance are the major contributors to this.

Appropriate institutional environments for small and medium enterprises and simple administrative processes aid small business creation and growth. In many countries, there are numerous taxes and the processes associated with compliance can be very complicated. These complex methods often force small businesses to employ outside advisors, which increases costs. Tax rates and the time owners waste in negotiating with tax offices are restrictions for small businesses. The administrative burden and high tax rates are considered to be two of the biggest problems in firm performance and slows down growth of small businesses. (Krasniqi, 2007)

According to Gill & Biger (2012), regulatory issues are one of the more important barriers to small business growth in Canada and there are various other impediments to SME growth across the globe because of differential economic sanctions, practices, policies and political systems.

The success and failure of economic initiatives are of great significance to the entire country as a whole (DTI, 2008). The creation and development of sustainable small businesses is crucial for the country and economy, and understanding the specific

challenges faced by them is extremely important. Not only locally but also internationally are small businesses are recognised as the chief generators of jobs (SBP, 2012). With the government aspiring to develop small businesses, the increase in unemployment indicates that small businesses are not being developed or growing fast enough to meet the ever-changing demands of the growing population in South Africa. To effectively deal with the unemployment crisis, the growth and expansion of existing business must be supported, together with the emergence of new businesses. Small and medium businesses can be used as a vehicle to assist with transformation in South Africa by redistributing productive assets to the previously disadvantaged individuals and communities (Sitharam, 2014).

2.7 Tax compliance for small businesses

2.7.1 Importance of taxation

Taxes are an important factor that defines the business climate. Tax also serves and operates as a political accountability mechanism (Ponorica & Al-Saedi, 2015). Taxes are the main stream of revenue generation for developing countries and these revenues are necessary for improving infrastructure, dealing with climate changes and most importantly to finance poverty reduction (Keen, 2012). The small business sector consists of approximately 165 000 registered businesses and contributes about thirty six percent (36%) of all corporate taxes collected in South Africa, which is quite substantial (Davis Tax Committee, 2016)

An imparity between a country's tax systems and the economic environment can have unfavourable ramifications for the future. Considerations such as reducing tax liabilities, elimination of red tape and improving tax processes must be considered when endorsing policies and procedures pertaining to the tax systems. (Marusa & Ashrafzadeh Ileana, 2013). The objective of any regulations imposed by government is to maintain and enhance the environment that allows an economy to function. These regulations that have been established and enforced, has an important impact on shaping the economy. (Kitching, 2006).

SMEs in the country could be accountable for eleven various taxes (income tax, capital gains tax, provisional tax, dividends tax, value added tax, employees tax, employment related levies, customs and excise duties, transfer duty, donations tax and stamp

duty). In order to comply, small businesses are required to obtain and complete the prescribed forms and ensure that submissions are made on time.

Compliance requires a vast amount of administration and non-compliance may result in fines, penalties and interest. The complexity and compliance of these tax systems are considered to be an obstacle for small enterprises (Abrie & Doussy, 2006), and it is assumed that small businesses are generally uncertain about getting in the formal economy as they consider tax as a high legislative expense and this discourages smaller entrepreneurs from embarking on business ventures. (SBP, 2003)

The four major tax compliance areas for small businesses are considered to be VAT, corporate income tax, provisional tax and employee's tax. Corporate income tax returns need to be submitted on an annual basis. Provisional tax submissions include two returns to be submitted with payments during the year together with a third provisional payment if necessary. VAT returns may be submitted monthly, bi-monthly, six monthly or annually. Employees taxes and returns need to be submitted and paid monthly. For the purposes of this study only these four taxes will discussed and evaluated.

2.7.2 Value-Added Tax (VAT)

Value added tax is commonly known as VAT. VAT is an indirect tax levied on the consumption of goods and services in the economy. Revenue is generated for the South African Revenue Services (SARS) by requiring certain businesses to register and charge VAT on the taxable supplies of goods and services. These businesses register as VAT vendors and act as the agent for SARS in collecting the VAT. VAT is charged at each stage of the production and distribution process and is proportional to the price charged for the goods and services. VAT is currently levied at a rate of fourteen per cent (14%) on the supply of most goods and services and on the importation of goods. From 1 April 2018 the VAT rate levied will be fifteen per cent (15%). Any business may register for VAT, however it becomes mandatory for businesses where the taxable supplies for any consecutive twelve-month period will exceed one million rand. All VAT vendors are required to submit VAT returns (VAT 201) and make payments of the VAT liabilities or claim a VAT refund in accordance with the tax period allocated to the vendor. (SARS, 2017)

2.7.3 Corporate income tax

Corporate income tax is a tax levied on companies registered in South Africa. The corporate tax rate for companies is currently levied at twenty eight per cent (28%) on the taxable profits of that company. Corporate income tax is applicable (but not limited) to the following companies:

- Public companies that are listed on the stock exchange
- Public companies that are not listed on the stock exchange
- Private companies
- Close-corporations
- Co-operatives
- Collective investment schemes
- Small business corporations (taxed according to the tax tables for Small Business Corporations)
- Body corporates
- Share block companies
- Dormant companies

In terms of the Income Tax Act No.58 of 1962 all companies listed above are required to register with SARS as a taxpayer. Every registered taxpayer is required to submit an income tax return no later than twelve months after the end of the financial year (SARS, 2017).

2.7.3.1 Corporate income tax on different business types (Partnerships and Sole proprietors)

Close corporations and private companies make up the bulk of the small and medium sized enterprises by accounting for approximately seventy five percent (75%) of the small business sector. Sole proprietors and partnerships account for the remaining twenty five percent (25%) (Govender, 2008). These other business forms generate profits that are taxable. The tax implications of these two business forms is discussed below.

2.7.3.2 Sole proprietor

A sole proprietorship is an unincorporated business that is run and owned by a single individual. The owner receives all profits and is liable for all debts in the business. Net profit of the sole proprietor business is calculated and included in the owner's taxable income that is disclosed in the owner's personal tax return. The owner is then taxed at the tax rates applicable to individuals less any valid deductions that are applicable for the relevant year of assessment. (Gale & Brown, 2013)

2.7.3.3 Partnership

A partnership is an organisation of between two and twenty people persons who strive to achieve a common goal. A partnership is not a legal entity in South Africa and as such, any income derived by the partners will be taxed in their individual capacity. The partnership is not liable for tax and the partners, as owners will personally pay income tax on any salaries, interest, bonuses or share of profits from the partnership. (Kew & Watson, 2011)

2.7.4 Provisional tax

Provisional tax is not a different tax but rather a means of paying taxes, to assist the taxpayer in having a hefty tax liability on assessment. It requires the taxpayers to make a minimum of two payments in advance, during the year of assessment, which are based on taxable income, which is estimated by the taxpayer. A 3rd payment is optional after the end of the year but before the issuing of the assessment.

Companies, automatically fall into the provisional tax system and are required to make the 1st payment and submit the first provisional tax return 6 months after the financial year-end. The 2nd payment and return must be submitted on the final day of the financial year. The 3rd payment is optional and is required to be made within 6 months after the year of assessment. (SARS, 2017)

2.7.5 Employees tax

Pay as you earn (PAYE), Unemployment Insurance Fund (UIF), and Skills Development Levy (SDL)

Employees' Tax refers to the taxes required to be deducted by an employer from an employee's remuneration paid or payable. An employer who is registered or required to register with the SARS for PAYE and/or Skills Development Levy (SDL) purposes, is also required to register with SARS for the payment of Unemployment Insurance Fund (UIF) contributions to the SARS. The process of deducting or withholding tax from remuneration as it is earned by an employee is commonly referred to as PAYE. SDL is a levy imposed to encourage learning and development in South Africa and is determined by an employer's salary bill. The funds are to be used to develop and improve skills of employees. The UIF Fund provides a temporary benefit to workers when they become unemployed or are not able to work because of maternity, adoption leave, or illness. It also provides relief to the dependants of a deceased contributor.

The employer must pay the amounts deducted or withheld to the SARS on a monthly basis, by completing the Monthly Employer Declaration (EMP201). The allocations for PAYE, SDL and UIF are all declared on the EMP201, which is essentially a payment declaration. All payments must be effected by 7 days after the end of the month in which the amount was deducted. In addition to the above monthly submission, employers are required to submit annual employer declaration confirming the correct payroll tax amounts that are declared during the year. (SARS, 2017)

From the requirements above which only takes into account the four main taxes applicable, it can be concluded that the tax compliance requirements are very cumbersome and complex. Considerable amounts of time and skill are required to ensure compliance is adhered to. If taxpayers fail to comply with the prescribed regulations, this may create additional problems, especially for small businesses as they could be selected for audits and verification procedures imposed in terms of the Tax Act, which could result in large fines, penalties and possible interest charges. One of the most burdensome regulations for small businesses is tax compliance however not being registered and not complying with tax laws also can be a disadvantage for many businesses.

Govender, (2008) identified the following advantages and disadvantages to income tax and VAT registration:

Advantages	Disadvantages
- Enhancing the legal standing of the entity	- High rates of taxation
- Improved access to business opportunities	- The negative impact of profit making
- Positive on tax revenues of country	- The high cost of tax compliance
- Trading with a large number of businesses'	- The time and effort needed to ensure compliance
- The ability to claim relief in the form of tax rebates	- No control over how government spends tax revenues
- Being able to claim the benefit of input tax credits and VAT refunds	- A higher financial burden in terms of levying output tax and submission of returns
- Improved prospects for business growth and expansion	- Risk for audits and SARS prosecution.

Table 2.5: Advantages and disadvantages of being registered for tax

Source: Govender, (2008)

2.8 Challenges in tax compliance

VAT compliance and SARS tax administration are considered to be two of the most burdensome regulations that small businesses are faced with. (SBP, 2004). VAT requires a considerable degree of bookkeeping skills as well as time to complete the necessary returns. As VAT is levied on the invoice basis, it also has led to serious cash flow problems for SMEs who await payment from suppliers. Income tax has also become a severe problem that has caused cash flow issues for small businesses as the provisions of the Tax Act require income be to taxed at the earlier of receipt or accrual. These tax provisions cause significant hardship for small businesses particularly those in their start up and growth years (SBP, 2003)

Luiz, (2002) also argued that the complexities of the tax systems were a significant obstacle and challenge for small businesses. These small businesses lack the capacity to effectively manage tax compliance and regulations, and the fees accountants and external advisors charge along with other necessary costs to assist with compliance is considered extremely costly.

2.9 Tax compliance costs

Small businesses trade in a strict regulatory environment with multiple taxes that constantly exert a significant imposition on their operations. (Atawodi & Ojeka, 2012). According to Abrie & Doussy, (2006), tax compliance places a heavy administrative burden on small and medium sized businesses and tax compliance utilises resources that could be used in more important management areas in a business. A lack of trained employees to manage tax compliance affairs and the need for additional costs for the use of experts become a tax burden for these small businesses.

To comply with tax regulations, a small business has to incur certain costs. These costs include but are not limited to:

- The excessive time utilised by owners and staff on ensuring compliance with the rules;
- Expenditure involved in preparing the relevant bookkeeping records and expenditure for the compilation of tax returns;
- Expenditure for specialised tax practitioners, accountants and consultants;
- Ancillary expenditure for communication and travel in liaising with SARS. (Arendse et al., 2006; Evans, 2006; Gurd et al., 1998; SBP, 2003 cited in Smulders & Stiglingh, 2008).

The following 3 important areas of costs applicable to tax compliance activities have been identified by Tran – Nam, et al., (2000):

- Time spent by owners and staff (internal costs);
- Payment of tax advisors (external costs)
- Tax related ancillary costs or enterprise overheads such as postage, stationery, telephone and travel.

According to Hanefah, et al., (2002) the following costs as cost of compliance are also considered:

- Internal costs
- External costs
- Computation costs
- Planning costs
- Initial costs

Hanefah, et al., (2002) found that small businesses in Malaysia are less likely to employ external advisers. A majority of small businesses prepared tax returns and related documentation internally and that larger small and medium enterprises made use of accounting firms and legal advisers as their main sources of external advice. (Chamberlain & Smith, 2006) also found that smaller businesses found it cheaper to complete tax returns in house rather than outsource external advisors.

5 important areas were highlighted by the Small Business Development Department that have caused problems for the SME sector:

- procurement by public sector;
- gaining entrance to market into the public sector value chain;
- constraints imposed by regulators;
- ability to obtain finance and support of rural communities. (Davis Tax Committee, 2016) Regulations; and
- red tape including regulatory compliance

These critical areas are identified as the greatest constraints to business expansion in South Africa. (Bac, 2006).

The imposition of taxes on businesses generally result in hidden compliance costs being incurred by the taxpayer. The interest in understanding compliance costs has grown over the years and this is due to number of reasons that include:

- Changes in technology;
- The introduction of VAT regimes;
- The growth of the small business sector; and
- The increasing complexity of tax systems. (Tran - Nam, et al., 2000)

Compliance costs for small businesses are considered disproportionate to their size. The smaller the business, the higher the compliance cost percentage is. This situation is experienced internationally as well as South Africa and other parts of the African continent (Ramestse, 2010). In Botswana, the taxation systems are considered to have placed the small business sector at a disadvantage and taxation is considered to be the most critical regulation in compliance. (Coleman and Evans, 2003 as cited in (Nkwe, 2013).

Time spent on tax activities are considered to be a significant component of taxation compliance costs. Smulders, et al., (2012), found that it took small and medium enterprises an average of two hundred and fifty five hours in the year to handle the tax compliance related matters. For micro businesses that utilise turnover tax, it took a total of one hundred and fifty five hours to comply. The most time complex activity was VAT. PAYE however, was identified at the tax that took the most time to calculate, submit and pay. PAYE is also the tax that took up most time dealing with SARS. The most time spent on advisory and dealing with tax advisors was in respect of income tax.

The majority of the time spent on tax affairs is attributed to small businesses entrepreneurs. The owners account for approximately sixty three percent (63%) of the annual hours related to tax compliance activities. Employees account for approximately thirty four percent (34%) of the time and unpaid friends or family who assist with certain matters spends the remaining three percent (3%). The time internal time spent by owners and employees roughly cost a small business around R53 356 per annum. VAT compliance was the most expensive and amounted to approximately thirty eight percent (38%) of this total cost, with PAYE being the second most expensive and income tax the third most expensive. In addition, small businesses also made use of external service providers for accounting and tax related services. The average cost of tax related services for small businesses is approximately R9 882 per annum. (Smulders, et al., 2012).

Govender, (2008) found that VAT is considered to be the individual tax with the second highest demand on time, which consumes roughly one third of all the time taken per annum on all taxes. Income tax and provisional tax was the lowest and second lowest respectively, in terms of time requirements for completion and filing. Employees' taxes

was the tax with highest requirement that accounted for almost half of all the time taken per annum on all taxes.

The average cost of compliance for the different business types in the range of turnover from R70 000 to R14 000 000 are summarised as follows in Table 2.6:

Table 2.6: Average cost of compliance for small businesses

Business type	Cost range in Rands
Sole Proprietors and Partnerships	R3 346 – R16 684
Close Corporations	R7 679 – R14 665
Private Companies	R10 976 – R48 374

Source: Govender, (2008)

Thirty four percent (34%) of all small businesses rely entirely on external consultants to file company income tax returns, while eleven percent (11%) use both in house and outsourced expertise and the remaining forty six percent (46%) complete the process internally. The business type that was most dependent on an external tax practitioner to assist with tax are close corporations whilst private companies were least dependent on tax practitioners to assist. (Govender, 2008).

The small business corporation tax system is fundamentally ineffective. The tax compliance burden has been widely identified as the primary tax problem. (Davis Tax Committee, 2016). All businesses in whatever form, size or sector are required by legislation to ensure that tax compliance is adhered to and regulatory burdens are considered disproportionate on small and medium sized businesses. Most small and medium sized businesses feel that the tax systems are not fair and they pay the same rates and levies as the larger corporations (Ponorica & Al-Saedi, 2015, p. 129).

Small businesses experience severe financial difficulties because of delayed payments by debtors. In certain circumstances, this may lead to small businesses being forced into business rescue or liquidation proceedings with the inevitable unemployment consequences (Davis Tax Committee, 2016). In addition some countries may have constraints such as literacy and numeracy problems, there is also a lack of good access to technology and professional tax advice is costly and easily accessible (Ponorica & Al-Saedi, 2015). These are some of the primary reasons why businesses do not comply with tax regulations.

Regulatory tax compliance is defined as the full payment of taxes due. (Braithwaite, 2009 cited in (Kamleitner, et al., 2012). Atawodi & Ojeka, (2012) define tax compliance as "fulfilling all tax obligations as specified by the law freely and completely" and (Nkwe, 2013) further describes tax compliance as "the degree to which a taxpayer obliges to tax rules and regulations."

On the other hand, Kasipllai & Jabbar, (2006) defined tax non-compliance to be in the form of not submitting a tax return within the required period, under declaring income, overstating deductions and not paying required taxes by required cut off times. According to Atawodi & Ojeka (2012), high tax rates is the fundamental dilemma faced by entrepreneurs and these high tax rates are the main reason that promotes non-compliance. Non-compliance is motivated by the perception that the tax burden is too high. In addition, poor tax education, poor tax morale and the numerous taxes that businesses are expected to comply with are some of the other reasons which make it difficult to ensure compliance is achieved (Ponorica & Al-Saedi, 2015). Small business owners are required to understand the various compliance specifications and requirements in order to pay appropriate taxes. Tax knowledge is considered an effective skill, which improves the prospect of business prosperity. (Haber and Reichel cited in (Kamleitner, et al., 2012).

According to Zivanai et al, (2016), small and medium enterprises are generally aware of the requirement to comply with tax laws and rules but these small and medium enterprises take a chance on not complying because there is a low risk of being caught if they do not comply.

Non-compliance of taxes do have serious disadvantages. Non-compliance undermines the tax system's equity and efficiency and impedes sustained economic development (Ponorica & Al-Saedi, 2015). Small businesses may not be able to source formal sources of finance such as bank loans and many corporates may not take them on as suppliers or customers if tax affairs are not up to date. In addition, small businesses require tax clearance certificates to tender for government contracts and enter the supply chains of many large corporates. If there is no compliance access to these facilities and markets are restricted. (Small Business Project, 2003)

2.10 Tax relief initiatives for small and medium businesses

Many high – income countries, excluding the United States of America, have significantly lowered corporate tax rates and introduced special tax regimes to assist with alleviating the tax burden. The purpose of these initiatives are intended to support local economies. Initiatives are specifically introduced to encourage business formation and expansion as well as to improve the international competitiveness of these countries. The United States has not reduced its corporate income tax rate since 1986 and has significantly increased the income tax rates of unincorporated businesses. (Hines Jr, 2017). In Pakistan, in order to encourage the development of small companies, a lower corporate income tax rate of twenty percent (20%) is levied on smaller businesses. In addition, the Pakistan government also introduced other incentives pertaining to new investment schemes for the purchase of moveable and immoveable assets as well as miscellaneous direct and indirect tax incentives. (Alm & Khan, 2017). In India, small businesses were required to keep track of many various indirect taxes, which made compliance very difficult and costly. The Indian government introduced a comprehensive goods and services tax (GST) which put an end to all the indirect taxes that were previously levied. The introduction of GST was to integrate India into one economy and remove the multiple taxes that were being levied with the aim of facilitating business expansion, lessening the tax burden and improving profits. (Jacob, 2017). In China, the national government placed great emphasis on the development of small businesses. Small business development has been incorporated into the countries overall strategic planning for national economic and social development. A series of tax initiatives were introduced to assist in the promotion and development of the small business sector and some of the major initiatives included, preferential taxation policies, specific income tax policies for small businesses and taxation policies to promote employment. (Chen, 2006).

Government support initiatives for small businesses in South Africa, aim to reduce unemployment and create a more equitable distribution of wealth by creating sustainable employment and increasing turnover for the small business sector. (Peters & Naicker, 2013, p. 16). The SARS also recognises that new and small businesses are the vital for the economy and are committed to ensuring that these small and medium businesses grow and prosper. (SARS, 2017). In order to assist, SARS has

introduced a number of tax relief incentives over the years to help stimulate the growth of small businesses sector in addition to the multiple initiatives and strategies introduced by government.

(Sieberhagen, 2008) identified the following tax relief incentives that were introduced:

- Reduced tax rates and accelerated depreciation for incorporated small businesses (2001);
- Capital gains tax relief for small businesses (2001 and 2006);
- Skills development relief levies (2005);
- Small business tax amnesty (2006/2007);
- Reduced annual VAT returns (2005);
- Introduction of the small retailers VAT package (2005/2006);
- Increased VAT registration threshold (2008);
- The introduction of a simplified VAT process (2008) and;
- Turnover tax for small businesses with a turnover of less than R1 million a year (2009)

For the purposes of this study, only two of the more common initiatives will be discussed, which is small business corporation tax and turnover tax.

2.10.1 Small business corporation tax (SBC)

A small business corporation as defined in Section 12E of the Income Tax Act is as follows:

- The entity must be a company, close corporation or co-operative as defined in terms of section 1 of the Companies Act, 2008;
- Gross income for the year does not exceed R20 million (2013: R14 million);
- All shareholders or members throughout the year of assessment are natural persons who hold no shares in other private companies or members' interests in any other close corporation or co-operative except in limited cases;
- Not more than 20% of the gross income and all the capital consists collectively of investment income and income from rendering a personal service;
- The company, close corporation or co-operative is not an employment entity. (Davis Tax Committee, 2014)

Section 12E of the Income Tax Act was created for the specific purpose of encouraging new ventures and employment creation and presents the opportunity for small businesses to benefit from reduced rates of taxation. (BizCommunity, 2013).

The tax relief for small business corporations is essentially in two forms:
1. favourable and graduated tax rates; and
2. accelerated depreciation allowances. (SARS, 2017)

2.10.2 Favorable and graduated tax rates

Rates applicable to small business corporations for years of assessment ending between 1 April 2017 and 31 March 2018:

Table 2.7: Rates of taxation applicable to small business corporations.

Taxable income	Rates of tax
R0 – R75 750	0% of taxable income
R75 751 – R365 000	7% of the amount over R75 750
R365 001 – R550 000	R20 248 + 21% of the amount over R365 000
R550 000 and above	R59 098 + 28% of the amount over R550 000

Source: SARS, (2017)

Small business corporations with a taxable income of up to R75 750 do not pay any tax. The rates of taxation are much lower for small business corporations with taxable incomes up to R550 000. All taxable income in excess of R550 000 is taxed at the normal South African company tax rate which is currently levied at twenty eight percent (28%) of taxable profits.

2.10.3 Accelerated depreciation allowances

There is an immediate write-off in the year of assessment during which all plant or machinery is brought into use for the first time by a small business corporation in that

year for the purposes of its trade (other than mining or farming) and is used directly in a process of manufacture or similar process. (Stinglingh, et al., 2014)

With regard to plant or machinery that is used by an SBC for purposes of its trade, other than mining, farming or those used in a process of manufacturing or similar process, they can be written off over a period of three years as follows:

- fifty percent (50%) of the cost of the asset in the year during which that asset was brought into use for the first time;
- thirty percent (30%) of the cost in the second year; and
- twenty percent (20%) of the cost in the third year. (Stinglingh, et al., 2014)

Currently the Davis Tax Committee has acknowledged that the SBC tax system is fundamentally ineffective, because the tax benefits are being utilized more by service related small business corporations that were never intended to be the main users of this SBC initiative. (Davis Tax Committee, 2016)

2.10.4 Turnover tax

In the 2008 Budget Review, it was proposed that an elective turnover tax system be implemented for micro businesses with a turnover up to R1 million per annum. This elective turnover tax is incorporated in the Sixth Schedule to the Income Tax Act and is applicable for all years of assessment beginning on or after 1 March 2009. Despite this tax being incorporated as a Schedule to the Income Tax Act, it is a totally separate from other forms of taxation such as normal tax, donations tax, or dividends tax. Simplistically speaking turnover tax is a tax calculated on the turnover or total receipts of a micro business and not on its profit or net income. This need has seen the need for keeping detailed records of expenses being eliminated. Taxpayers are allowed the choice of selecting this tax and determining whether they should apply to the activities of their micro business. Where the qualifying turnover of any micro business does not exceed R1 million in a given year of assessment, the business is able to elect to be taxed in terms of this regime. To be classified as a micro business, qualifying persons or taxpayers should formally register with SARS. The following persons with a turnover that does not exceed R1 million are allowed to register as micro businesses:

- incorporated bodies such as companies, close corporations and co-operatives;
- natural persons that are either sole traders or partnerships.

The following persons are specifically excluded as qualifying micro businesses:

- A trust, which is not included in the definition of a micro business and therefore cannot elect to pay turnover tax;
- Persons with interests in other companies which include incorporated entities and natural persons that, at any time during the year of assessment, hold any shares or have any interests in the equity of a private company, close corporation or co-operative or;
- Companies, close corporations and co-operatives, if any holder of its shares or members hold any shares or have any interests in any other private company, close corporation and co-operative. (Stinglingh, et al., 2014)
-

Turnover tax rates for the 1 March 2017 to 28 February 2018

Table 2.8: Rates of turnover tax for the period ending 28 February 2018

Taxable turnover (R)	Rate of tax (R)
0 - 335 000	0%
335 001 - 500 000	1% of the amount above 335 000
500 001 - 750 000	1650 + 2% of the amount above 500 000
750 001 and above	6 650 + 3% of the amount above 750 000

Source: SARS, (2017)

The above table illustrates the rates of taxation that micro businesses will be subject to if they register for turnover tax. Micro businesses with a qualifying turnover of up to R335 000 do not pay any tax. Business with a qualifying turnover of between R335 000 and R500 000 only pays tax at one percent (1%) of the qualifying turnover. Business with a turnover between R500 000 and R750 000 pay tax of R1 650 plus two percent (2%) of the amount above R500 000. The maximum rate of taxation is three percent (3%) of qualifying turnover for micro business that have a turnover in excess of R750 000.

2.11 Reasons for tax relief initiatives not being utilized

A large proportion of small businesses in South Africa are not aware of the tax relief initiatives that are available and many believe that the tax systems are considered too complex. These small business owners in South Africa lack the necessary tax skills and the SARS campaigns used to promote these tax initiatives are considered ineffective in attracting small businesses to utilise these initiatives. (Abrie & Doussy, 2006)

According to Smulders, et al., (2003) the total time spent by micro businesses that are registered for turnover tax, on complying with tax is slightly less than two thirds of the time taken by a normal business that is not registered for turnover tax. This indicated that the turnover tax regime is meeting one of its objectives of reducing tax compliance costs by reducing the time spent on tax compliance activities. It was also established that there were additional benefits to tax compliance such as keeping more accurate records, which in turn led to a better knowledge about the financial performance and position of their business. The reduced risk of being selected for a tax audit by SARS is also another benefit that was identified.

Visser (2016), argues that the turnover tax system is simply unhelpful and the requirements to register are too onerous. One of the major problems with the turnover tax system was that a small business would be required to pay tax on its income even if the company was making losses and many start-up companies remain in a loss making position for the first two to three years. Currently not more than eight thousand (8 000) businesses have elected to use the turnover tax regime.

Clerq & Venter, (2007) agreed that many small and medium sized businesses in South Africa do not utilise the support programs made available to them. The main reasons for not making use of these incentives are firstly, small and medium enterprises are generally unaware of the different incentives and secondly, the requirements and processes to apply for these incentives are possibly a limiting factor. (Clerq & Venter, 2007).

According to Smulders, et al., (2012) many small business owners were not eligible for small business tax concessions or they were unsure if they were eligible and the general perception is that small business tax concessions are more complex than useful and are not worth the effort. Atawodi & Ojeka, (2012) recommends that small

and medium enterprises should be levied lower amounts of taxes and the government should increase tax incentives and exemptions, as this will assist businesses so that they will have enough funds for other activities which may lead to business growth and assist in surviving in a competitive market.

Due to the importance that small businesses play in any economy, fixing and developing and effective tax system for small businesses is of paramount importance to any government. Tax systems should be developed and designed in order to minimise the costs of compliance. A good tax system should contain characteristics of simplicity, certainty, fairness and the tax compliance burdens should be proportionate to the size of the business. (Ponorica & Al-Saedi, 2015, p. 135).

In his study, Govender, (2008) found that thirty percent (30%) of small business corporations believed that there was nothing that the SARS could do to improve compliance. However, the remaining businesses cited the following suggestions to improve compliance:

- A need to have SARS office closer to businesses
- To increase the overall service levels from SARS
- More SARS officials to be on hand to address their issues
- A need for reducing current tax rates
- A need for reducing interest and penalty rates
- Procedures for registration and filing should be simpler and more easily accomplished.
- Tax forms should be shortened to enable quicker completion

South Africa is still in need of a tax reform that simplifies and minimizes its tax compliance costs so that more emphasis is placed on addressing the challenge of reducing poverty and unemployment in the country. (Smulders, et al., 2012). Most small businesses consider the taxation system to be biased and unfair to them as they pay the same amounts as large businesses. Government needs to simplify and develop a system that suits small and medium enterprises, which is different when compared to larger entities. (Ponorica & Al-Saedi, 2015).

2.12 Theories of tax compliance

There are many opinions pertaining to tax compliance. If given a chance, many businesses may not pay taxes unless there is a benefit or motivation to do so. Tax compliance theories can be broadly classified into two theories, economics based theories and psychology based theories (Atawodi & Ojeka, 2012).

2.12.1 Economic based theories

This theory place an emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers. Profit maximization is the key motive under this theory. Taxpayers evaluate the alternatives as to whether or not evade tax, the likelihood of being detected and the resulting consequences from their choices. Therefore according to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased (Atawodi & Ojeka, 2012).

2.12.2 Psychology theories

This theory suggests that taxpayers are influenced to comply with their tax obligations by psychological factors. The theory suggests that a taxpayer may comply even when the probability of detection is low. The main difference between the economic based theories and the psychology theories is that economic theories emphasize increased audits and penalties as solutions to compliance issues. Psychological theories lay emphasis on changing taxpayers attitudes towards the taxation polices and systems (Atawodi & Ojeka, 2012).

2.13 Conclusion

In South Africa, KwaZulu-Natal has one of the largest percentages of the South African population and is one of the poorest provinces in the country in terms of the poverty gap. (Peters & Naicker, 2013). More than fifty percent (50%) of the population lives in impoverished regions. This is way in excess of the national average of thirty percent (30%) despite the province having a significant impact in South Africa's manufacturing and agriculture sector and has the largest port in the country as well as the main North – South freight corridor. (Trade and Industry Political Strategies, 2016). The literature review has highlighted some of the main challenges faced by small businesses. Tax compliance was identified as one of the biggest challenges in terms of regulations for businesses internationally. The chapter further discussed the different taxes that small

businesses are exposed to and the specific challenges of compliance. The different tax relief initiatives were discussed as well the success and failure of the current initiatives available.

Chapter three provides a research methodology that will enable the researcher to investigate to the research problem and answer the research questions.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The importance of small business growth and sustainability, especially in KwaZulu-Natal, was highlighted in the literature review in the previous chapter. The literature review also highlighted the importance together with the challenges faced by the small business sector for the country and for KwaZulu Natal. The excessive amount of regulatory burdens were identified as major obstacles to small business growth, both locally and nationally. Tax compliance was identified as a common issue amongst these mandatory regulatory burdens and is considered to be one of the major challenges.

Tax compliance was defined as the preparation and submission of the relevant returns together with the payment of the respective taxes before the respective filing and payment deadlines (Atawodi & Ojeka, 2012).

The different taxes applicable to small business were discussed and the complexities relating to the compliance requirements of these different taxes were reviewed. Sitharam , (2014); Schiffer & Weder, (2002) and Krasniqi, (2007), conducted have identified that excessive regulations and tax compliance are stumbling blocks to small business growth because compliance is considered to be both time consuming and expensive. Owners of small businesses' spend lots of time either themselves or in consultation with experts in adhering to the compliance requirements of the SARS.

Payne, Arendse, Karlinsky and Killian (2007) as cited in (Ramestse, 2010) argued that legislation is still complex for small businesses in South Africa. Despite a few tax relief incentives being introduced by SARS, the feeling from small business owners is that the rules and regulations required for compliance are still too onerous and costly and some of the small business initiatives are not as effective as intended and possibly more needs to be done by the government.

In South Africa, Smulders, et al., (2012) and Govender, (2008) performed studies to identify the tax compliance burden and to estimate the costs of compliance in a national context. However, there has been limited research conducted specifically on the KwaZulu Natal small business sector in respect of tax compliance in the last

decade. KwaZulu-Natal has the second largest population and the need for the growth of sustainable small businesses' is crucial for the local and national economy. The alarmingly high unemployment rates are of concern to government and the current initiatives introduced by the SARS are not considered sufficient and adequate to assist small businesses with these problems.

In this chapter, a methodology is designed to identify the factors, challenges and specific taxes that are considered most complex, which also influences small business growth in KwaZulu Natal. This chapter is structured in a manner that looks to develop a research plan to empirically analyse the impact of tax compliance on small and medium businesses in KwaZulu Natal. The research approach and methods will be outlined in this chapter together with the procedures that will be used to collect data.

The important aspects of the research plan include:

- The research problem;
- Research objectives;
- Nature of the research;
- Sample frame;
- Data collection and research instrument;
- Data analysis.

3.2 Research problem

In KwaZulu Natal, the failure rate of small businesses is extremely high, with a large proportion of them not developing into established firms. (Olawale & Garwe, 2010). This is contrary to the strategic objectives set out by the national government. One of the main reasons for business failure is the excessive regulatory burdens that are placed on small businesses. Although there has been very limited literature on tax compliance and the costs associated with compliance, there has been no research about the influence of tax compliance on the small business sector in KwaZulu Natal.

The study will answer the question "Is tax compliance a factor which negatively influences business performance and growth".

3.3 Research objectives

The objective of this thesis is to establish if tax compliance is a factor that influences the growth of small and medium businesses in KwaZulu Natal by:

- Establishing the specific taxes that small and medium businesses in KwaZulu Natal consider most complex and challenging.
- Establishing the specific challenges, complexities and costs in respect of tax compliance for small and medium business in KwaZulu Natal.
- Establishing if tax relief initiatives introduced by the SARS have been successful at addressing compliance challenges for small businesses.

3.4 Nature of the research

Research methodology is defined as a systematic way to solve a research problem. (Kothari, 2004) According to Gale & Brown, (2013), more research is required to understand the impact of taxes on different types of small businesses and this study aims to do that.

A quantitative approach is an approach where the researcher, employs strategies such as surveys and questionnaires to collect data to yield statistical information. A quantitative approach is an experimental design used for testing theories and for the testing of hypotheses. (Creswell, 2003). For the purposes of this study, the researcher chose to use a quantitative approach which is appropriate.

3.5 Target population

In chapter two a small and medium enterprise was defined as an organisation having a minimum of five (5) employees and a maximum of two hundred (200) employees together with a minimum turnover of R200 000 and a maximum of R64 000 000 (Davis Tax Committee, 2016). In a study conducted by (Govender, 2008), it was established that approximately seventy six per cent (76%) of small and medium sized enterprises in South Africa were in the R70 000 to R14 000 000 bracket in terms of annual turnover.

For the purpose of this study, the researcher applied the following guidelines when defining a small and medium enterprise:

- Small and medium enterprises will include sole traders, partnerships, close corporations and private companies;

- Small and medium businesses employing between five (5) and two hundred (200) people;

- Turnover between R200 000 and R20 000 000;

- Businesses that are owner managed; and

- Business that are registered for tax and adheres to other formal registration requirements.

In South Africa, there is no defined database of small and medium businesses. The KwaZulu-Natal provincial business chambers of commerce do have lists of businesses in Pietermaritzburg and Durban, however, these lists may not be complete and comprehensive and is not necessarily a true representation of the small business sector. Obtaining a sample for small and medium sized businesses in South Africa is a challenge as there are no defined databases, lists or frames.

A method to sample populations for which there are no convenient lists, frames or databases is cluster sampling. Cluster sampling aims at narrowing the sampling field down from large, heterogeneous chunks to small, homogeneous ones that are easy to sample directly and is a method used to minimise time in reaching scattered units of data collection. (Bernard, 2006)

For the purposes of this study a list of professional accounting firms, who service small businesses in some form or the other, was obtained from the South African Institute of Professional Accountants (SAIPA) and the South African Institute of Chartered Accountants (SAICA) websites. This list was sorted to filter out firms and practitioners who are based in KwaZulu Natal, and from this list, a cluster of accounting practices was selected.

The cluster selected comprised of three accounting practices from the Pietermaritzburg and Midlands area. These accounting firms provide accounting, bookkeeping, taxation and advisory services mainly to small and medium sized businesses and individuals in the Pietermaritzburg, Durban and Midlands areas. The three accounting firms selected for the purposes of this study are all registered with professional accounting bodies in South Africa.

The researcher chose to undertake his research using the three accounting practices database of clients that met the definition of a small and medium business as defined above. The accounting firms have various clients, which are situated across the province, which provides a fair distribution of businesses for the purposes of this study. The majority of these practitioners client base consists of small and medium businesses', whose turnover ranges between R70 000 to R20 000 000 and employed between 5 and 200 staff. In total the three accounting practices combined databases, had a total of 216 clients which met the definition. This total of 216 small and medium businesses was the target population.

Junpath, (2013) adopted a similar approach in determining a target population by using a database of taxpayers from only a single audit and advisory firm situated in the Durban area for his study relating to tax compliance. Mahomed, (2013) also used a similar approach and utilised registered tax practitioners from a single branch office of a large accounting and auditing firm when determining a target population for her study on tax compliance.

The accounting firms have all obtained permission from their clients before participating in the study and all informed consent forms and ethical declarations have been signed accordingly.

3.6 Sample size

The questionnaires were distributed to the three accountants' database of clients who had consented to participate. This combined database had approximately two hundred and sixteen (216) clients who had met the definition of a small and medium sized business as defined above. The questionnaires and informed consent forms were printed and distributed to all 216 small business owners. Out of the two hundred and sixteen (216) small and medium businesses that were identified as the target population for the study, eighty-five (85) respondents completed and returned their questionnaires on or before the due date. All eighty-five (85) questionnaires received, were reviewed and deemed usable for the study. The number of responses received was deemed adequate for the study but is also a limitation of the study.

3.7 Ethical considerations

3.7.1 Informed consent

Any research involving human participants requires approval of a university ethics committee. This includes data collection by interviews, questionnaires, focus groups and observation. As the study seeks to obtain information directly from small businesses, the following considerations need to be addressed:

- Appropriate written permissions from participating organisations;
- Eliminating opportunities for any harm, be it personal or physical, to both the respondent and researcher;
- Informing participants of the motive for the research;
- Providing feedback of the results to the participants;
- Gaining permission from participating individuals;
- Guaranteeing and delivering both confidentiality and anonymity to the participants;
- Guaranteeing the right of withdrawal to participants at any time; and
- Guaranteeing the safe storage of research data. (Smith, 2011)

Ethical clearance was obtained from the Human and Social Sciences Research Ethics Committee at the University of KwaZulu Natal. Participants were informed of motives and were assured that confidentiality and anonymity will be maintained. Participants are also allowed to the right to withdraw from the study at any point should they choose to. An informed consent form was distributed to the respondents along with the questionnaires. All respondents were requested to sign the informed consent declaration prior to completing the questionnaire. The completed informed consent forms were discussed with the respondents and their accountants prior to them being signed and the researcher clarified any questions or concerns raised. All consent forms were signed and the researcher will retain copies of the signed informed consent forms together with the completed questionnaires.

3.8 Data collection and research instrument

Data collection commences after the research problem has been defined. In deciding about the method of data collection, the researcher considers whether the data collected is primary or secondary data. Primary data is data, which is collected for the first time and is original in nature. On the other hand, secondary data is data that has already been collected by someone else and passed through the statistical process. (Kothari, 2004). For this study, only primary data was collected and used in the statistical analysis.

No single research method can be considered as the best method in all circumstances. The choice will be dependent on the research question, research objectives, data that is being accessed and precisely what we are expected to do (Smith, 2011, p. 53). Questionnaires have the advantage of obtaining data more efficiently in terms of researcher time, energy and costs. The method of data collection using questionnaires is mostly used for economic and business surveys (Kothari, 2004), and most of the empirical research on tax compliance is based on surveys analysing taxpayers (Gangl, et al., 2014).

The primary participants in this study were the owners of small businesses who are responsible for ensuring the taxes are up to date therefore the research instrument used was to collect the primary data needed for this study was a questionnaire which is considered appropriate in order to address the research objectives. The questionnaires were personally delivered to the three accounting firms who then distributed these questionnaires to their clients.

3.9 Questionnaire design

The research problem provides the starting point for a questionnaire. The information required from the sampled respondents will determine the appropriate form of questionnaire to be used. (Kothari, 2004, p. 118).

The researcher chose to use a questionnaire that contained a number of different scales. Dichotomous, Likert and forced choice ranking were some of the scales used in the questionnaire. The use of these different scales were in order to answer the research objectives as accurately as possible.

The questionnaire consists of four sections, namely profile and personal details of the respondent, tax registration and complexity of taxes, tax compliance costs and lastly the challenges, and tax relief initiatives. The information that was highlighted in the literature review in chapter two has been incorporated into the design of the questionnaire as follows:

- **Section A – General Profile:**
  Relates to the personal details of the respondent, such as age, gender, length of time in business and business type;

- **Section B – Registration of taxes and ranking of complexity of taxes:**
  These questions have been designed and included to determine which taxes are most complex.

- **Section C – Tax compliance challenges and costs:**
  Questions included relate to which factors are considered as challenges to tax compliance and to determine which costs are most excessive to ensure tax compliance. This section also ties up to the research problem and allows the researcher to determine if tax compliance is a factor which has negatively influenced business growth and performance and determining which are the major challenges that small and medium enterprises in KwaZulu Natal faced with.

- **Section D – Tax relief initiatives**:
  Questions in this section deal with some of the specific tax relief initiatives that have been introduced by the SARS. The two initiatives that are evaluated are small business corporation's tax and turnover tax. This information allows the researcher to evaluate if business owners are firstly aware of the tax relief initiatives introduces and secondly if these initiatives are actually being utilised. These questions will help to evaluate which specific tax relief initiatives are mainly being used and also determines if these initiatives are effective in meeting the objectives that they were intended for. The last section of the questionnaire relates to the perceptions of small business owners over the usefulness and effectiveness of tax initiatives introduced.

The definition of small and medium entity as defined in the literature review and the research methodology was included in the questionnaire so that the respondent understood the definition that related to the research.

3.10 Reliability and validity

The formal reliability of the research instruments is rarely addressed in accounting literature however, survey-based research makes a virtue out of the use of measures like the Cronbach Alpha to detail the degree of confidence we have in the means of data collection (Smith, 2011). Testing for consistency and stability establishes the reliability of a measure. Cronbach's Alpha is a reliability coefficient, which is used to determine how well the items in a set of data are positively correlated to one another. The computation of Cronbach's Alpha takes in account the average inter-correlations among items measuring the concept. The closer the Cronbach's Alpha is to 1, the higher the internal consistency reliability. (Sekaran, 2003)

Validity is the ability of a scale to measure the intended concept. Validity is grouped under a few broad headings. Two of the important headings are content validity and construct validity. Content validity ensures that the measure includes an adequate and representative set of items that links to the concept and construct validity relates to how well the results obtained from the use of the measure fit the theories around which the test is designed. (Sekaran, 2003)

Internal validity threats are confined to what can go wrong during research. Fundamental errors are those associated with the development of the model: misspecification of the functional relationships and omission of important influential or explanatory variables. External validity requires that research findings have implications for other companies, countries and people at different time periods (Smith, 2011).

To ensure validity and reliability the following measures were adopted:

- The use of leading and loaded questions were avoided to maintain neutrality.
- Questions were not ambiguous, offensive and easy to answer.
- Used closed ended questions as opposed to open-ended questions.

- Questions were structured so that the respondent was able to follow the instructions with ease and respond quickly.

A pilot study was carried out on a sample of six (6) individuals and business owners. The purpose of a pilot study is to test the questionnaire for any weaknesses. (Kothari, 2004). The purpose of this pilot study was:

- To determine if the questions were not leading and loaded;
- To determine if respondents understood the instructions;
- To determine if the questions were not ambiguous, offensive and they were easy to answer; and
- To determine that questions were easy to answer and did not take too long to complete.

The results of the pilot study indicated no issues and problems with the questionnaire and could now be distributed to a larger sample.

3.11 Data Analysis

The results of the questionnaire will be analysed using the statistical package for social sciences (SPSS Version 25). The data will be analysed using descriptives techniques. Bar graphs and pie charts will be presented to illustrate the results of the descriptive techniques.

In addition to the descriptive techniques employed, the following hypothesis will also be tested:

Hypothesis

1. H1: Tax compliance is a factor that has negatively influenced business growth.

   H0: Tax compliance is not a factor that has negatively influenced business growth.

3.12 Conclusion

The findings from this study aim to reveal the specific tax compliance challenges faced by small business owners and will be of benefit to policy makers specifically the South African Revenue Services and possibly small business development agencies in South Africa. A research methodology was designed in this chapter in order to empirically analyse the research objectives that were discussed. The next chapter describes the results of the statistical analysis of the responses received from the sample tested.

CHAPTER FOUR: RESEARCH FINDINGS

4.1 Introduction

This aim of this chapter to empirically analyse the results obtained from the respondents in accordance with the methodology devised in chapter three. The methodology in chapter three was developed partly from the findings from the literature review therefore an attempt will be made to compare the research findings to certain aspects of the literature review. The chapter focuses on the interpretation of the data collected to answer the research questions.

The chapter is structured as follows:

- The Cronbach's Alpha is calculated for all questions that have the same scales in order to test the data for validity and reliability. A value of 0.7 or higher is deemed to conclude a good internal consistency and reliability among questions. The only questions that are on the same scales have been tested.

- Narration is provided on the feedback obtained from the respondents using graphical and descriptive statistics. Bar graphs, pie charts and frequency tables were computed using SPSS (Version 25) to gain an understanding of the implications of tax compliance on small businesses in KwaZulu Natal.

- To determine if the data is derived from a normal distribution, a Kolmogorov-Smirnov and a Shapiro-Wilk Test was performed. The results from these tests will determine the type of statistical tests that will be used to test the hypothesis that was devised in the previous chapter.

- The Chi-Square test and the one sample t-test was be performed in order to evaluate the hypothesis that tax compliance is a challenge that influences small business negatively. The results of this test is also to be confirmed by the descriptive and statistical tests.

4.2 Cronbach's Alpha

Researchers all over the world virtually agree that for a scale to be considered valid and to possess practical utility it must be reliable. Despite some minor limitations, Cronbach's coefficient alpha is the most widely used measure of scale reliability (Peterson, 1994). Cronbach's Alpha measures the internal consistency of a test or scale and is expressed as a number between 0 and 1. Internal consistency relates to the extent that all items in a test measure the same concept or construct. Before a test can be performed for research purposes, internal consistency must be evaluated. If the items in a test are correlated to each other, the value of the alpha is increased. The acceptable values of alpha range from 0.7 to 0.95 and indicates that we would get the same results if the research were carried out on a larger sample of respondents (Tavakol & Dennick, 2011). The Cronbach's Alpha was calculated for all questions that have the same scales in each relevant section of the questionnaire. In this questionnaire, only certain questions in Section C and Section D had the same scale. The other questions did not have similar scales and was excluded from the analysis. The results are as follows:

Table 4.1: Cronbach's Alpha: Factors of tax compliance

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of Items
.707	.787	3

Table 4.2: Cronbach's Alpha: Tax relief initiatives for small businesses

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	Number of Items
.854	.855	2

As mentioned above, acceptable alpha values range from 0.7 to 0.95.

4.3 Analysis of the interviewee response

4.3.1 Personal details of interviewee

a. Gender

Figure 4.1
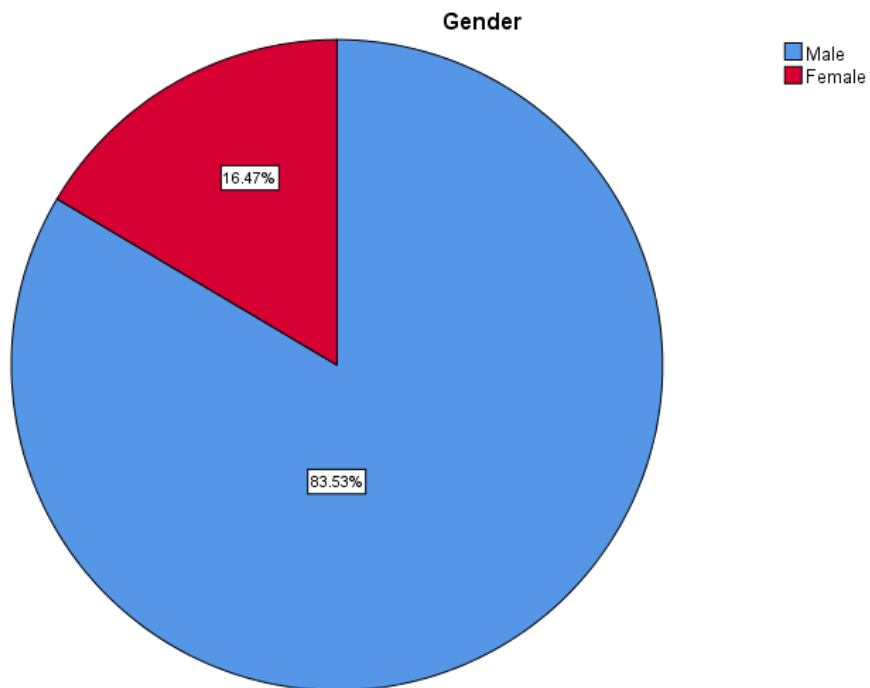
Gender

Table 4.3: Results of the gender of respondents

		Frequency	Percent	Cumulative Percent
	Male	71	83.5	83.5
	Female	14	16.5	100.0
	Total	85	100.0	

The modal gender was male (83.5%).

b. Age

Figure 4.2

Age

- 18 - 35 years
- 35 - 45 years
- 45 - 55 years
- 55+

25.88%
31.76%
22.35%
20.00%
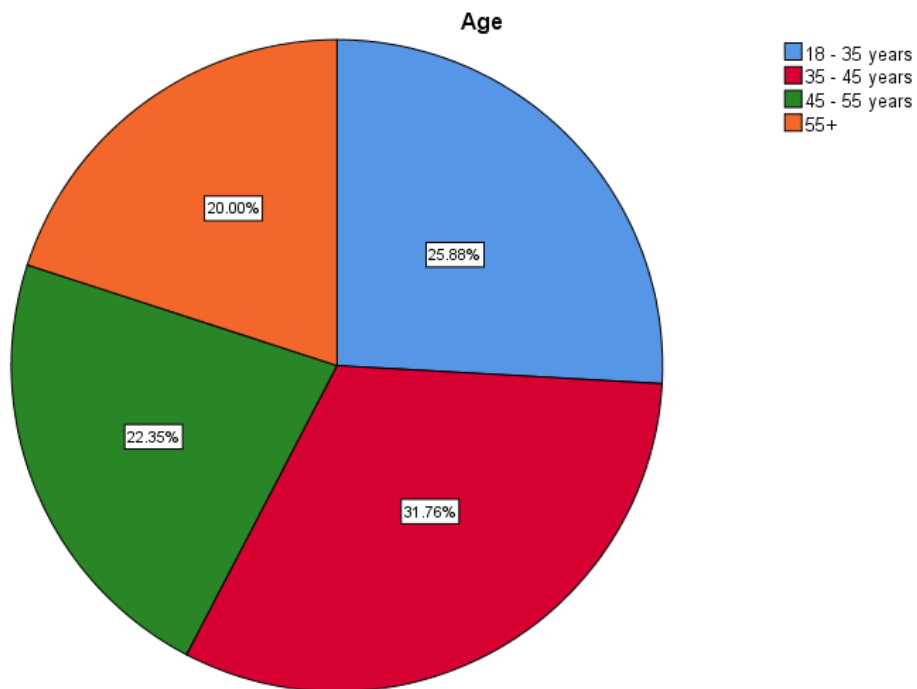
Table 4.4: Results of the age of respondents

		Frequency	Percent	Cumulative Percent
	18 - 35 years	22	25.9	25.9
	35 - 45 years	27	31.8	57.6
	45 - 55 years	19	22.4	80.0
	55+ years	17	20.0	100.0
	Total	85	100.0	

The modal age group was 35 – 45 years (31.8%).

c. Length of time in business

Figure 4.3

How long have you been in business?

Legend:
- 1 - 5 years
- 6 - 10 years
- 10 - 20 years
- 20 + years

(36.47%, 30.59%, 25.88%, 7.06%)
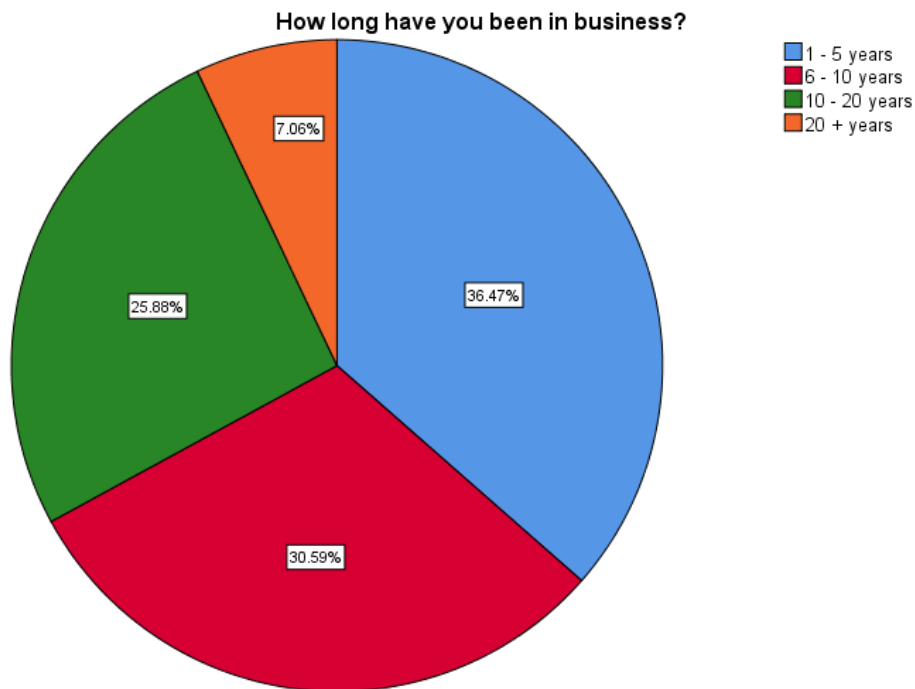
Table 4.5: Results of length of business of respondents

		Frequency	Percent	Cumulative Percent
	1 - 5 years	31	36.5	36.5
	6 - 10 years	26	30.6	67.1
	10 - 20 years	22	25.9	92.9
	20 + years	6	7.1	100.0
	Total	85	100.0	

The modal length of business 1 – 5 years (36.5%).

d. Business type

Figure 4.4
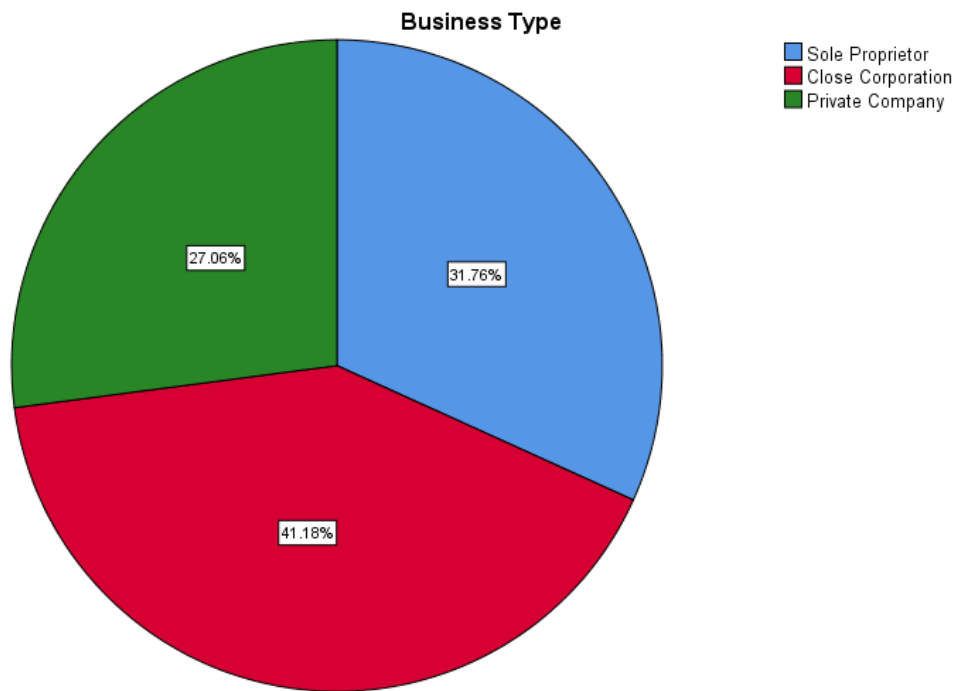
Business Type

Table 4.6: Results of business types of respondents

		Frequency	Percent	Cumulative Percent
	Sole Proprietor	27	31.8	31.8
	Close Corporation	35	41.2	72.9
	Private Company	23	27.1	100.0
	Total	85	100.0	

The modal business type was close corporations (41.2%).

The above analysis indicates that the majority of business owners who responded to the questionnaire were males, which constituted 83.5% of respondents, and females who responded comprised 16.5% of the respondents. There was a fairly even distribution in the age of the respondents. The modal age group was 35 to 45 years which constituted 31.8% of respondents, followed by 18 to 35 years (25.9%), 45 to 55 years (22.4%) and 55+ years (20%).The modal length of the business was 1 to 5 years (36.5%), followed by 6 to 10 years (30.6%), 10 to 20 years (25.9%) and 20+ years

(7.1%).The type of business types were fairly distributed. The modal business type was close corporations (41.2%), followed by sole proprietors (31.8%) and then private companies (27.1%).

4.3.2 Registration of taxes

a. Income tax registration of business

Figure 4.5

Table 4.7: Results of businesses registered for income tax

Income Tax Registered and Business Type Cross tabulation					
		Business Type			
		Sole Proprietor	Close Corporation	Private Company	Total
Income Tax Registered	Yes	27	35	23	85
Total		27	35	23	85

The aforementioned table indicates that all business types were registered for income tax. This is consistent with the literature review, which indicates that all business types,

irrespective of legal form, must at least be registered for income tax that is levied on the taxable profits of the business.

b. Provisional tax registration of business

Figure 4.6

Bar Chart
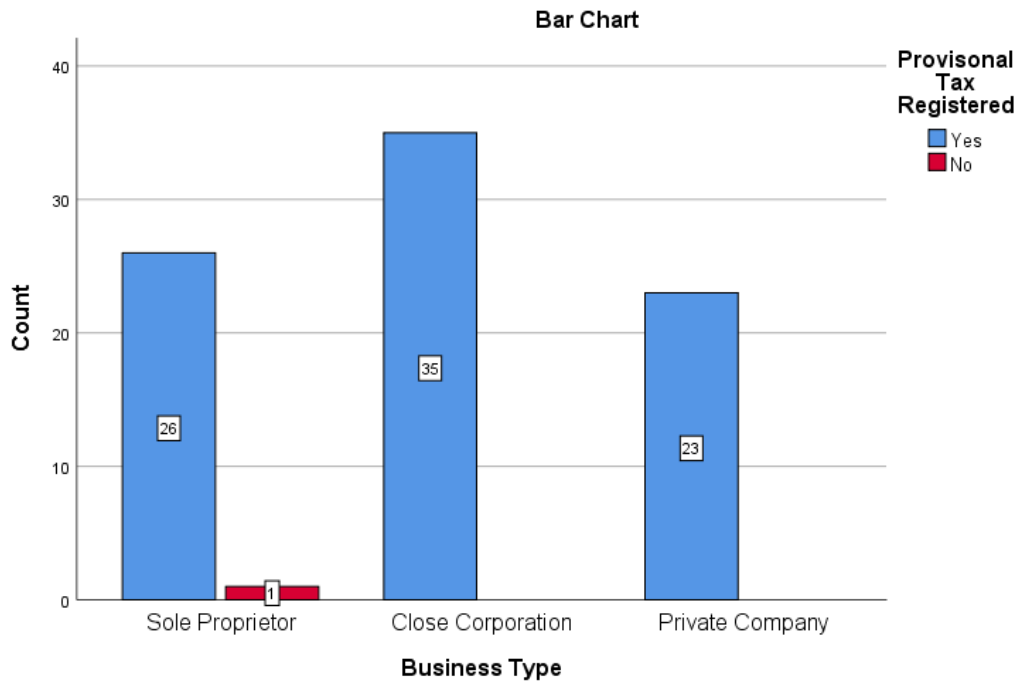
Table 4.8: Results of businesses registered for provisional tax

Provisional Tax Registered and Business Type Cross tabulation					
		Business Type			
		Sole Proprietor	Close Corporation	Private Company	Total
Provisional Tax Registered	Yes	26	35	23	84
	No	1	0	0	1
Total		27	35	23	85

Only one small business is not registered for provisional tax. All other businesses that responded indicated that they are registered as provisional taxpayers, which is

consistent with the requirements of the Income Tax Act. The literature review also highlighted that any business form must also be registered for provisional tax.

c. Value-added tax (VAT) registration of business

Figure 4.7
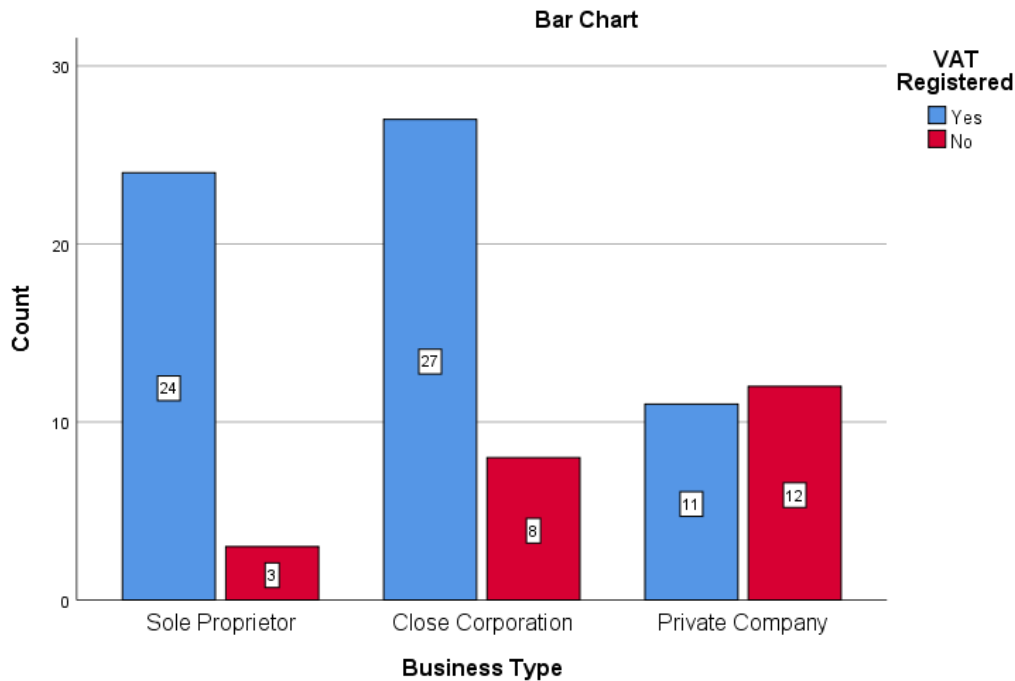
Table 4.9: Results of businesses registered for VAT

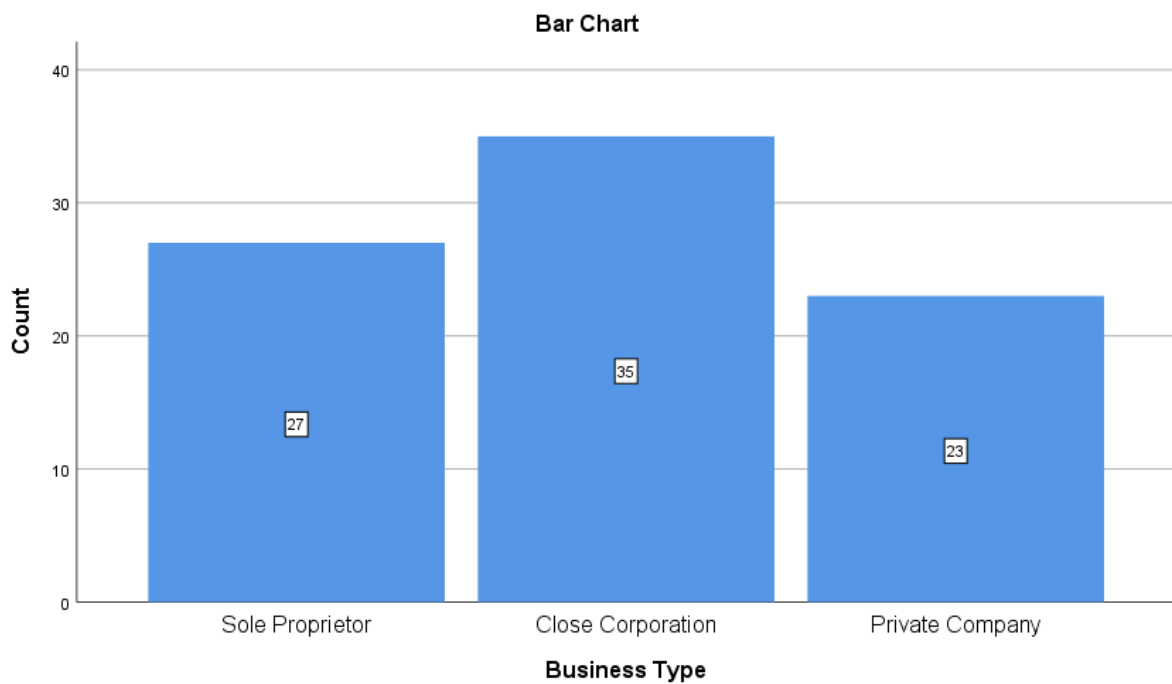<table>
<tr><td colspan="6" align="center">**VAT Registered and Business Type Cross tabulation**</td></tr>
<tr><td></td><td></td><td colspan="3" align="center">Business Type</td><td></td></tr>
<tr><td></td><td></td><td>Sole Proprietor</td><td>Close Corporation</td><td>Private Company</td><td>Total</td></tr>
<tr><td rowspan="2">VAT Registered</td><td>Yes</td><td>24</td><td>27</td><td>11</td><td>62</td></tr>
<tr><td>No</td><td>3</td><td>8</td><td>12</td><td>23</td></tr>
<tr><td colspan="2">Total</td><td>27</td><td>35</td><td>23</td><td>85</td></tr>
</table>

The majority of businesses are registered for VAT, with an overwhelming sixty-two (62) out of eighty-five (85) respondents indicating yes. This represents a total of

72.9%. Twenty-three (23) out of the eighty-five (85) respondents are not registered for VAT, which represents 27.1% of the respondents.

d. Employees tax registration of business

Figure 4.8
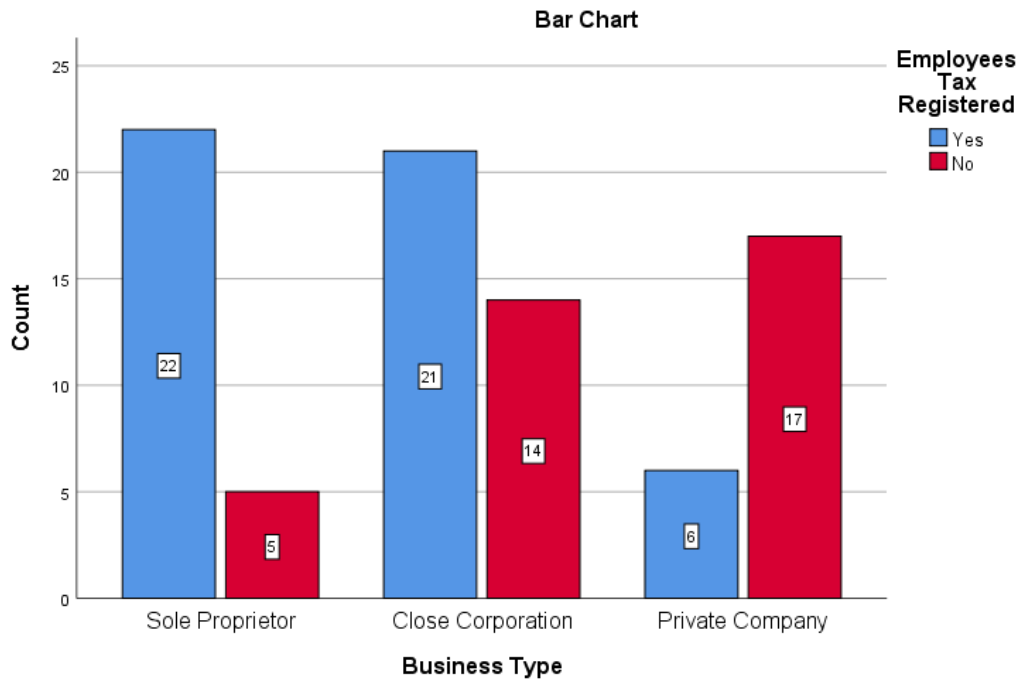
Table 4.10: Results of businesses registered for Employees tax

Employees Tax Registered and Business Type Cross tabulation					
		Business Type			
		Sole Proprietor	Close Corporation	Private Company	Total
Employees Tax Registered	Yes	22	21	6	49
	No	5	14	17	36
Total		27	35	23	85

The majority of businesses are registered for employees' tax. 57.6% of the respondents indicated they are registered for employees' tax. Thirty six (36) out of the

eighty five (85) respondents are not registered for employees' tax, which represents 42.4% of the population.

The above analysis indicates that the businesses are registered for at least income tax, which is consistent with the literature review. Only one sole proprietor is not registered for provisional tax with the rest of the businesses all registered for provisional tax. The majority of respondents are registered for both VAT and employees tax indicating that many small businesses are registered for all four types of taxation and compliance is required for each form of taxation registered for.

4.3.3 Ranking of complexity of taxes

a. Income tax

Figure 4.9
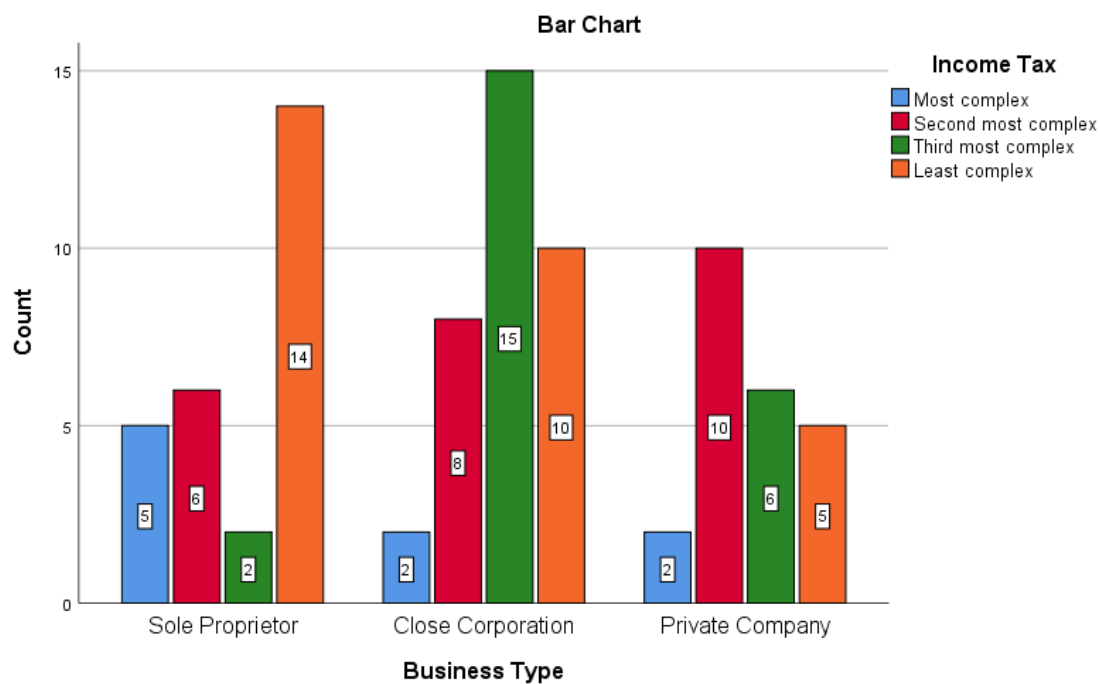
Table 4.11: Business type and Income Tax complexity Cross Tabulation

			Income Tax				
			Most complex	Second most	Third most	Least complex	Total
Business Type	Sole Proprietor	Count	5	6	2	14	27
		% within Business Type	18,5%	22,2%	7,4%	51,9%	100,0%
	Close Corporation	Count	2	8	15	10	35
		% within Business Type	5,7%	22,9%	42,9%	28,6%	100,0%
	Private Company	Count	2	10	6	5	23
		% within Business Type	8,7%	43,5%	26,1%	21,7%	100,0%
Total		Count	9	24	23	29	85
		% within Business Type	10,6%	28,2%	27,1%	34,1%	100,0%

An overwhelming 51.9% of sole proprietors have indicated that income tax compliance is the least complex tax that they are required to comply. 42.9% of close corporations have indicated that income tax compliance is the third most complex tax that are required to comply. 43.5% of private companies have indicated that income tax compliance is the second most complex to comply. Overall, only 10.6% of respondents have indicated that income tax is the most complex tax.

b. Provisional tax

Figure 4.10
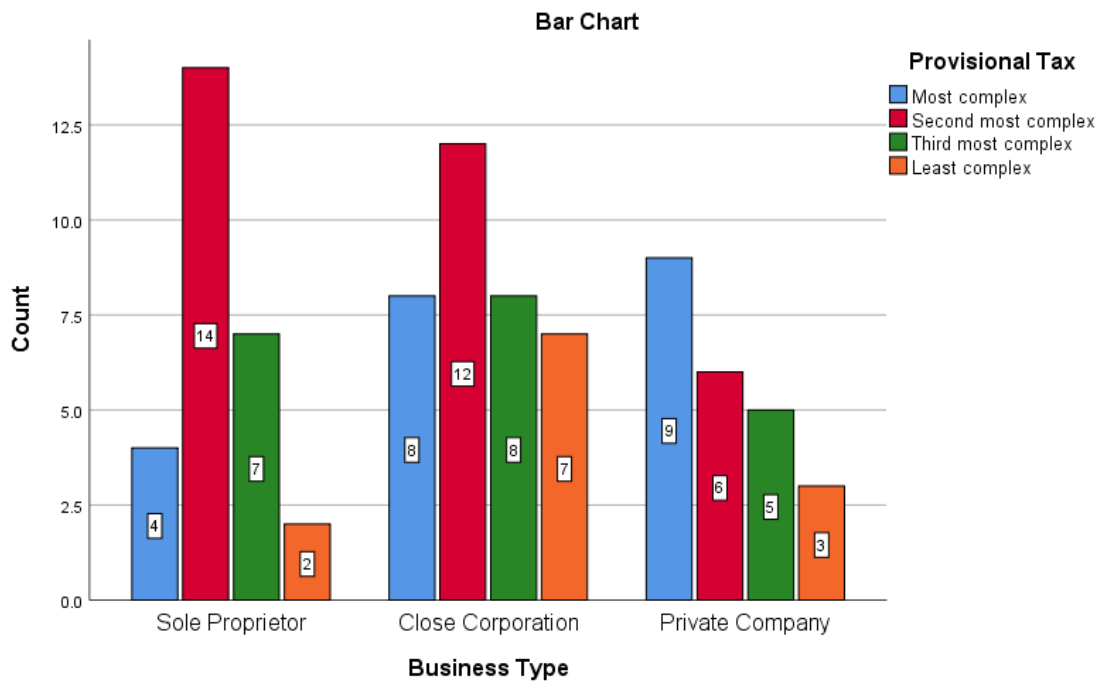
Table 4.12: Business type and Provisional Tax complexity Cross Tabulation

Business Type * Provisional Tax Crosstabulation							
			Provisional Tax				
			Most complex	Second most	Third most	Least complex	Total
Business Type	Sole Proprietor	Count	4	14	7	2	27
		% within Business Type	14,8%	51,9%	25,9%	7,4%	100,0%
	Close Corporation	Count	8	12	8	7	35
		% within Business Type	22,9%	34,3%	22,9%	20,0%	100,0%
	Private Company	Count	9	6	5	3	23
		% within Business Type	39,1%	26,1%	21,7%	13,0%	100,0%
Total		Count	21	32	20	12	85
		% within Business Type	24,7%	37,6%	23,5%	14,1%	100,0%

51.9% of sole proprietors and 34.3% of close corporations have indicated that provisional tax compliance is the second most complex tax. 39.1% of private companies have indicated that provisional tax is the most complex tax they have to comply with. Overall 37.6% of respondents have indicated that provisional tax is the second most complex tax to comply with.

c. VAT

Figure 4.11
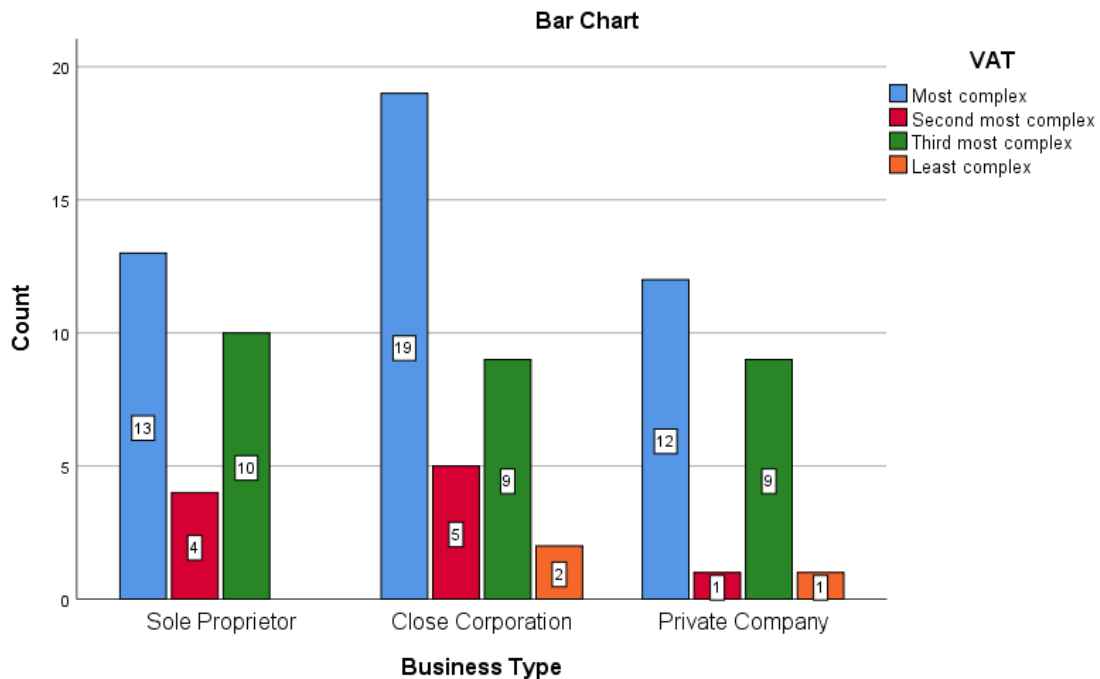
Table 4.13

			VAT				
Business Type * VAT Crosstabulation							
			Most complex	Second most	Third most	Least complex	Total
Business Type	Sole Proprietor	Count	13	4	10	0	27
		% within Business Type	48,1%	14,8%	37,0%	0,0%	100,0%
	Close Corporation	Count	19	5	9	2	35
		% within Business Type	54,3%	14,3%	25,7%	5,7%	100,0%
	Private Company	Count	12	1	9	1	23
		% within Business Type	52,2%	4,3%	39,1%	4,3%	100,0%
Total		Count	44	10	28	3	85
		% within Business Type	51,8%	11,8%	32,9%	3,5%	100,0%

An overwhelming 51.8% of all businesses have indicate that VAT compliance is the most complex tax. 48.1% of sole traders, 54.3% of close corporations and 52.2% of private companies have indicated that VAT is the most complex tax. Only 3.5% of respondents have noted that VAT is the least complex.

d. Employees tax

Figure 4.12

67

Table 4.14

			Employees Tax				
			Most complex	Second most	Third most	Least complex	Total
Business Type	Sole Proprietor	Count	5	3	8	11	27
		% within Business Type	18,5%	11,1%	29,6%	40,7%	100,0%
	Close Corporation	Count	6	10	3	16	35
		% within Business Type	17,1%	28,6%	8,6%	45,7%	100,0%
	Private Company	Count	0	6	3	14	23
		% within Business Type	0,0%	26,1%	13,0%	60,9%	100,0%
Total		Count	11	19	14	41	85
		% within Business Type	12,9%	22,4%	16,5%	48,2%	100,0%

*Business Type * Employees Tax Crosstabulation*

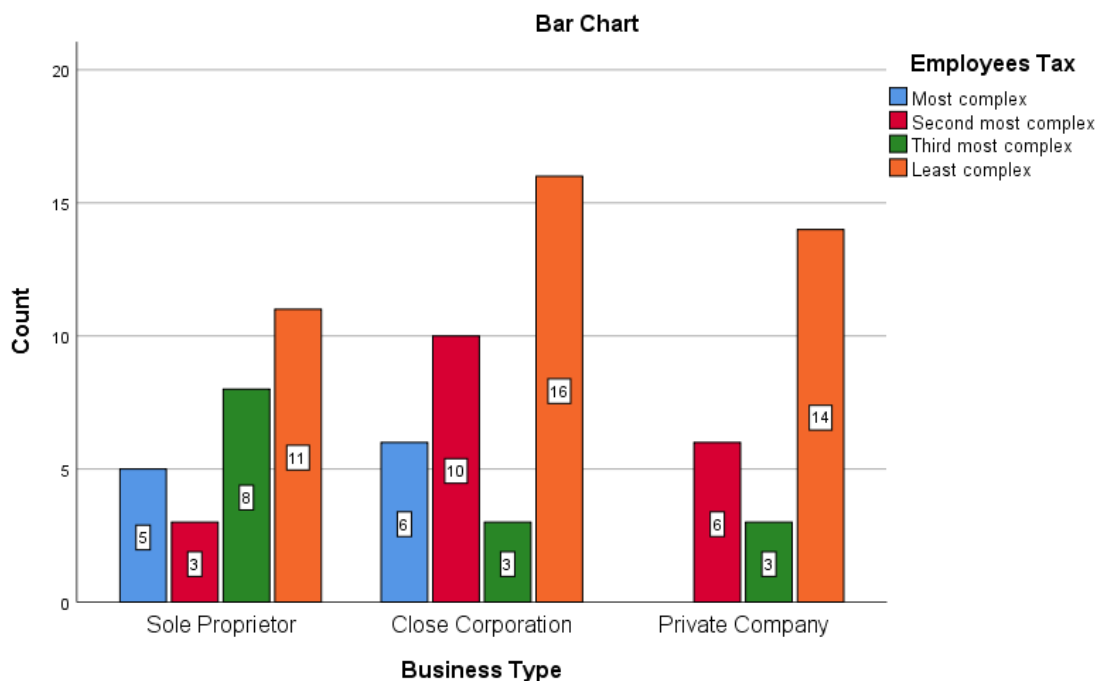48.2% of the overall respondents have indicated that employees' tax is the least complex tax to comply with. An overwhelming 60.9% of private companies, 45.7% of close corporations and 40.7% of sole traders have indicated that employees' tax is the least complex tax.

To summarize, VAT is considered the most complex tax with 44 of the 85 respondents. The second most complex tax amongst all the respondents is provisional tax with 32 out of the 85 respondents. The third most complex tax is also VAT with 28 out of the 85 respondents, however 23 and 20 respondents have indicated Income tax and Provisional tax compliance is the third most complex tax respectively. The least complex tax compliance is employees' tax with an overwhelming 48.2% of respondents indicating this.

VAT is therefore the most complex tax for small and medium enterprises in KwaZulu Natal and this is consistent with the studies that were conducted by Govender, (2008) and Smulders et al., (2012).

4.4 Two-step cluster analysis

A two-step cluster analysis was also performed to identify how the different business types rank the various forms of taxation in terms of complexity. A two-step cluster analysis procedure is a tool designed to reveal natural clusters within a dataset that would otherwise not be apparent. The clusters are the further analysed to address the questions being asked.

The respondents, which were categorised into business types, were sub grouped into five (5) clusters. Close corporations were grouped into three (3) clusters whilst sole proprietors and private companies were categorised into one (1) cluster each. The clusters had twenty-two (22), nineteen (19), sixteen (16), fifteen (15) and thirteen (13) respondents accordingly. Each cluster was analysed to determine which tax is the most complex. The findings are summarised below:

Figure 4.13: Cluster Analysis
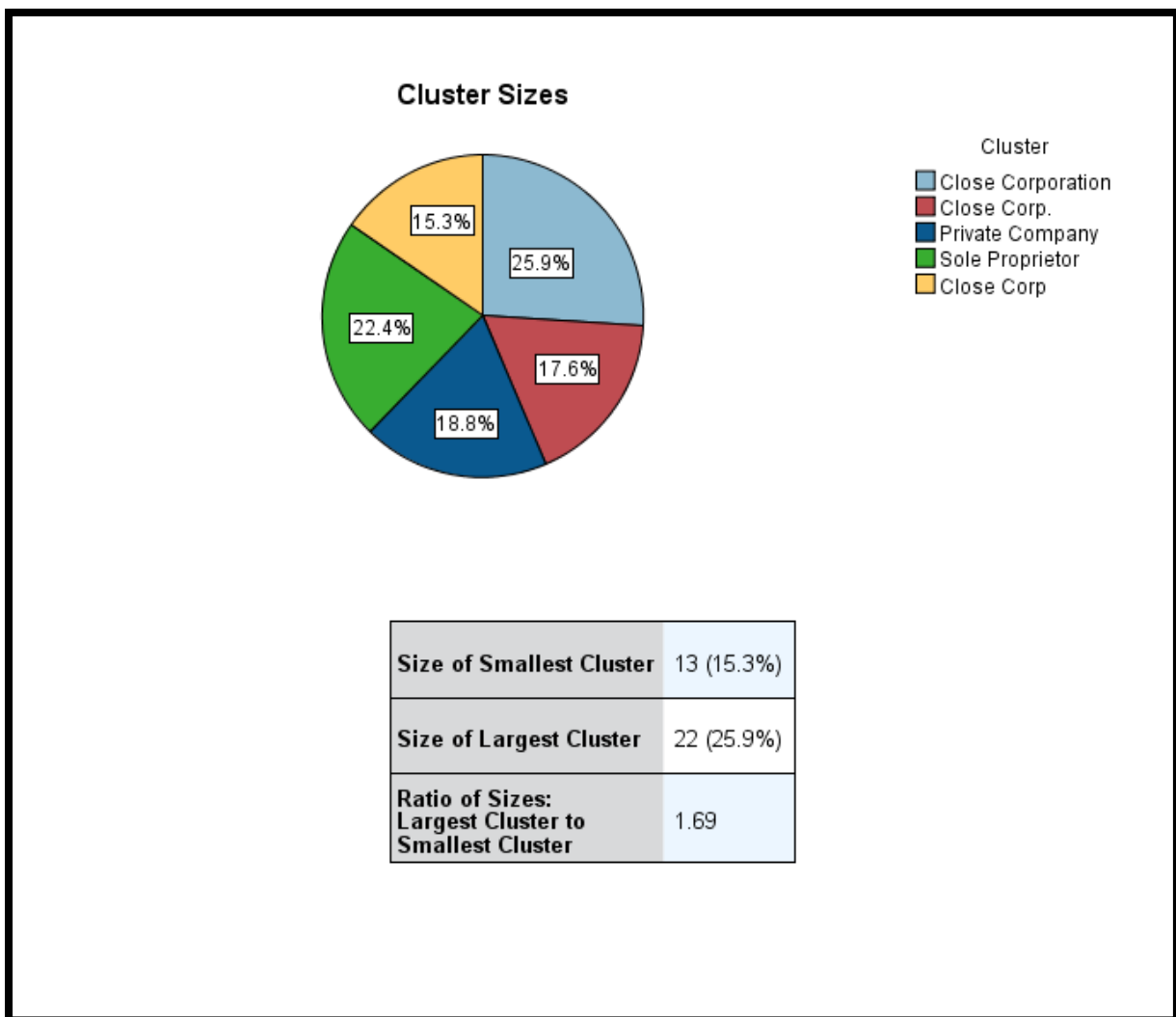
Figure 4.13 summarises the percentage groupings of each cluster. Details of the largest and smallest clusters are provided together with a size ratio of the smallest to largest cluster.

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Cluster One: Close Corporations
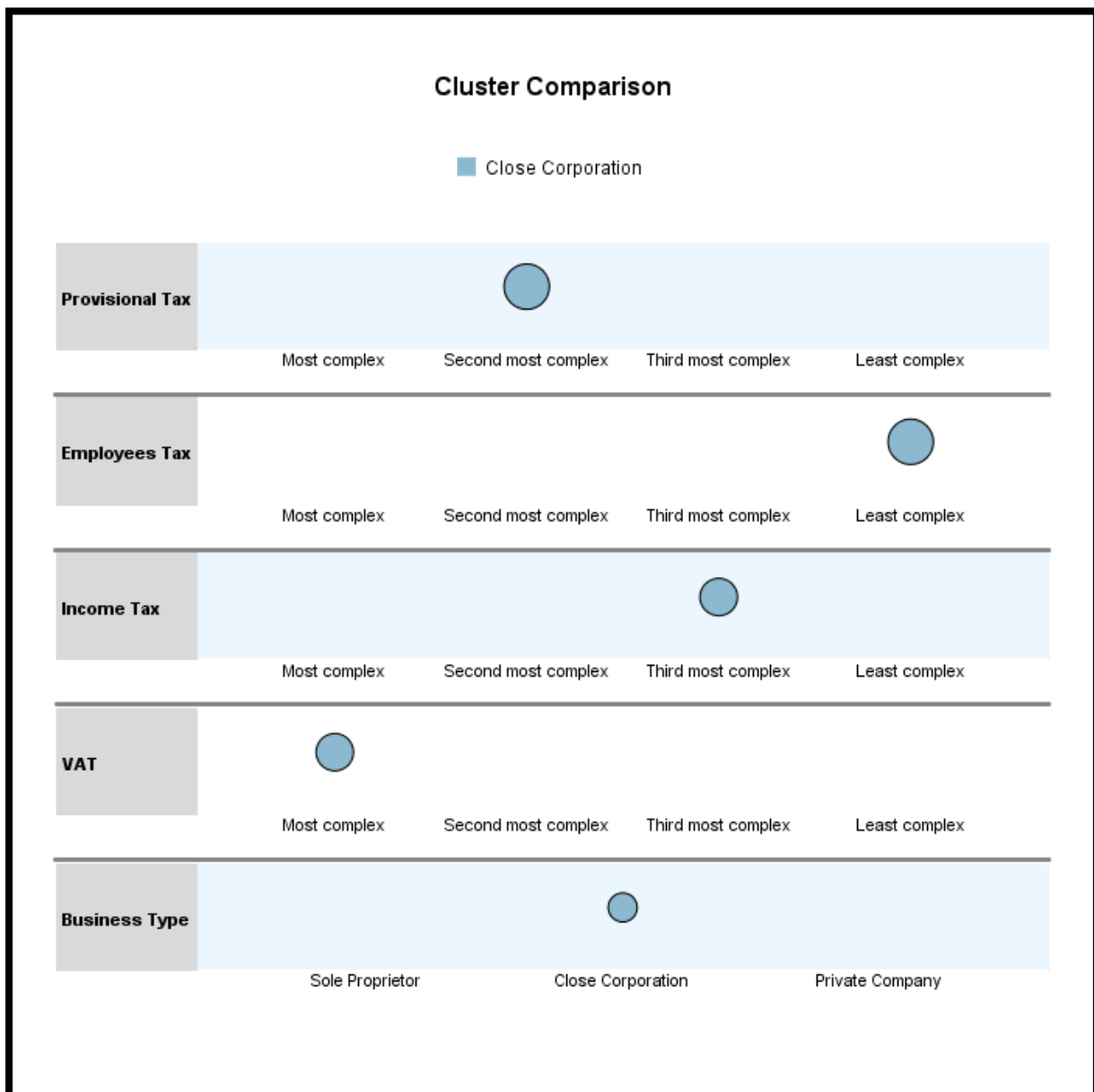
Figure 4.14

Figure 4.14 relates to cluster one. Cluster one has twenty-two (22) respondents, which comprised only of close corporations. The close corporations in this cluster has indicated that the most complex tax is VAT, the second most complex tax was provisional tax, the third most complex tax was income tax and the least complex tax was employees tax.

Cluster Two: Sole Proprietors
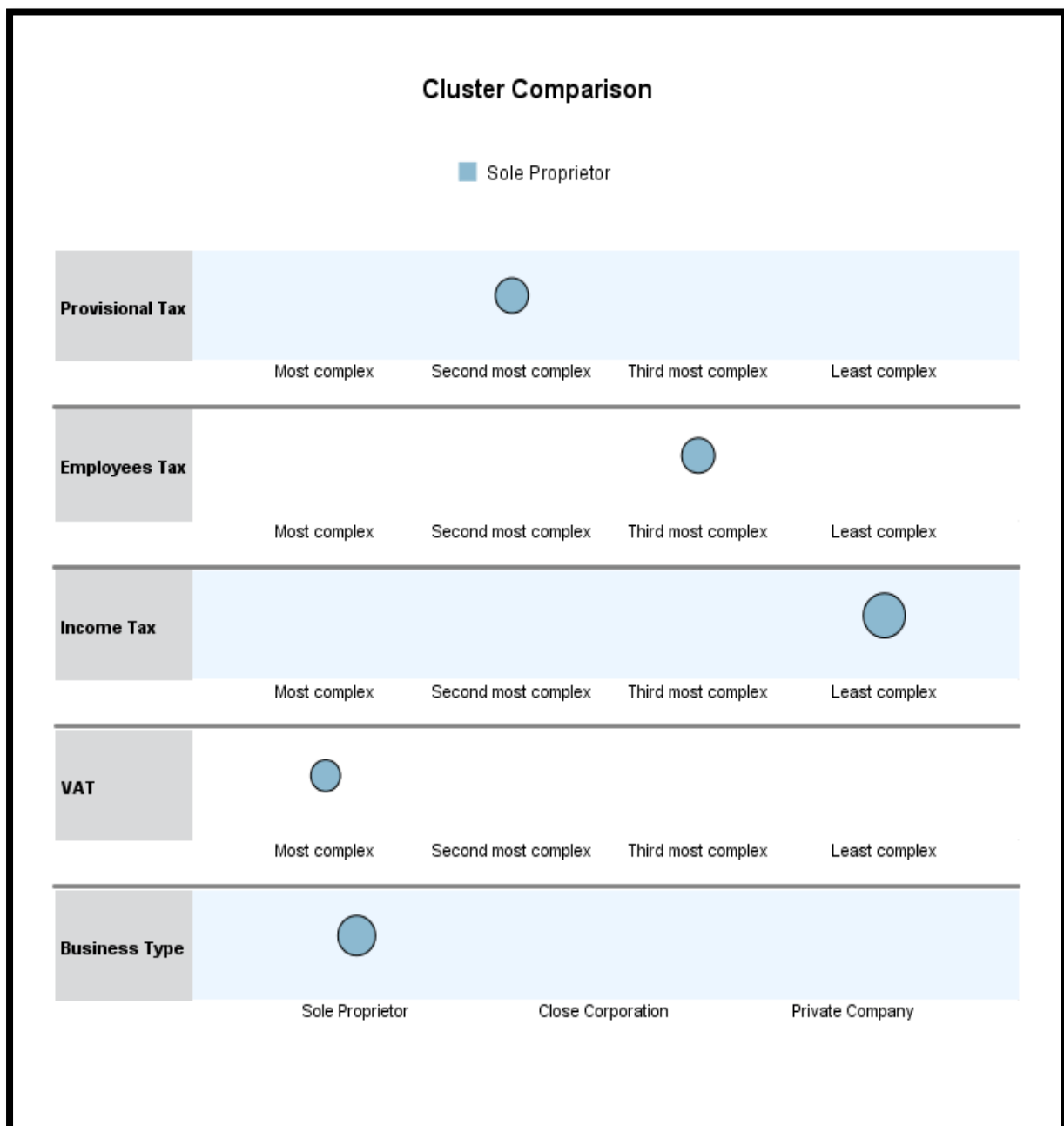
Figure 4.15

Figure 4.15 represents cluster two. Cluster two had nineteen (19) respondents, which comprised only of sole proprietors. The sole proprietors in this cluster has indicated that the most complex tax is Vat, the second most complex tax was provisional tax, the third most complex tax was employees tax and the least complex tax was income tax.

Cluster Three: Private Companies
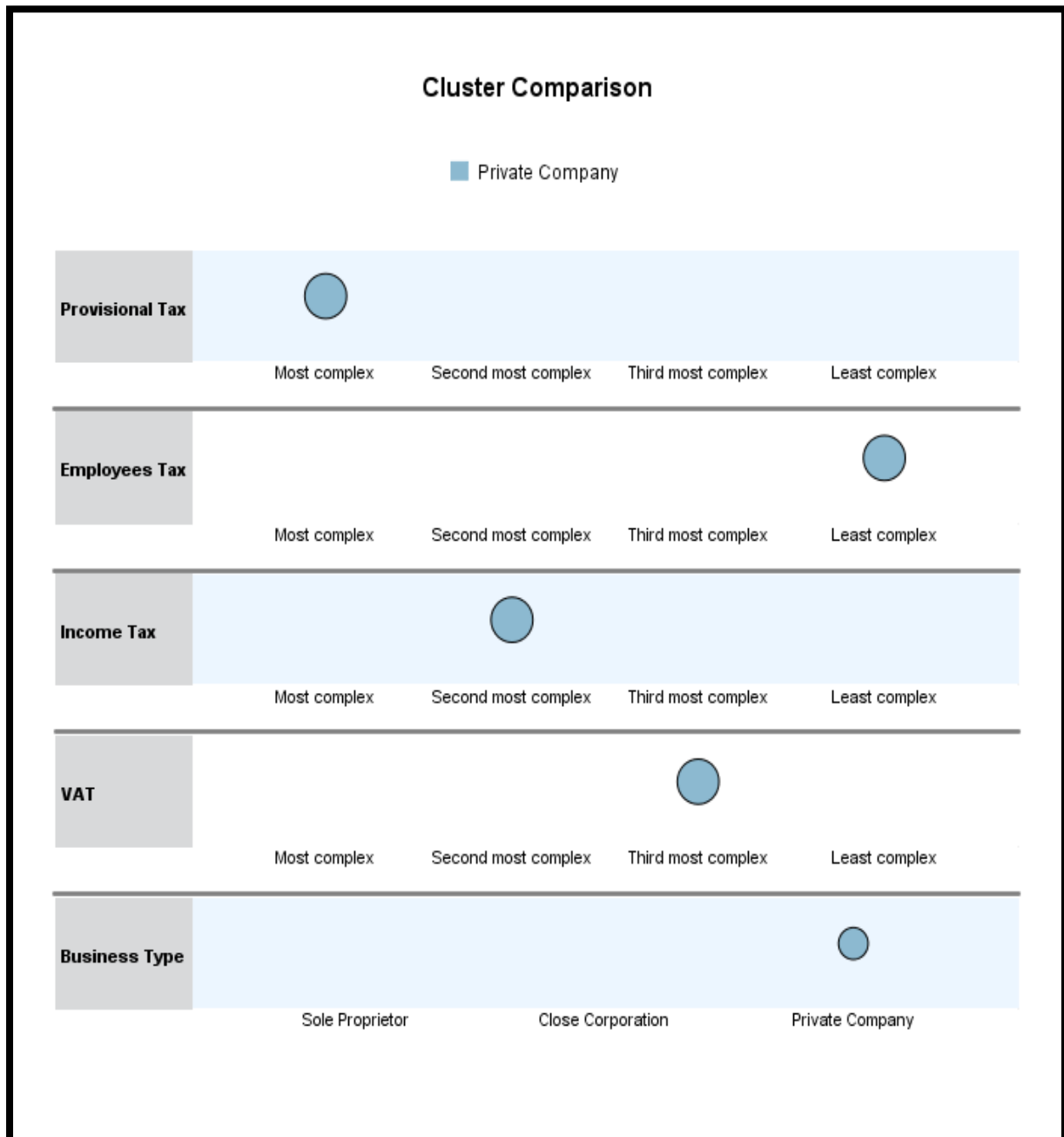
Figure 4.16

Figure 4.16 represents cluster three. Cluster three had (16) respondents, which comprised of only private companies. The private companies in this cluster has indicated that the most complex tax is provisional tax, the second most complex tax is income tax, the third most complex tax is VAT and the least complex tax is employees tax.

Cluster Four: Close Corporations
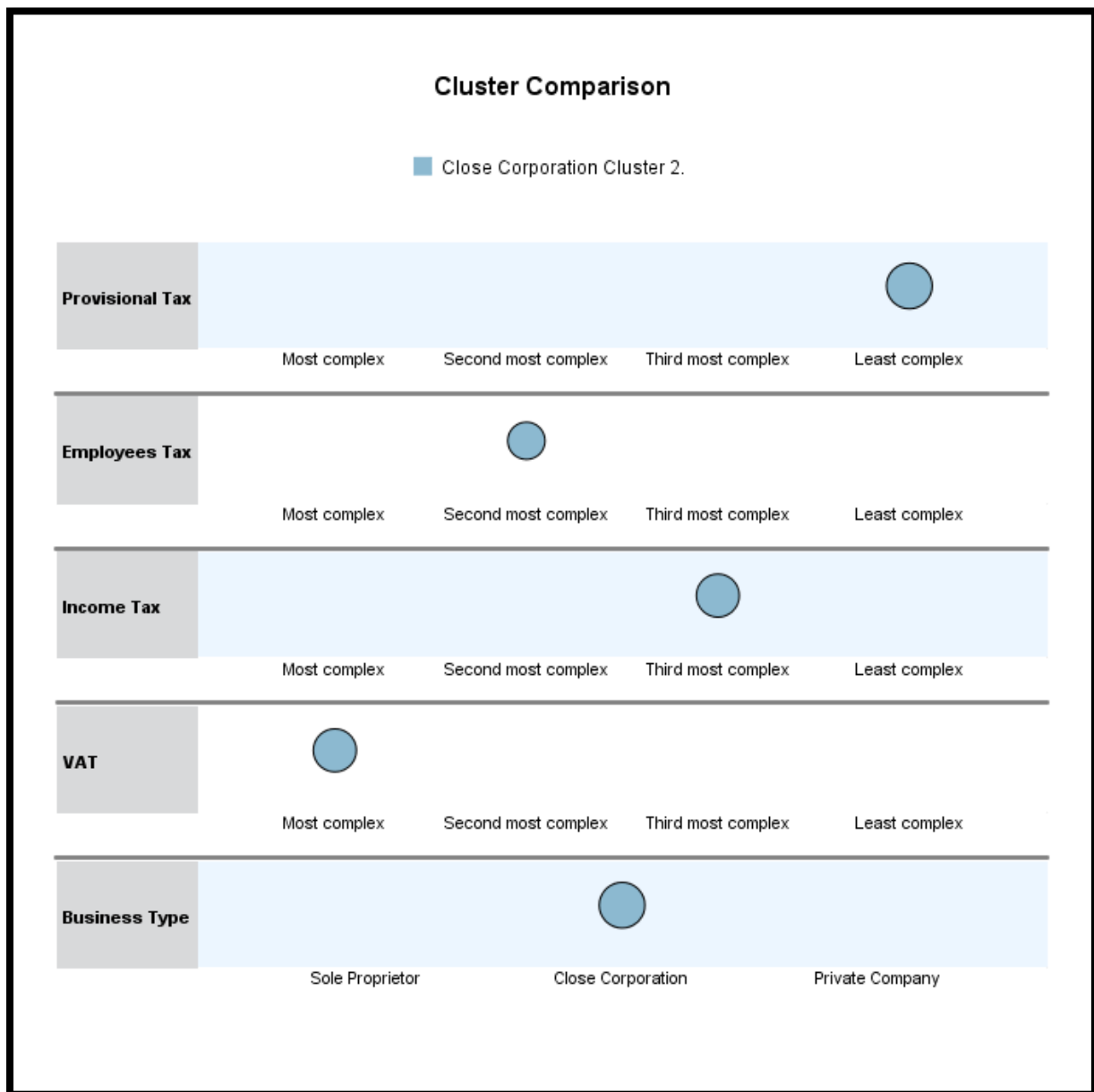
Figure 4.17

Figure 4.17 represents cluster four. Cluster four had fifteen (15) respondents, which comprised of only close corporations. The close corporations in this cluster has indicated that the most complex tax is VAT, the second most complex tax is employees tax, the third most complex tax is income tax and the least complex tax is provisional tax.

Cluster Five: Close corporations

Cluster Comparison

Close Corporation Cluster 3
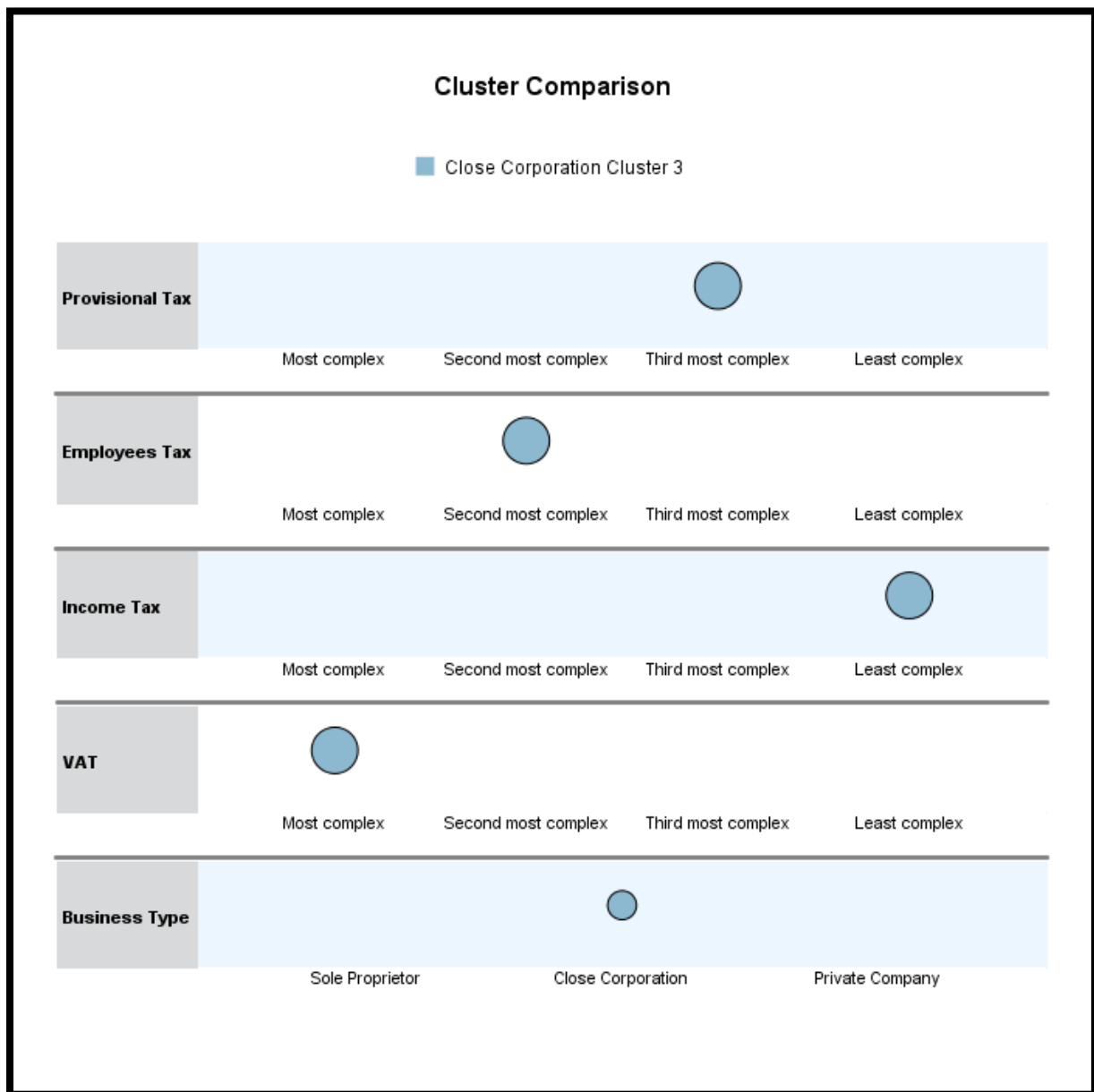
Figure 4.18

Figure 4.18 represents cluster five. Cluster five had thirteen 13 respondents which comprised of only close corporations. The close corporations in this cluster has indicated that the most complex tax is VAT, the second most complex tax is employees tax, the third most complex tax is provisional tax and the least complex tax is income tax.

From the above analysis, four out of five clusters have indicated VAT is the most complex tax. Two out of five clusters indicate that employees' tax is the least complex, provisional tax is the second most complex and income tax is third most complex.

4.5 Do you understand tax legislation?

Figure 4.19

Do you understand the tax legislation pertaining to your business?
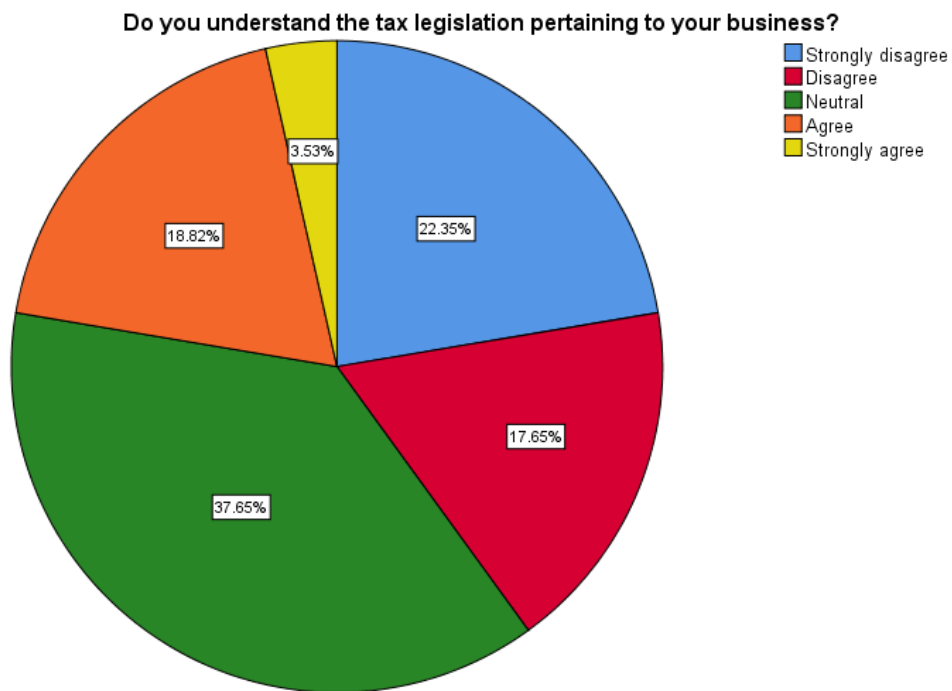
Table 4.15: Understanding of tax legislation

Do you understand the tax legislation pertaining to your business?			
		Frequency	Percent	Cumulative Percent
	Strongly disagree	19	22,4%	22,4%
	Disagree	15	17,6%	40,0%
	Neutral	32	37,6%	77,6%
	Agree	16	18,8%	96,5%
	Strongly agree	3	3,5%	100,0%
	Total	85	100,0	

Forty percent (40%) of respondents have indicated that they either disagree or strongly disagree that they understand the tax legislation pertaining to their business. The majority of respondents (37.6%) have indicated that they are neutral. This indicates that they do have some knowledge but are unsure about all the specific requirements pertaining to tax compliance for their respective businesses. Only 22.4% of respondents agree and strongly agree that they understand all the tax legislation pertaining to their business.

4.5.1 Factors of tax compliance

Figure 4.20

a. **Is preparation and submission of tax returns timeously a challenge?**

Is preperation and submission of tax returns a challenge?
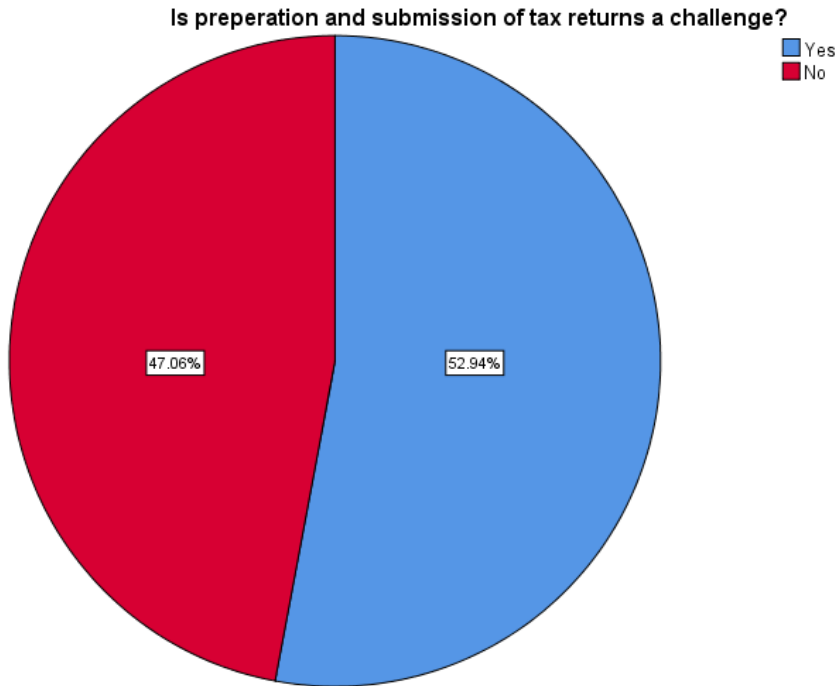
Table 4.16: Preparation and submission of returns

		Frequency	Percent	Cumulative Percent
	Yes	45	52.9	52.9
	No	40	47.1	100.0
	Total	85	100.0	

52.9% of respondents perceive the preparation and submission of tax returns is a challenge. The remainder of the 47.1% do not feel that the preparation and submission of tax returns is a challenge.

b. Is time spent dealing with SARS a negative factor?

Figure 4.21

Is time spent dealing with SARS a negative factor?
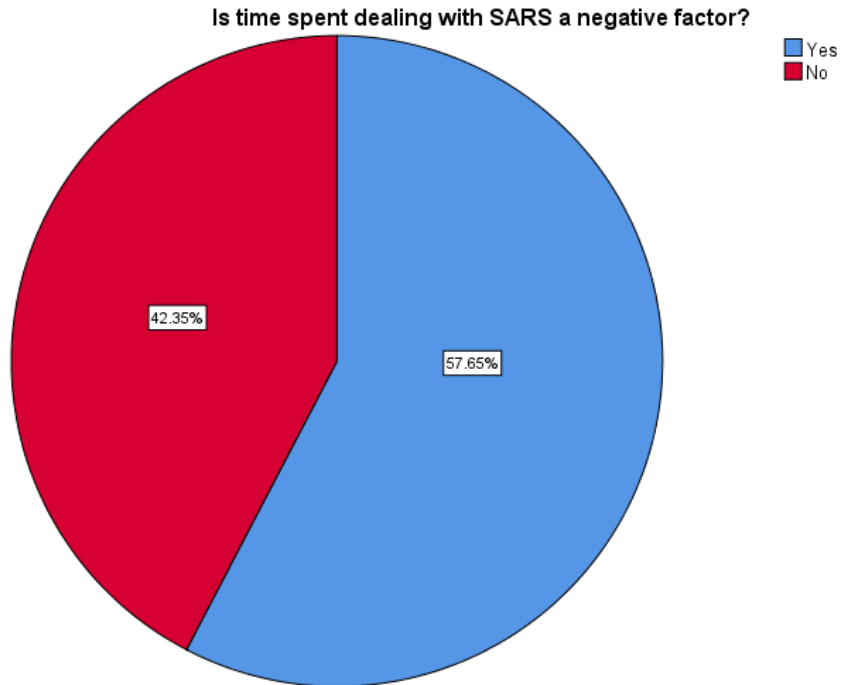
Table 4.17: Time spent dealing with SARS

		Frequency	Percent	Cumulative Percent
	Yes	49	57.6	57.6
	No	36	42.4	100.0
	Total	85	100.0	

57.6% of respondents believe that the time spent dealing with the SARS is negative factor which wastes valuable time and resources for business owners. The remainder of the 42.4% do not consider time spent at the SARS to be a problem.

c. Is the payment of monies to SARS within stipulated times a challenge?

   Figure 4.22

Is the payment of monies to SARS within stipulated times a challenge?
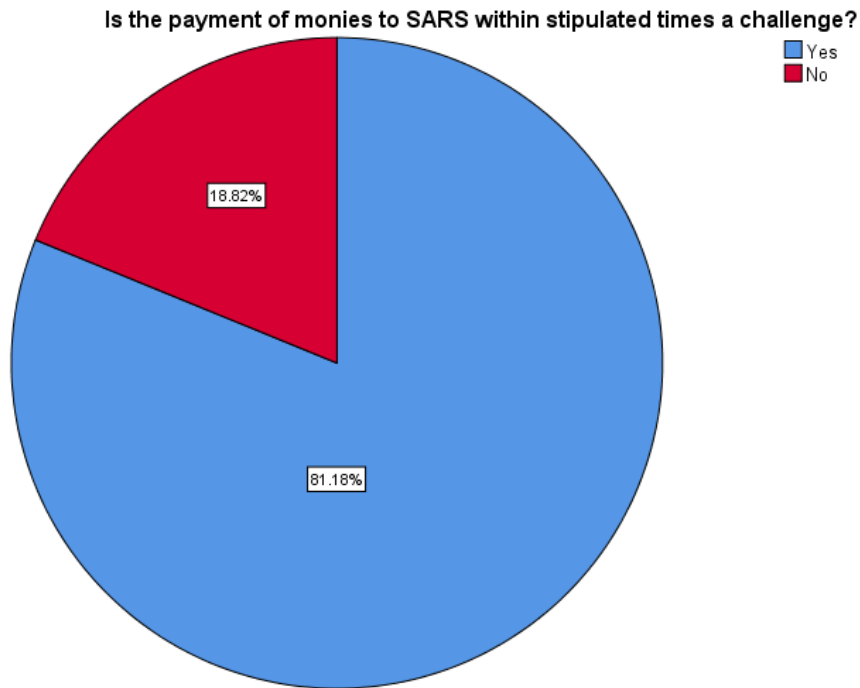
Figure 4.18: Payment of monies

		Frequency	Percent	Cumulative Percent
	Yes	69	81.2	81.2
	No	16	18.8	100.0
	Total	85	100.0	

An overwhelming 81.2% of respondents, feel that the payment of monies to SARS within the stipulated time frames to be a challenge. This strongly correlates to the issues identified in the literature review relating to cash flow problems experienced by small business owners.

d. Are inflexible regulations pertaining to small businesses a challenge for compliance?

Figure 4.23

Are inflexible regulations pertaining to small businesses a challenge for compliance?
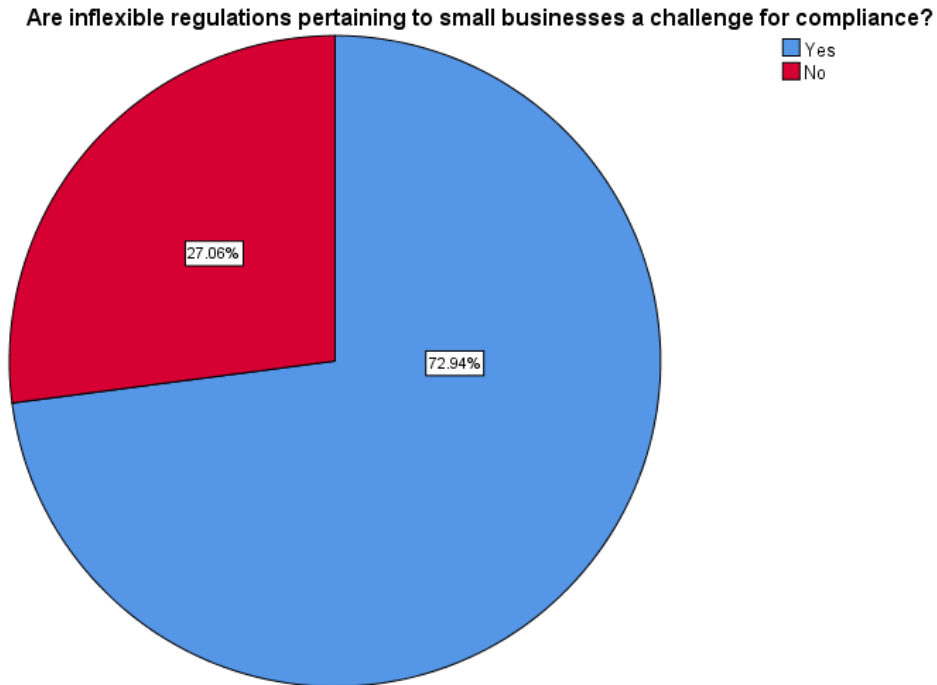
Table 4.19: Inflexible regulations

		Frequency	Percent	Cumulative Percent
	Yes	62	72.9	72.9
	No	23	27.1	100.0
	Total	85	100.0	

An overwhelming 72.9% of respondents feel that the inflexible regulations imposed by the SARS is a major challenge for small businesses. Only 27.1% of small business owners feel that the regulations and compliance requirements are not a challenge.

e. Are complex returns considered a challenge for tax compliance?

Figure 4.24

Are complex returns considered a challenge for tax compliance?
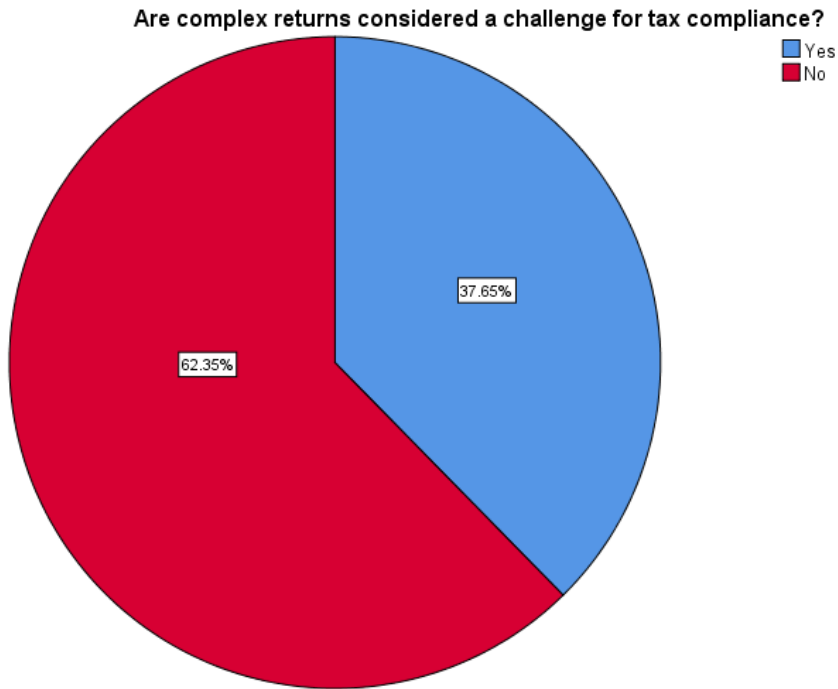
Table 4.20: Complex returns

		Frequency	Percent	Cumulative Percent
	Yes	32	37.6	37.6
	No	53	62.4	100.0
	Total	85	100.0	

The majority of respondents (62.4%) have indicated that complex returns are not an issue in achieving compliance. This indicates that business owners generally do understand how to complete and file tax returns to the SARS or they have learnt how to deal with the returns and file the accordingly.

To summarize, the majority of respondents indicated that the payment of monies to the SARS within stipulated times is the biggest challenge and with 81.2% of respondents and the second biggest challenge relate to the inflexible regulations that

the SARS impose with 72,9% if respondents. This is in line with the finds by SBP in 2003 and since then the same issues are considered the most problematic.

4.5.2 Costs of compliance and issues pertaining to compliance

a. Which cost is considered most excessive to ensure tax compliance?

Figure 4.25

Which cost is considered mot excessive to ensure tax compliance?
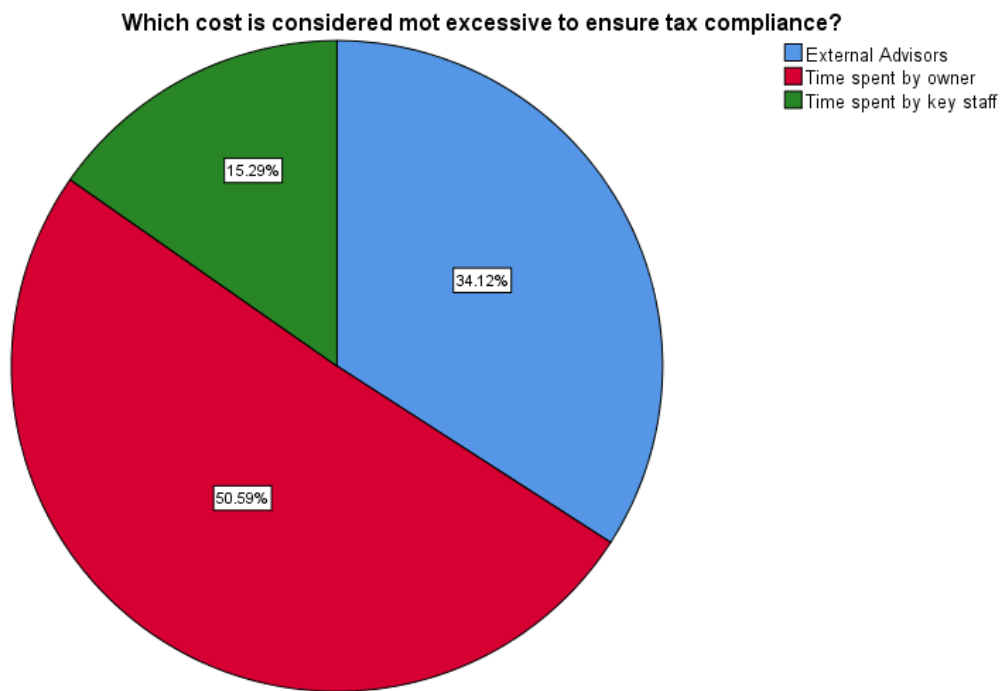
Table 4.21: Most excessive costs

Which cost is considered most excessive to ensure tax compliance?			
		Frequency	Percent	Cumulative Percent
	External advisors	29	34,1	34,1
	Time spent by owner	43	50,6	84,7
	Time spent by key staff	13	15,3	100,0
	Total	85	100,0	

The most excessive cost to ensure tax compliance is the time spent by the owner. 50.6% of respondents have indicated that the owners' time is the most costly. Cost

spent on external advisors is second, with 34.1% of respondents. Time spent by key staff is considered to be the cost which is least excessive with only 15.3% of respondents. The findings above are consistent with studies by (Smulders, et al., 2012) and (Tran - Nam, et al., 2000).

b. Are business owners aware of tax relief initiatives for small businesses?

Figure 4.26

Are business owners aware of tax relief initiatives for small businesses?
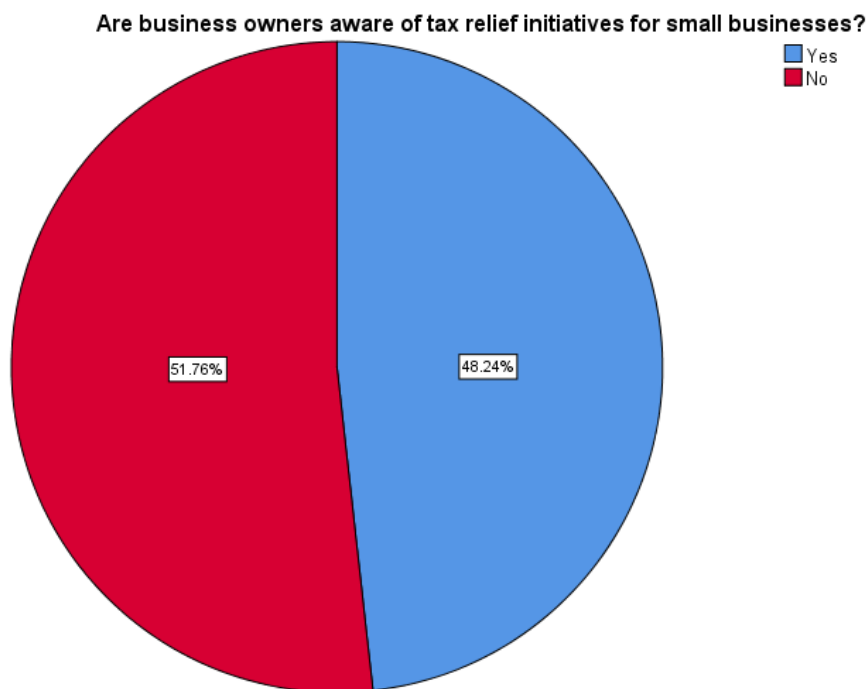
Table 4.22: Aware of relief initiatives

Are business owners aware of tax relief initiatives for small businesses?			
			Cumulative
	Frequency	Percent	Percent
Yes	41	48,2	48,2
No	44	51,8	100,0
Total	85	100,0	

Roughly, half of the business owners are aware of the tax relief initiatives that are available to small businesses. 51.2% of owners are not aware of the various relief initiatives that are available. This indicates that the SARS may not be doing enough to

promote these initiatives, which may be beneficial in assisting to reduce tax liabilities and improve cash flows.

c. Do small business owners utilize tax relief initiatives?

Figure 4.27

Do small business owners utilize tax relief initiatives?
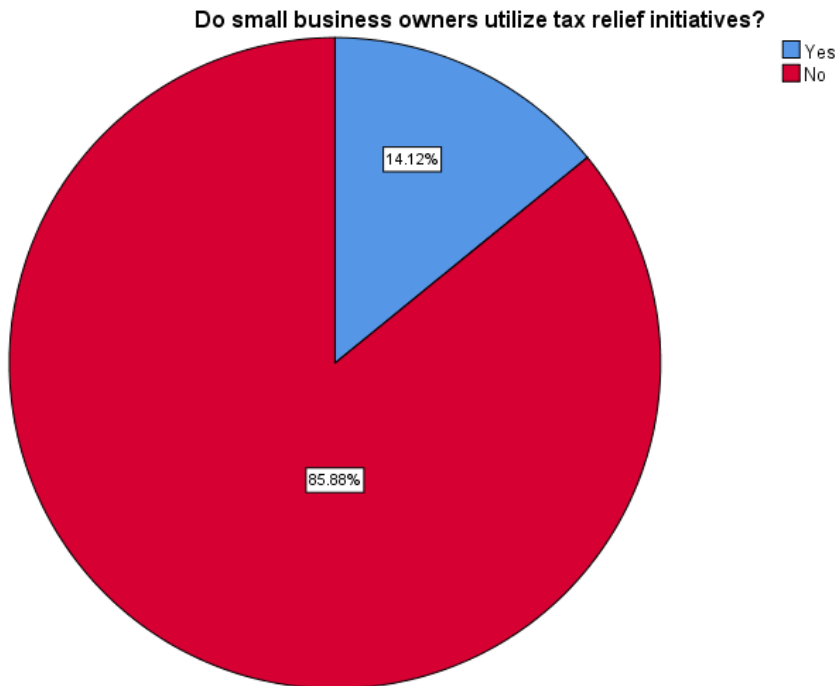
Table 4.23: Utilization of relief initiatives

Do small business owners utilize tax relief initiatives?			
	Frequency	Percent	Cumulative Percent
Yes	12	14,1	14,1
No	73	85,9	100,0
Total	85	100,0	

Only 12 respondents, which represents 14.1% of the sample, have indicated that they utilize the tax relief initiatives that have been introduced by the SARS. This indicates that the majority of these small businesses may not be fully befitting from the initiatives that have been introduced and that the SARS may have not done enough to promote these initiatives.

d. Do you utilize SBC rates?

Figure 4.28

Do you utilize SBC Rates?
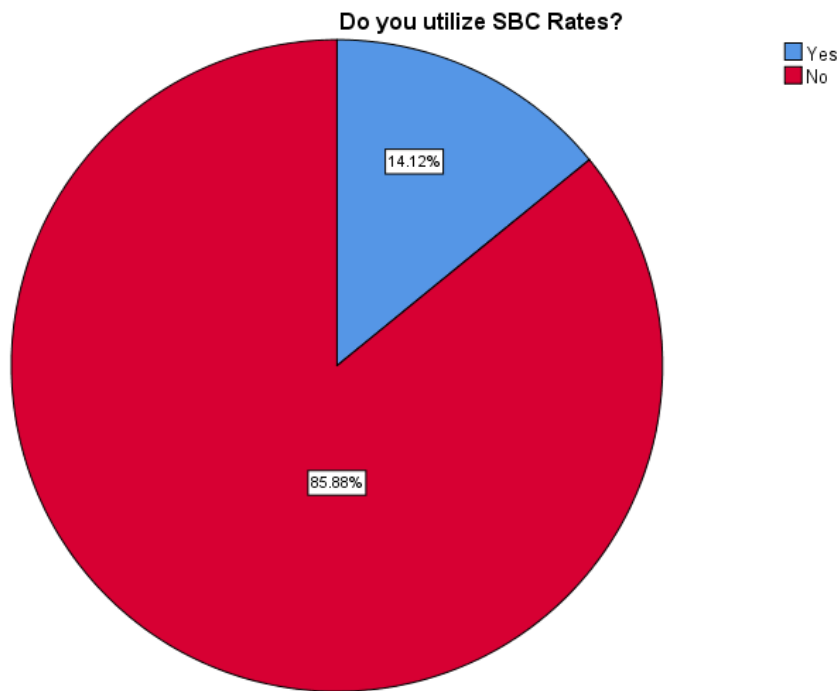
Table 4.24: Utilization of SBC Rates

Do you utilize SBC Rates?				
		Frequency	Percent	Cumulative Percent
	Yes	12	14,1	14,1
	No	73	85,9	100,0
	Total	85	100,0	

All 12 respondents that indicated they are aware of the tax relief initiatives have also indicated that they utilize small business tax. This means that 100% of the business owners who are aware of small business initiatives also apply small business corporation (SBC) rates in calculating their income tax liabilities. 85.9% of small businesses are not aware of the tax relief initiatives and do not utilize SBC rates.

e. Do you utilize turnover tax?

Figure 4.29

Do you utilize turnover tax?

☐ No

100.00%
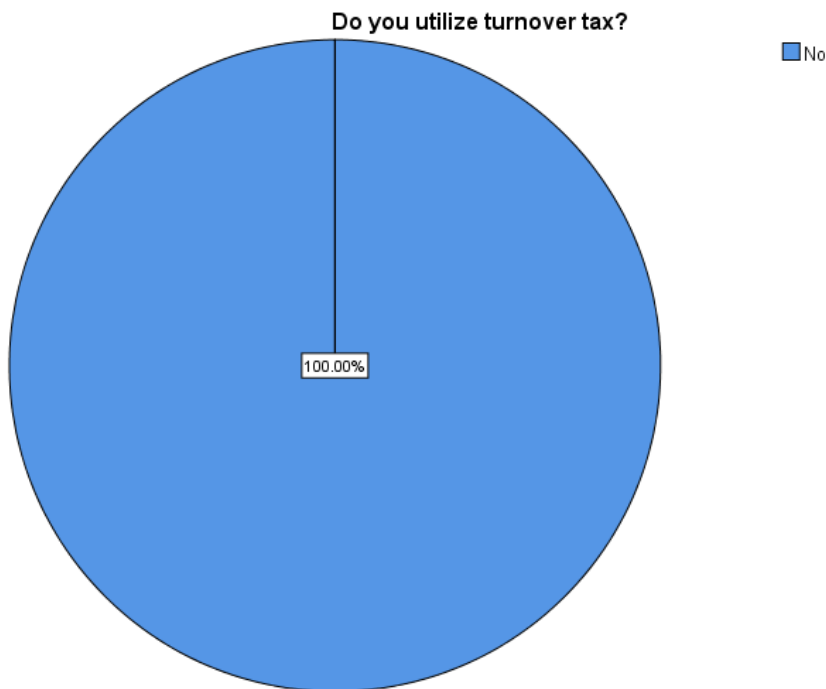
Table 4.25: Utilization of turnover tax

Do you utilize turnover tax?			
	Frequency	Percent	Cumulative Percent
No	85	100,0	100,0

All eighty five (85) respondents have indicated that they do not use turnover tax. This indicates that taxpayers do not know about this specific initiative and they may not qualify for turnover tax in terms of the requirements prescribed by the SARS. This means that the SARS must relook at the specific requirements.

The above findings are consistent with the literature and specifically with the studies done by (Abrie & Doussy, 2006) and (Clerq & Venter, 2007) which found that the relief initiatives introduced are not sufficient and are not being fully utilised efficiently by small and medium businesses.

f. Why do you not utilize the initiatives?

Figure 4.30

What are the reasons for tax initiatives not being utilized?
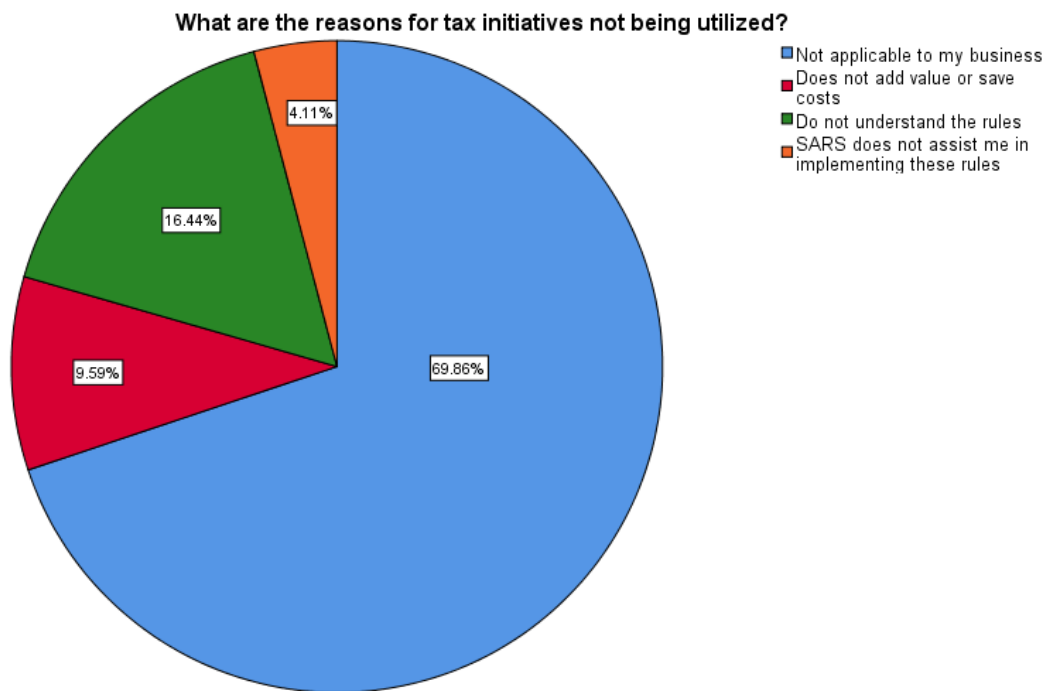
Table 4.26: Reasons for not utilizing tax relief initiatives

What are the reasons for tax initiatives not being utilized?			
	Frequency	Percent	Cumulative Percent
Not applicable to my business	51	69,9	69,9
Does not add value or save costs	7	9.6	79,5
Do not understand the rules	12	16.4	95,9
SARS does not assist me in implementing these rules	3	4.1	100,0
Total	73	100,0	

An overwhelming 69.9% of respondents indicated that the main reason for not utilizing tax relief initiatives is because they are not applicable to their businesses. This indicates that the initiatives that SARS have made available are not necessarily addressing the needs of the majority of businesses out there and they may not be

effective as intended. Of the remaining 30.1% of the respondents, 9.6% feel that the initiatives do not add value or save costs, 16.4% do not understand the rules and 4.1% feel that the SARS does not assist in implementing these initiatives.

These findings are consistent with the findings (Smulders, et al., 2012), and highlight the fact that the tax initiatives currently available are not adequate to assist small businesses.

4.5.3 Have initiatives been successful in assisting with tax compliance?

Figure 4.31

Have tax initiatives been successful in assisiting with thax compliance?
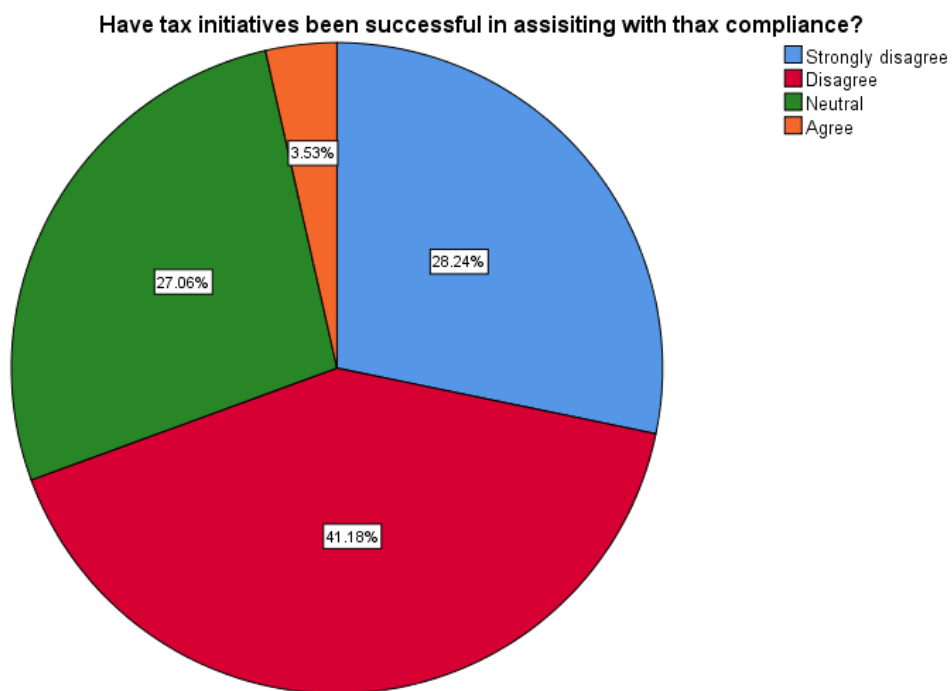
Table 4.27: Success of tax relief initiatives

Have tax initiatives been successful in assisiting with tax compliance?			
	Frequency	Percent	Cumulative Percent
Strongly disagree	24	28,2	28,2
Disagree	35	41,2	69,4
Neutral	23	27,1	96,5
Agree	3	3,5	100,0
Total	85	100,0	

An overwhelming 69.4% of respondents have indicated that they disagree or strongly disagree that the tax initiatives introduced by the SARS have been successful in assisting with tax compliance. 27.1% of respondents are neutral, which indicates that these respondents are not certain if the tax initiatives introduced have been successful, or not in helping with compliance. Only 3.5% of respondents agree that the initiatives introduced have been successful. Zero respondents strongly agree that the initiatives introduced are successful. These findings are consistent with the findings from (Visser, 2016) and the findings from the Davis Tax Committee, (2016).

4.5.4 Should more tax relief initiatives be introduced?

Figure 4.32

Should more tax relief initiatives be introduced to assist small businesses with compliance?

- Strongly disagree
- Neutral
- Agree
- Strongly agree

1.18%
18.82%
34.12%
45.88%
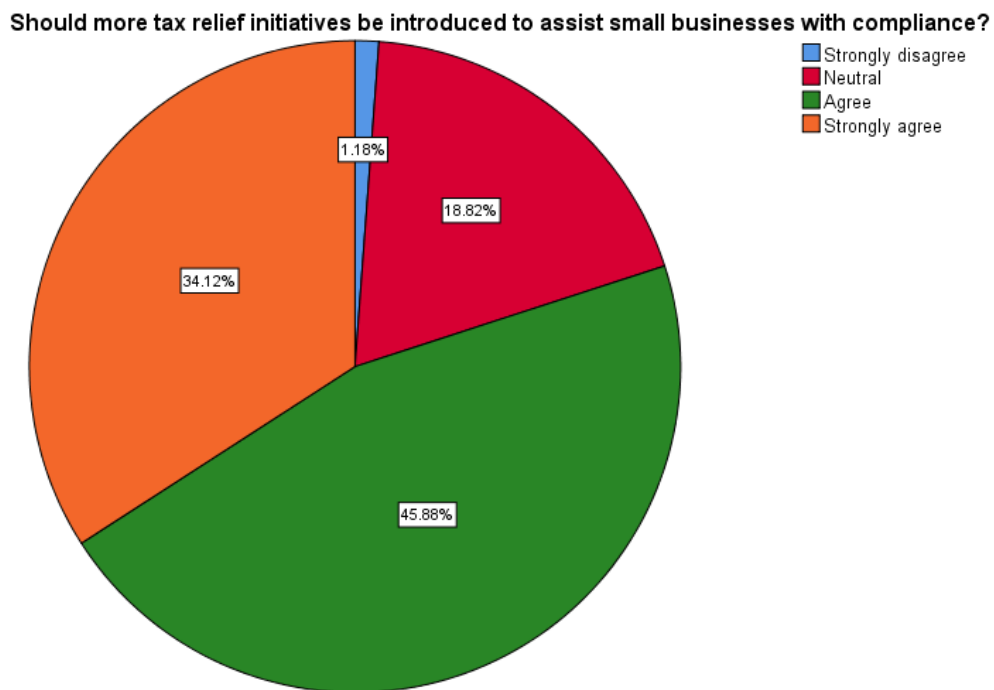
Table 4.28: More initiatives to be introduced

Should more tax relief initiatives be introduced to assist small businesses with compliance?		Frequency	Percent	Cumulative Percent
	Strongly disagree	1	1,2	1,2
	Neutral	16	18,8	20,0
	Agree	39	45,9	65,9
	Strongly agree	29	34,1	100,0
	Total	85	100,0	

Eighty percent (80%) of respondents agree and strongly agree that SARS must introduce more tax relief initiatives to assist small businesses with compliance. 18.8% of the respondents are neutral indicating that they are not sure if SARS should introduce more initiatives or not. This clearly highlights the fact that the current initiatives are not adequate and much more assistance and initiatives are required by small businesses. Only one respondent strongly disagrees with the above statement, that more tax relief initiatives should be introduced.

The findings are consistent with studies conducted by Atawodi and Ojeka, (2012) and Govender, (2008) who have also found that small business owners believe that SARS is not doing enough to assist with tax compliance.

4.6 Descriptive Statistics
Table 4.29: Descriptive statistics

	Range	Mean	Median	Mode	Std. Deviation	Variance
Understand tax legislation	4	2.64	3.00	3.00 = neutral	1.132	1.282
Preparation and submission	1	0.47	0.00	0.00 = yes	0.502	0.252
Time spent dealing with SARS	1	0.42	0.00	0.00 = yes	0.497	0.247
Payment of monies with stipulated times	1	0.19	0.00	0.00 = yes	0.393	0.155
Inflexible regulations	1	0.27	0.00	0.00 = yes	0.447	0.200
Complex returns	1	0.62	1.00	1 = no	0.487	0.238
Costs of compliance	2	1.81	2.00	2 = time spent by owner	0.681	0.464
Is tax compliance a factor, which has impacted negatively on business growth?	4	3.61	4.00	4 = agree	0.952	0.907
Aware of tax relief initiatives	1	1.52	2.00	2 = no	0.503	0.253
Utilization of tax relief initiatives	1	1.86	2.00	2 = no	0.350	0.123
SBC Rates	1	1.86	2.00	2 = no	0.350	0.123
Turnover Tax	0	2.00	2.00	2 = no	0.000	0.000
Reasons for not utilizing initiatives	3	1.55	2.00	2 = does not add value or save costs	0.913	0.834
Success of initiatives	3	2.06	2.00	2= disagree	0.836	0.699
Should more initiatives be introduced	4	4.12	4.00	4 = agree	0.793	0.629

The aforementioned table (Table 4.27) indicates the range, mean, median, mode, standard deviation and variance for each question answered by the respondent.

The mean is the arithmetic average of the sum of all the values divided by the sample size. The median is the midpoint of the distribution. The mode is the most frequently occurring value. The variance refers to a measure of score dispersion about from the mean. The standard deviation summarizes how far away the data values typically are. It is perhaps the most frequently used measure of spread because it improves interpretability by removing the variance's square and expressing their deviations in their original units. The range is the difference between the largest and smallest scores in the population (Cooper & Schindler, 2014).

From the above table the standard deviations range from around 0.4 to 1. The means and medians are generally consistent with the modal values. These descriptive statistics serve to confirm the graphical statistics. Some of the descriptive statistics for Section A are not tabulated since these questions relate to the personal details of the respondents, which include age and gender.

4.7 The Kolmogorov Smirnov test and the Shapiro-Wilk test

Table 4.30: Kolmogorov Smirnov test and the Shapiro-Wilk test

	Kolmogorov-Smirnov		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
Negative influence	.288	.000	.868	.000
Employees Tax Registered	.414	.000	.606	.000
Understand tax legislation	.253	.000	.871	.000
Preparation and submission	.357	.000	.635	.000
Time spent dealing with SARS	.372	.000	.631	.000

Payment of monies within stipulated times	.506	.000	.447	.000
Inflexible regulations	.455	.000	.558	.000
Complex returns	.407	.000	.611	.000
Most excessive cost	.282	.000	.791	.000
Awareness of relief initiatives	.386	.000	.625	.000
Reasons for not utilising initiatives	.424	.000	.633	.000
Should more initiatives be introduced	.241	.000	.811	.000
Success if relief initiatives	.428	.000	.592	.000

The Kolmogorov-Smirnov test and the Shapiro-Wilk test is used to determine if the data is derived from a normal distribution.

H0: the tested variables are derived from a normal distribution.

H1: the tested variables are not derived from a normal distribution.

At the 5% significance level, H0 is rejected for all the questions, as the p-values are all less than 0.05. As a result, the tested variables do not come from a normal distribution, which has resulted in non-parametric tests being utilized.

4.8 Hypothesis Testing

In the previous chapter the following hypothesis was developed:

H1: According to small and medium sized business owners, tax compliance is a factor that has influenced negatively on business growth.

H0: According to small and medium sized business owners, tax compliance is a factor that has not influenced negatively on business growth.

In order to analyze this hypothesis the Chi Square Test and the One Sample t test are used. The results of the tests are as follows:

4.8.1 Chi Square Test

Table 4.31: Chi Square Test

Test Statistics	
	Is tax compliance a factor, which has negatively influenced my business growth?
Chi-Square	4.384
Df	1
p-value	0,036

At a five percent (5%) significance level, since the p-value is less than 0.05, then H1 is accepted. Therefore, according to the small and medium sized business owners, tax compliance is a factor, which has impacted small businesses negatively. We assumed a distribution of more than fifty percent of responses under the tested variable.

4.8.2 One sample t test

A one-sample t test was also carried out to test the hypothesis.

Respondents were grouped into two categories. Category one included all respondents who did not agree or were neutral that tax compliance was a factor that influenced small business growth and category two included all respondents who did agree that tax compliance was a factor that influenced small business growth. Category one respondents reported either a score of 1 (strongly disagree); 2 (disagree) and 3 (neutral) on the original questionnaire. Category two respondents reported a score of 4 (agree) and 5 (strongly agree) on the original questionnaire.

This test was carried out to test if the average score/ response for this question was 4 and 5 (agree or strongly agree) and the results are presented below:

Table 4.32: One-Sample Test

One-Sample Test				
	T	df	p-value	Mean Difference
Is tax compliance a factor, which has influenced my business growth negatively?	2,337	84	0,022	0,12353

As the p-value is less than 0.05, H1 is accepted. Therefore, according to small business owners, tax compliance is a factor, which impacts negatively on small and medium business growth in KwaZulu-Natal.

4.9 Conclusion

The methodology devised in chapter three was used to devise a questionnaire that was distributed to eighty-five small and medium business owners in KwaZulu-Natal. The feedback received from the respondents indicate the following:

- The most complex tax that small and medium businesses are exposed to is VAT. This finding is consistent amongst all business types.
- Employees' tax was considered as the least complex tax amongst small business owners.
- The majority of business owners indicated that they do not fully understand the tax legislation pertaining to their businesses.
- The majority of respondents agree that there are many challenges pertaining to tax compliance.
- The majority of respondents are not utilizing tax relief initiatives.
- The majority of small business owners perceive that tax relief initiatives are not applicable or useful to their businesses and agree that more initiatives need to be introduced.

Most of the responses are in agreement with the literature review presented in chapter two. Tax compliance is a challenge for small businesses and tax relief initiatives that have been introduced are considered insufficient. The hypothesis tested, which

indicated that tax compliance is a factor that negatively influences small business growth statistically supports this conclusion.

Chapter five is a summary of the study. A conclusion, together with limitations and avenues for future research are presented.

CHAPTER FIVE: RECOMMENDATIONS, CONCLUSION, LIMITATIONS AND AVENUES FOR FURTHER RESEARCH

5.1 Introduction

Chapter four presented an empirical analysis of the questionnaire which was distributed to small business owners. This chapter is a summary of the literature review and the findings from the data analysis in the previous chapters. This chapter also mentions some of the limitations of the study, provides recommendations and areas for further research.

5.2 Overview of the study

KwaZulu-Natal has the second largest population in the country with approximately 19.8% of the total population and is the country's second largest contributor to the economy contributing 15.7% to the country's economy and is deemed to be one of South Africa's leading economic and business hubs. (KwaZulu Investor, 2017). Increasing employment was identified a key strategy for government, and in order to address this objective, small businesses where identified as the vehicle to do this. Tax policy becomes important as this directly influences businesses growth. This study established some of the challenges directly related to tax compliance and also established the impact of tax compliance on small business growth.

5.3 Achievement of research objectives

The results of the achievement of the research objectives are set out below. A conclusion for each objective is set out below.

5.3.1 Research objective 1

Identifying the specific taxes that small and medium businesses in KwaZulu Natal consider most complex and challenging.

The results of this study indicate that small and medium businesses are required to comply with four major taxes: Income Tax, Provisional Tax, VAT and Employees Tax. Out of these taxes, VAT was considered to be regarded as the most complex tax across all business types and all respondents in total. Employees' tax was generally ranked as the least complex tax amongst all the respondents with income tax and provisional tax being ranked as second and third interchangeably, amongst the different business forms. The findings of this study indicate that small and medium business owners find VAT to be the most complex tax. More needs to be done by the

SARS and the government to educate and train taxpayers in respect of VAT in order to improve compliance.

5.3.2 Research objective 2

Determining the specific challenges, complexities and costs in respect of tax compliance for small and medium business in KwaZulu Natal.

Tax compliance has many challenges for small and medium businesses. One of the major challenges is the cost of ensuring tax compliance. The results of this study have indicated that the most significant challenge for taxpayers is the payment of monies to the SARS within the stipulated time periods. More than 80% of respondents have indicated that this is the main challenge pertaining to tax compliance. In addition, almost 73% of respondents have indicated the inflexible regulations prescribed by SARS as a major challenge. More than 50% of respondents indicated that time spent dealing with SARS matters and the timeous preparation and submission of tax returns as a challenge as well. Less than 40% of respondents considered complex tax returns as a challenge for small businesses. In respect of costs incurred to ensure tax compliance, more than 50.6% of respondents have indicated that the time spent by the owner is the most excessive cost. 34.1% of respondents have indicated that fees paid to external advisors and consultants is the most excessive whilst 15.3 of respondents have indicated that time spent by key staff is most excessive to ensure compliance. The findings from this study indicate that payment of monies with the stipulated time becomes the biggest problem and this supports the literature that identified cash flow problems is a serious problem when complying with tax. Time spent dealing with SARS is also a key issue and is supported by the fact that the majority of respondents have also indicated that time spent at SARS by owners and key staff are the considered as the most excessive costs.

5.3.3 Research objective 3

Determining if any tax relief initiatives introduced by SARS have been successful at addressing compliance challenges for small businesses.

Approximately 50% of respondents do know about the tax relief initiatives that have been introduced by SARS. However, only 14.1% of respondents have indicated that they actually utilize these initiatives. Small business corporation tax is the only initiative that was utilized. None of the respondents indicated that they adopted turnover tax. This is in line with the other responses, where it was established that tax relief initiatives are not applicable to 69.9% of the respondents. The remaining 30.1% of respondents have indicated that these initiatives do not add value or save costs, business owners do not understand the rules and SARS does not assist in implementing the rules. 69.4% of respondents have also indicated that SARS initiatives have not been successful in assisting with compliance and an overwhelming 80% of respondents have indicated that more initiatives need to be introduced. This is in agreement with the literature review, which has indicated that tax relief initiatives introduced are not achieving the objective they were intended to meet.

5.4 Recommendations

Based on the findings from this study the following recommendations are made:

1. More taxpayer education and training needs to be supplied to small and medium business owners, especially in terms of VAT legislation to assist in achieving compliance.

2. The current tax regulations for small businesses needs to be simplified in order to ensure that minimal time and costs are expended in ensuring compliance.

3. Current tax relief initiatives need to be investigated and possibly changed to ensure they are effectively assisting the small business sector in achieving compliance.

4. More assistance from SARS is required help small businesses understand and utilize initiatives as well as promoting these initiatives so that the small business sector is aware of the initiatives available to them.

5.5 Limitations of the study

The limitations of the study were:

a) The research sample was limited due to the location and number of respondents involved in the study. The sample was obtained from three accounting practices in the Pietermaritzburg area. These three practices did have clients across the province that participated in the study but the majority of respondents where from the Pietermaritzburg area and are not really representative of the province.

b) The response rate received from the respondents. The response rate was approximately 40% of the sample frame utilized.

c) Only formal businesses registered for tax were used in the study. No small and medium enterprises in the informal sector were used in this study.

Any significant results may not be necessarily generalizable across the province but will add value by giving policy makers a general indication of what the major tax compliance issues are in the province.

5.6 Areas for future research

The following are avenues for future research.

a) This study highlighted the need and importance of the small business sector for the province. A few small businesses do utilize tax relief initiatives however not much research has been done to evaluate the actual benefits received from these initiatives. An area for further research would be to evaluate the effectiveness of such initiatives and to determine if these initiatives have actually contributed to business growth, profitability and sustainability.

b) The findings of this study indicate that many business owners do not utilize relief initiatives as they are not applicable or either does not add value or save costs. Further research should be done to establish some of the other possible alternatives that small business owners would regard as be beneficial in addressing the tax compliance burden.

c) An investigation into the costs of compliance have been conducted in Gauteng, however no research has been done to evaluate the costs of compliance in

KwaZulu Natal. The findings from this study have indicated that tax compliance is a factor which negatively influences business growth and more research should be done to fully understand the costs of compliance and the impact on business cash flows and performance in the province.

5.7 Conclusion

KwaZulu-Natal has the second largest population and the importance of developing the province is essential. This study aimed to make policy makers aware of the important tax challenges in the province. The results from this study allows policy makers to be aware about the complexities and costs that small and medium businesses are exposed to and how this negatively influences growth, performance and sustainability. The literature review confirms that current tax initiatives are not being utilized efficiently and are considered to be fundamentally ineffective. There is an overwhelming consensus by small business owners that much more needs to be done by SARS and the government to address the needs of the small business sector. The findings from this study confirm that tax compliance is a major challenge in the small business sector in KwaZulu Natal. Tax compliance challenges have been adversely impacting business growth which is in direct contrast to the strategic objectives of eliminating unemployment and poverty, as set out by the national government. There is an urgent need for an improvement in tax policies that regulate the small business sector to support small and medium businesses in accomplishing these objectives.

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04 October 2017

Mr Yergenthren Naicker (203517445)
School of Accounting, Economics & Finance
Westville Campus

Dear Mr Naicker,

Protocol reference number: HSS/1621/017M
Project title: Factor's of tax compliance that influence small business growth in KZN

Approval Notification – Expedited Approval

In response to your application received on 12 September 2017, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

....
Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Dr Rajendra Rajaram
Cc Academic Leader Research: Dr Colette Muller
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