

# TAX COMPLIANCE: AN ADMINISTRATIVE BURDEN FOR SMALL BUSINESS ENTERPRISES (SME'S)

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## Abstract

As is the case in many economies, tax laws are sometimes very complicated and difficult for SME's to understand and to implement. Tax laws change every year, impacting on the business, its operations and its profitability. It is also a fact that the more a government overspends, misappropriates funds and overall lack fiscal control, the more they will try and recover these "losses" from the taxpayers - including SME's. The main purpose of the study is to investigate whether small business enterprises are burdened by the administrative processes required in South Africa to comply to with the tax regulations of the country. The South African government has strict policies and procedures in place that all businesses should adhere to. However, the key challenge that many SME's still face is that of red tape and burdensome regulatory processes and procedures. In an attempt to establish the main objective of the study, a quantitative approach research approach was employed and a significant amount of small businesses were surveyed. From the findings it is clear that the respondents of the survey agree that the tax services registration documentation and process should be made easier. The submission of the registration documents, once understood and completed, is not a big problem for the respondents. The cost of registration does not seem to be a major burden to the SME's.

**Keywords:** Tax Laws, SME, Challenges, Survival

## 1. INTRODUCTION

Small businesses are considered in many - if not most - countries to be the pillar of the economy. With the variations in the stability of the economy, they are seen to bring about some level of stability into the economy. It is not only important that small businesses contribute to the economy, but also that these small businesses should display continuous growth in order to bring about sustainability and job opportunities thereby taking pressure off the government social structures and away from a dependence on larger businesses. Firm growth is measured in terms of the organisations turnover and by the number of employees it has employed (SBP Business environment specialists, 2014). An entity can be regarded as a Small Business Enterprise (SME) if it meets three criteria: (a) it has a comparatively small share of their market place; (b) it is managed by owners or co-owners, in a personalised way and not through a medium of a formalised management structure, and (c) it is independent in that it is not part of a larger enterprise (NCR, 2011: 22).

According to Davis in Kgosana (2013), if there are seven small businesses started in South Africa, in one year only two will continue to be in existence. This would mean that the remaining five small businesses will fail in the first year of existence. This estimation is particularly concerning when considering the significance and importance of small businesses within the economy. With the high unemployment rate in South Africa, small businesses play a vital role in addressing this issue

as job opportunities in larger businesses are relatively low. According to Entrepreneur magazine (2013), 68% of South African workers are employed by organisations that have less than 50 staff members and 43% are employed by organisations that hire less than five staff members.

However, a study conducted by SBP (2014: 7), assigned small businesses to one of four categories based on the change in SME turnover between 2012 and 2013. These categories included shrinking small businesses whose turnovers have declined, stagnant small businesses whose turnover did not change, moderate growth small businesses which showed an increase in turnover of 10% or less and high growth small businesses which saw an increase of more than 10% (SBP, 2014: 7). The slight increase denotes that under harsh economic conditions, there are some small businesses that have managed to survive and continue to grow. According to Forbes (2013), there are approximately 28 million small businesses in the United States of America, and it is estimated that over 50% of the working population of the US is employed by a small business (Forbes, 2013). From these figures, it can be presumed that small businesses do contribute positively to the strength of the US economy and it can be further surmised that in most economies the same positive contribution of SME's are present.

Despite the growth and contribution of SME's to the economy, these organisations face a number of challenges that can and will impact on their ability to succeed. Table 1 identifies some of the barriers of entry and challenges that are faced by SME's and may apply to various sectors.

**Table 1.** Barriers to entry and challenges faced by SME's

| <i>Barriers to entry and challenges faced by SME's</i>  |
|---|
| • A lack of management skills   |
| • Finance and obtaining credit  |
| • Access to markets and developing relationships with customers   |
| • Appropriate technology and low production bureaucracy   |
| • Support for the role that they play in economic development   |
| • Lack of capacity to undertake market research, resulting in a lack of understanding of market needs and characteristics |
| • Red tape and cumbersome regulatory processes and procedures   |

*Adapted from: Bank Seta. (Not Dated)*

As can be seen from Table 1, a lack of managerial skills is a challenge that many SME's face. This challenge is not only limited to the knowledge of conducting business but may also include the knowledge of processes and procedures one needs to follow in order to operate a business. Many small business owners may only possess limited tertiary education qualifications which may leave these individuals at a disadvantage. According to Finscope (2010: 21), with regards to the level of education of small business owners in South Africa, 23% of SME owners had accomplished at most primary school level of education and 69% had attained secondary school level or internship training. The study found that only 2.3% of SME owners in South Africa have a university degree (Finscope, 2010: 21). From these figures, it can be seen that SME's are not really equipped with the necessary business skills and knowledge that can be achieved from some sort of tertiary training which can and will have an impact on their success.

Above the general lack and understanding of managerial skills, SME owners are challenged by the complicated regulatory processes and procedures that are prescribed by government (SEDA, 2012). These can range from the process SME's follow in order to register their businesses to the processes they follow in order to comply with the tax laws of the country. According to Smulders and Naidoo (2011: 34), tax compliance requirements and high tax compliance costs can be considered to be an obstacle for small businesses in South Africa. Compliance costs may comprise of subsequent components as identified by (FIAS, 2007: 7):

- The significance of the time spent by business owners/managers or staff members on understanding the tax rules and applying them;
- Record-keeping costs such as costs of compiling the necessary receipts and other records and costs suffered when preparing necessary documents for tax returns;
- The costs incurred by the SME owners for professional assistance from consultants who may provide support with the compilation, completion or submission of tax related documents; and
- Minor expenses for postage, telephone and travel incurred in the process of continuous communication with professional consultants or tax authorities.

Tax systems may vary from one country to another and may impose varying policies as well as procedures upon small businesses. In the U.S for example, the tax payer is subject to both federal as well as state capital gains taxes (Pomerleau, 2015). The strength of the country's economy and the sphere in which it operates may also be a

determinant of the responsibilities small businesses have towards tax systems.

As can be seen from the discussion above, a number of challenges are presented to SME's. As SME's play such a vital role in the economy of a country, and the effect of Tax laws have a profound effect on these businesses it was regarded as prudent to evaluate and investigate the effect and impact of tax laws on these businesses. The main purpose of the study is to investigate whether small business enterprises are burdened by the administrative processes required in South Africa to comply with the tax regulations of the country. According to Smulders and Naidoo (2011: 34), the South African government has recognised the importance of making the tax regulatory environment friendlier for small businesses. However, the effectiveness of their efforts under various economic environments needs to be investigated.

The study at hand will provide the objectives of the study, a literature review providing a detailed analysis of the types of tax procedures that SME's need to abide by. The methodology of the study will then be discussed and thereafter the findings will be presented.

## 2. OBJECTIVES OF THE STUDY

The primary objective of the study is to investigate whether small business enterprises are burdened by the administrative processes required in South Africa to comply with the tax regulations of the country. Secondary objectives of the study include the following:

- To explore how SME's experience the tax registration process.
- To determine the perception SME's have of the service provided by SARS.

## 3. LITERATURE REVIEW

### 3.1. The role of SARS

The South African Revenue Service plays a vital role in the economy as it facilitates all tax related procedures and processes imposed by legislation. As soon as a business has commenced, it is essential that small business owners familiarise themselves with numerous activities administered by the South African Revenue Services (SARS). These activities include the duties and obligations of the business operator in terms of the various tax laws. SARS is obliged by law to determine and collect the correct amount of tax that is due from taxpayers; including small businesses (SARS, 2013/2014a: 8). The SARS

officials are the representatives of the Commissioner and in that capacity are obliged to ensure that the tax laws are administered to appropriately and justly so that no one is favoured (SARS, 2013/2014a: 8).

As can be seen, the tax regulatory services plays, as in any other country, a vital role in the country, and their interaction with taxpayers may be positively or negatively influenced by the compliance of tax regulations. Once the role of SARS has been identified, the next step would be to determine and identify the various taxes applicable to small businesses as well as the processes that small business owners need to follow in order to register for these taxes. These types of taxes are discussed in the following section.

### 3.2. Types of tax applicable to small businesses

According to SARS (2013/2014b: 2), taxes are levied by the national government of South Africa under the Income tax Act 58 of 1962. These taxes includes (SARS, 2013/2014b: 2):

- Income tax;
- Employees tax which is also known as pay-as-you-earn (paye);
- Provisional tax.

In South Africa, Value-Added Tax (VAT) is levied by the national government under the Value-Added Tax Act 89 of 1991 (SARS, 2013/2014b: 2). According to SBA (Not Dated), in the U.S, the federal government charges four types of taxes such as income tax, self-employment tax, taxes for employers and excise taxes. These types of taxes will now be discussed in the following section.

#### 3.2.1. Income tax

The first tax that is applicable to small business enterprises (SME's) is known as Income tax. According to the Business dictionary (2014), income tax is defined as a yearly charge taxed on both earned income such as wages salaries as well as commission and on unearned income such as dividends, interest and rents. Income tax can be separated into personal income tax and corporation income tax. Personal income tax is levied on incomes of individuals, households, partnerships and sole-proprietorships, whereas corporation income tax is levied on profits of incorporated firms (Business dictionary, 2014). The procedure and processes in which taxpayers need to adhere to when registering for Income tax as described by SARS (2013/2014a: 8) include:

- As soon as a taxpayer starts their business, be it as a sole proprietor or a partnership, the taxpayer or the organization is required to register with SARS in order to obtain an income tax reference number;
- The newly established entity must be registered with the Company Intellectual Property Commission (CIPC) in order to acquire a business reference number. The entity will thereafter be registered as a taxpayer inevitably;

- Depending on turnover of the entity, number of employees to pay salaries to, the entity could also be obliged to register for other taxes such as VAT or PAYE.

As can be seen from the above discussion, there are various processes and procedures that small business owners need to adhere to. It is therefore the responsibility of the small business owners to ensure that the entity is registered for tax. All these processes and procedures require personal time and effort as particular documentation is required. SME owners therefore need to manage their time well in order to complete and submit necessary documentation in order to meet the required tax laws employed in the country.

#### 3.2.2. Employees' tax

The second tax that all businesses, including small businesses, are obligated to register for is Employees' tax, which is commonly known as PAYE (Pay-as-you-earn). Employees' tax is referred to as the total amount of tax that the small business is obligated to deduct from all consistent or periodic cash outflows for remuneration paid or which becomes payable to retained employees (SARS, 2014a). According to SARS (2014a), an employee for Employees' Tax purposes is defined as a natural person who receives remuneration or to whom remuneration accrues.

There are various processes that employers need to follow to ensure that they adhere to the tax laws relating to employees' tax. Small business owners, in their capacity of employers must register for Employees' tax. Registration can be done by completing an EMP 101 form and submitting it to SARS (SARS, 2013/2014a: 11). The employer will then receive a monthly return (EMP 201) that must be completed and submitted together with the payment of employees' tax within seven days of the month after the tax was deducted (SARS, 2013/2013a: 11).

It is the responsibility of the employer to ensure that their employees are registered for employee's tax and also make the necessary payments to the regulatory body within the specified time. Small business owners need to therefore familiarise themselves with all the processes and comply with the tax laws in the country.

#### 3.2.3. Provisional tax

The third tax that directly affects small businesses is referred to as provisional tax. Provisional tax can be paid to SARS twice a year by an individual or an organisation and it is calculated based on taxable income earned by the taxpayer (Sutton, 2013). The amount for provisional tax payable is calculated based on the projected taxable revenue for a particular financial year of assessment (SARS, 2015a). Table 2 provides the method in which the provisional tax is calculated.

**Table 2.** Provisional tax calculation

| <i>Period</i>     | <i>Calculation</i>   |
|-------------------|--|
| The first period  | Half of the total estimated tax for the full year - the employees' tax for six months - any allowable foreign tax credits for six months   |
| The second period | The total estimated tax for the full year - the employees' tax paid for the full year - any allowable foreign tax credits for the full year - the amount paid for the first provisional period |

Source: SARS. (2015a)

Small business owners are liable for provisional tax the moment they begin their business. Correctly calculating the provisional tax amount for each period may be a complicated exercise and requires great insight and knowledge of general principles relating to financial statements. Failure to comply with these processes may result in interest owed and a penalty being imposed during the assessments. Therefore, it is the responsibility of the small business owners to equip themselves with the necessary knowledge to complete this process.

### 3.2.4. Value-Added Tax (VAT)

The fourth tax that can be applicable to small businesses operating in South Africa is referred to as Value-Added Tax. Value-Added Tax, also known as VAT, is an indirect tax that is included in the selling price of every taxable good or service produced by an organisation (Standard Bank, 2012). VAT is a destination-based tax, meaning that it is levied at a standard rate of 14% on most supplies and imports within South Africa (Standard Bank, 2012). However, there is a range of goods and services which are either exempt or subject to tax at the rate of 0%. These goods include basic products necessary for survival such as bread, public transport fares and certain educational services.

Any person, who operates an organisation where the total value of taxable turnover exceeds or is likely to exceed the compulsory VAT registration threshold of R1 million in a 12-month period, is then liable for VAT (Standard Bank, 2012). Therefore, small business owners may be liable for VAT.

Organisations are required to submit VAT returns and make payments of the VAT they are liable for in accordance with the tax period allocated to the organisation (SARS, 2015b). Any late submissions may result in penalties being charged to the organisation (SARS, 2015b). When submitting the necessary application forms for the registration of VAT, a number of supporting documents are needed. It is therefore the responsibility of all businesses to ensure that all documents are correctly completed and submitted.

The discussion above illustrates the registration processes and procedures that small businesses need to follow in order to comply with the tax regulations of South Africa. With limited knowledge, understanding and managerial skills, these processes may be troublesome for those small business owners with no prior exposure or experience with dealing with these processes. As previously mentioned, small businesses thrive depending on the specific country's laws and economic conditions. Other types of taxes that may be applicable to small businesses in other countries are briefly discussed in the next section.

## 4. TAXES APPLICABLE TO SMALL BUSINESSES IN OTHER COUNTRIES

### 4.1. Income tax

In the United States, all organisations apart from partnerships are required to file an annual income tax return (IRS, Not Dated (a)). Partnerships file an information return. The type of form that businesses use to file income tax will depend on how the company is organised (IRS, Not Dated (a)). The federal income tax is a pay-as-you-go tax that is paid as income is earned or received during a financial period (IRS, Not Dated (a)). In most cases, an employer will withhold income tax from an employee's remuneration (IRS, Not Dated (a)).

### 4.2. Estimated tax

The second type of tax applicable to small businesses is referred to as estimated tax. Estimated tax is the method used to pay tax on income that is not subject to withholding (IRS, Not Dated (b)). This is inclusive of income from self-employment, interest, dividends, child maintenance, rent, and gains from the sale of assets, prizes and awards (IRS, Not Dated (b)). Organisations may also be required to pay estimated tax if the amount of income tax being withheld from salary, pension, or other income is not enough (IRS, Not Dated (b)).

### 4.3. Self-employment tax

The third type of tax that small business owners should be aware of is self-employment tax. This is a tax consisting of social security and Medicare taxes mainly for those who are self-employed (IRS, Not Dated (c)).

### 4.4. Employment tax

The fourth type of tax to be considered by small businesses is employment tax. As employers, small business owners have employment tax responsibilities that need to be fulfilled. Employment taxes are inclusive of the following (IRS, Not Dated (a)):

- Social security and Medicare taxes
- Federal income tax withholding
- Federal unemployment (FUTA) tax.

In the above discussion, small businesses are obliged to comply with tax laws and are therefore levied various taxes. As mentioned before, different taxes will be imposed on businesses and in order to file for each tax, certain procedures and processes should be followed. It is therefore important that small business owners know and understand these various taxes. The ability of the small business to comply with the tax regulations depends on the

expertise regarding tax laws within the SME. The next section will discuss the influence of tax laws on SME's in South Africa.

## 5. THE INFLUENCE OF TAX LAWS ON SME'S IN SOUTH AFRICA

Abrie and Doussy (2006: 10) conducted a study to investigate the problem areas that manufacturing SMEs have to cope with in administering government taxes. The study found that small businesses are burdened by the issues surrounding tax compliance and these entities lack the human capital to assist with tax compliance issues (Abrie & Doussy, 2006:10). The study further found that SME's spend resources that can otherwise be used to operate the entity; on tax compliance. In some cases, SME owners seek professional assistance with tax compliance. Smulders and Stiglingh (2008: 369) found that tax practitioners charge SME's on average R7 030 per year for assistance with tax compliance. Lack of funding has been identified by many researchers as a key problem that SME's experience therefore this additional cost outsourcing tax compliance can therefore impact the success of the small business. The compliance costs are seen to be regressive in South Africa whereby the smaller businesses are affected the most (Smulders and Stiglingh, 2008: 369).

Brink, Cant, & Ligthelm (2003: 5) emphasise that financial management is a vital area within the micro-environment of SMEs that provides challenges to many SME's. Lack of financial resources is often described as the major hindrance experienced by businesses (Brink, Cant, & Ligthelm, 2003: 5). From the above literature, one can deduce that tax compliance involves a number of administrative processes and financial commitment from the SMEs. The lack of resources and knowledge of the administrative processes can therefore impact SME in a negative manner.

The methodology employed in the study is discussed next

## 6. METHODOLOGY OF THE STUDY

The primary objective of the study is to investigate whether small business enterprises are burdened by the administrative processes required in South Africa to comply to with the tax regulations of the country. A quantitative approach was utilised in the study as this approach enables the researcher to quantify and scrutinise responses from SME's (Wiid & Diggins, 2013: 8). The quantitative data collection method that was used in the study is that of a self-administered; this was chosen because this data collection tool could provide precise avenues of evaluating information regarding administrative processes experienced by SME's in Gauteng. The data collection tool is considered to be efficient and cost effective (Zikmund & Babin, 2010: 191). The self-administered survey was distributed to SME in Gauteng who registered their businesses at an official state institution for SME's. At the time of data collection, the SMEs were approached at an SME workshop and were asked to complete the survey at their convenience. For the purpose of the study, SME owners, managers and staff who may fulfil administrative tasks of the business were selected.

The questionnaire contained a total of five closed-ended questions of which one was a multiple response questions and three measured on a five-

point Likert scale (See Annexure A). There was one open ended question included in the questionnaire. The quantitative data was analysed using IBM SPSS Statistics V22. The data was checked, coded, corrected and descriptive statistics (frequency counts) were used to describe the findings.

The sample population for the study consisted of SME personnel (SME owners, managers or staff) within the Gauteng province. The study focused on SME owners in Gauteng because the province is referred to as the economic and industrial hub of South Africa; contributing more than R1 -trillion to the national economy (SME South Africa, 2015).

The sampling methodology utilised was that of non-probability, convenience sampling. Convenience sample was deemed suitable for the study as the study aimed to explore and investigate whether small business enterprises are burdened by the administrative processes required in South Africa to comply to with the tax regulations of the country. Although the results cannot be generalised to the entire population, findings can contribute to the body of knowledge and illustrate the current state and experiences of small businesses in the province. In addition, convenience sampling enabled the researcher to collect data quickly and easily (Zikmund & Babin, 2010: 424).

In total, 61 completed surveys were completed and used in the analyses process. The number of completed surveys was deemed sufficient and achieved a confidence level of 95%; with an error margin of 10% at 50% response distribution. The 61 useful responses received yielded an error margin of 12.04% (Raosoft, 2016).

The limitations of the study will be discussed in the following section.

### 6.1. Limitations Of The Study

Given the sample size that was used (n=61), the results only give a general indication of whether small business enterprises are burdened by the administrative processes required in South Africa to comply to with the tax regulations of the country. Therefore, the variables identified cannot be generalised as being representative of all South African SME's further research in this area is therefore recommended.

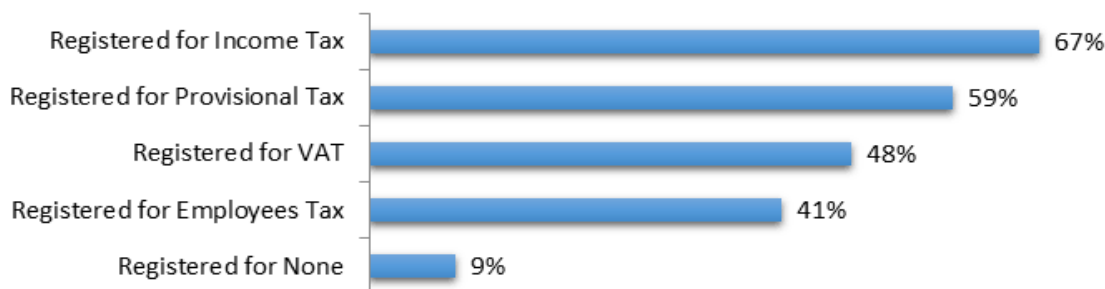
## 7. RESULTS

The respondent group consisted of owners (79%) managers (19.7%) and staff (1.3%). Most of the respondents were female (58.62%) with more than half who are older than 40 (56.9%). The SME sector that these businesses operated in consisted mainly of construction (20%), business services (10%), manufacturing (10%) and retail (7.1%). A large proportion of the respondents' businesses have existed for less than five years (60.8%) while one quarter of the respondents' businesses have existed for six to ten years (25.7%). Almost half of the respondents (41.8%) reported that their annual turnover is less than R100000.

### 7.1. Registration for tax services

Figure 1 provides the percentage respondents who registered for the different types of taxes. Of the 61 responses received, 58 provided information on which SARS services they have registered for.

**Figure 1.** Percentage of respondents who registered for the different SARS services



As can be seen from Figure 1, the majority (67%) of the business are registered for Income Tax services and Provisional Tax services (59%). Almost half (48%) are registered for VAT and 41% for Employees' Tax. The minority (9%) are not registered for any SARS tax services.

**7.2. Descriptive analysis on the experience of small business owners with regards to the tax registration process**

The respondents were asked to indicate the extent to which they agree with a number of statements describing different experiences regarding the tax registration process on a scale of one to five with higher values corresponding to higher levels of agreement. Because of the sample size of this survey, it was necessary to collapse the Likert scale to a three-point scale. This was achieved by

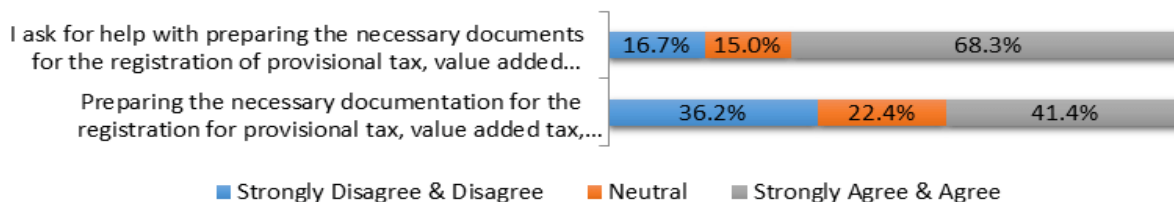
combining the two negative perceptions to a single negative view (Strongly disagree/disagree) and the two positive perceptions to a single positive view (agree/strongly agree). The neutral or "don't know" view remained unchanged. Note that a collapse in scale will result in a loss of information.

From the responses the following findings were made:

*7.2.1. Completing the registration documents*

Most of the respondents (68.3%) strongly agree or agree that they had to ask for help to prepare the registration documentation, while 41.4% of them strongly agree or agree that it was difficult for them to prepare the documentation. The findings are illustrated in Figure 2.

**Figure 2.** Agreement levels with statements regarding the completion of the registration documentation

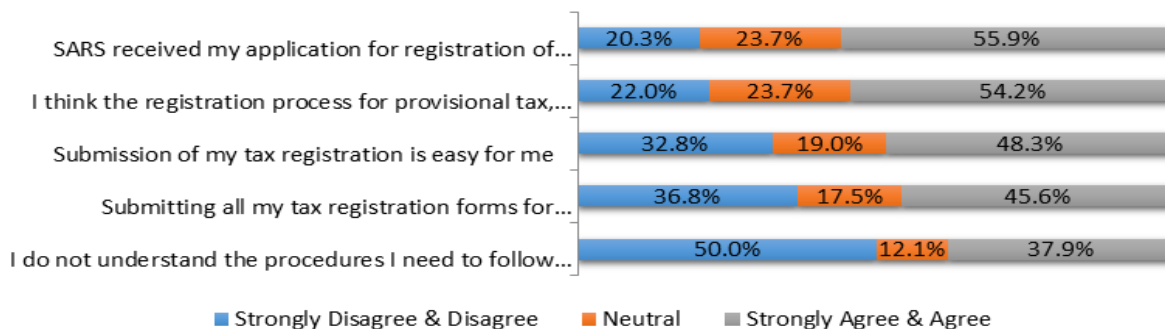


*7.2.2. The registration process*

Most of the respondents (55.9%) strongly agree or agree that SARS received their application for registration of the tax services within an acceptable time frame. Furthermore, most of the respondents (54.2%) strongly agree or agree that the registration process is a very lengthy process. The findings are provided in Figure 3. The submission of the tax

registration was easy for almost half (48.3%) of the respondents and less than half (45.6%) of the respondents of them strongly agree or agree that the submission of the registration form went quick. Half of the respondents (50%) strongly disagree or disagree with the statement that they did not understand the procedures to follow for registration for the SARS tax services.

**Figure 3.** Agreement levels with statements regarding the registration process

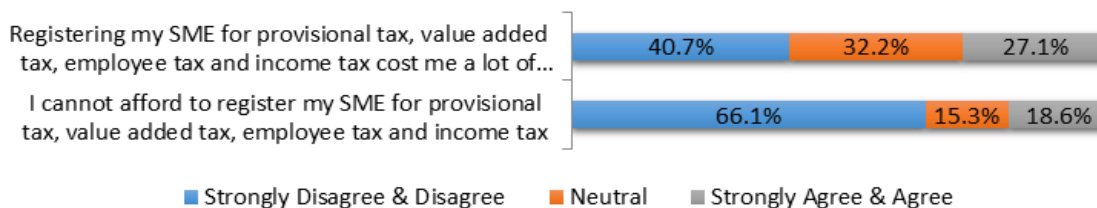


7.2.3. Cost implications of the registration process

The majority of the respondents (66.1%) strongly disagree or disagree that they cannot afford to

register their SME for the SARS tax services, while 40.7% strongly disagree or disagree that registering their SME for tax services cost a lot of money. The findings are illustrated in Figure 4.

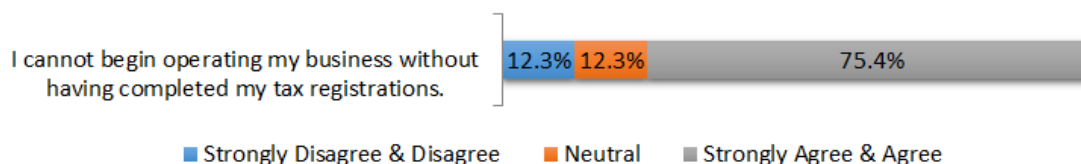
Figure 4. Levels of agreement with statements regarding the cost of registering for SARS tax services



7.2.4. Importance of registering for tax services

The majority of the respondents (75.4%) strongly agree or agree that they cannot begin to operate their business without having completed the tax registration. The findings are provided in Figure 5.

Figure 5. Levels of agreement with the importance of registering for tax services in order to operate the business



7.3. Descriptive analysis on the perception of small business owners on the service they receive from SARS

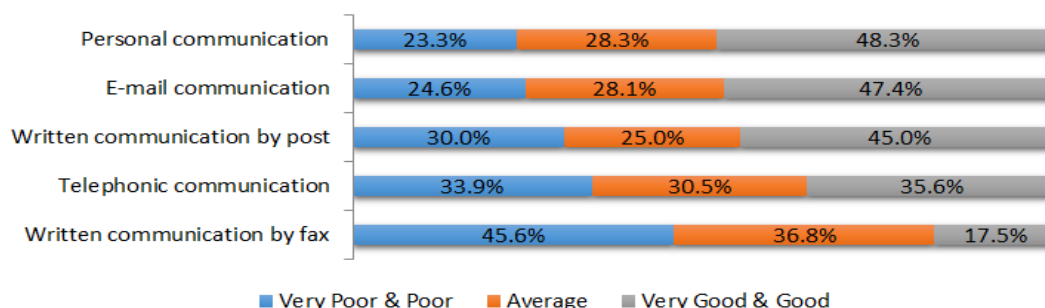
The respondents were asked to indicate the extent to which they agree with a number of statements describing their perception of the service they receive from SARS on a scale of one to five with higher values corresponding to higher levels of agreement. Because of the sample size of this survey, it was necessary to collapse the Likert scale to a three-point scale. This was achieved by combining the two negative perceptions to a single negative view (Very poor/poor) and the two positive perceptions to a single positive view (good/very good). The neutral or don't know view remained

unchanged. Note that a collapse in scale will result in a loss of information. From the responses the following findings were made:

7.3.1. Communication services from SARS using different communication tools

Telephonic and Fax communication services from SARS was rated the lowest by the respondents with only 17.5% of the respondents perceived the communication by Fax as Very good or good. Written communication by post (45%), email communication (47.4%), and personal communication services (48.3%), was rated as very good or good by more of the respondents (Figure 6).

Figure 6. Rating of the different means of communication from SARS



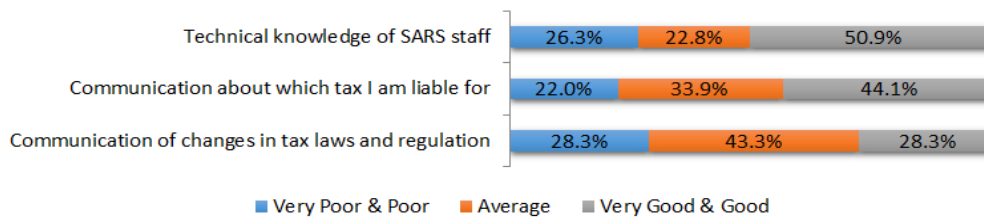
7.3.2. Communication Of Information From SARS

Half of the respondents perceived the technical knowledge of SARS as Very good or good. Communication from SARS on which tax the

respondents are liable for was rated Very good or good by only 44.1% of the respondents, while communication from SARS regarding the changes in tax laws and regulation are rate very good or good by only 28.3% of the respondents (Figure 7).



Figure 7. Rating of the communication of information from SARS



**7.4. Descriptive analysis on the perception of small business owners on whether the tax laws of South Africa are burdensome**

The respondents were asked to indicate the extent to which they agree with a number of statements describing how much they think the tax laws of South Africa impacts the success of their SME. Because of the sample size of this survey it was necessary to collapse the Likert scale to a three-point scale. This was achieved by combining the two negative perceptions to a single negative view (Strongly disagree/disagree) and the two positive perceptions to a single positive view (agree/strongly agree). The neutral or don't know view remained unchanged. Note that a collapse in scale will result in a loss of information. The outcome of the responses can be seen in Figure 8.

The majority of the respondents (58.6%) strongly agree or agree with the statement that tax laws affect the success or failure of small businesses. The top four statements that more than half of the respondents strongly agree or agree with are:

- I think there is a high frequency of submission of tax returns (53.4%)
- It costs me a lot of money to prepare, complete and submit my tax returns (54.2%)
- The registration process for provisional tax, value-added tax, employees' tax and income tax positively affects the success of my SME (55.9%)

- I think there are too many forms to fill and too many procedures to follow in filing my tax returns (56.9%)

More people strongly agree or agree with the following statements than people who strongly disagree and disagree:

- I do not know how to prepare, complete and submit my tax returns (40.7%)
- I think the amount of time spent addressing tax regulations affects the productivity of my business (42.1%)
- I think the tax laws are written in a very complex language (42.1%)
- It takes me long to prepare, complete and submit my tax returns (47.5%)
- The registration process for provisional tax, value-added tax, employees' tax and income tax is complex (49.2%)

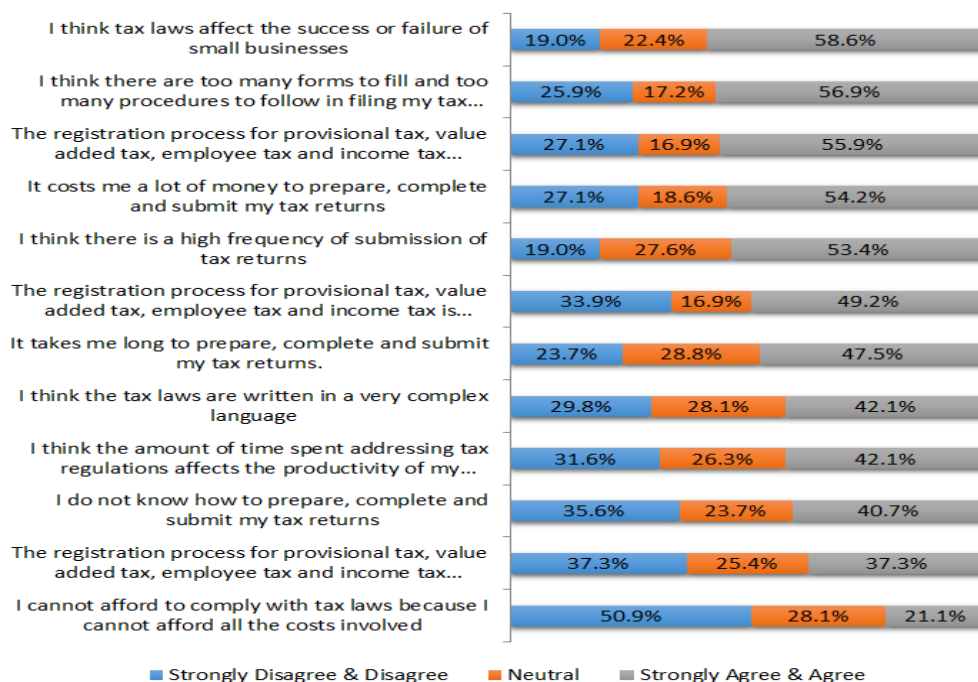
Just as many people strongly agree or agree with the following statement than people who strongly disagree and disagree:

- The registration process for provisional tax, value-added tax, employees' tax and income tax threatens the success of my SME (37.3%).

More than half of the respondents strongly disagree or disagree with the statement:

- I cannot afford to comply with tax laws because I cannot afford all the costs involved

Figure 8. Levels of agreement with the impact of tax laws of South Africa on the success of SME's





## 8. CONCLUSION

The study at hand discusses the compliance issues that small businesses face regarding tax. As previously mentioned, small businesses play a vital role in the economic growth of South Africa however, small businesses struggle to survive as they are faced with various obstacles. The question that one should ask is why should businesses pay tax, what is the importance or significance of tax within the South African context. According to Deloitte (2007), tax is money that South African inhabitants pay to the country. In essence the money that these individuals pay is used for social services such as transport, education, international security, national security, healthcare and welfare (Deloitte, 2007). Despite this significance there seems to be much debate about businesses being taxed. Gauke and Shaxson (2011) argue that corporate taxation involves unfair double tax because corporations are taxed, then tax on their dividends is applied.

The following can be considered as solid for the paying tax (Tax fairness, 2013):

- Taxes provide assistance for education, healthcare and resources such as safe drinking water and infrastructure;
- Taxes provide for a counter-balance by softening extreme disparities in wealth, power and benefits within a country;
- Taxes make the marketplace work in terms of maintenance of regulated business environment in order to protect property rights, enforce fair labour practices and protect consumers;
- Taxes ensure that infrastructures are built and maintained. Such infrastructures include well maintained roads, electrical supply infrastructure as well as healthcare facilities.

In essence, from the words of Oliver Wendell Holmes Junior - taxes are the price we pay for civilisation (Quote investigator, Not Dated).

From the findings it is clear that the respondents of the survey agree that the tax services registration documentation and process should be made easier. The submission of the registration documents, once understood and completed, is not a big problem for the respondents. The cost of registration does not seem to be a major burden to the SME's. As far as services rendered by SARS, the respondents are of the opinion that the Telephonic and Fax communication services from SARS are not very good. Written communication by post, email communication and personal communication services are rated higher. Most of the respondents regard the technical knowledge of SARS as good. Communication from SARS on which tax the respondents are liable for was rated good, while communication from SARS regarding the changes in tax laws and regulation are seen as average by most of the respondents.

The opinion of the majority of the respondents were that the tax laws are a burden to SME's mainly because there is a high frequency of submission of tax returns, it costs a lot of money to prepare, complete and submit the tax returns. The registration processes for tax services are too cumbersome and complex, there are too many forms to fill and too many procedures to follow in filing the tax returns and they do not know how to prepare, complete and submit it. Other reasons for

regarding tax laws as a burden is that the amount of time spent addressing tax regulations affects the productivity of the business. The tax laws are written in a very complex language.

In order to make the tax laws less of a burden to SME's the following recommendations can be made after studying the feedback from the respondents: Lower the frequency of submission of tax returns since it costs a lot of money to prepare, complete and submit the tax returns. Simplify the registration process for tax services and the procedures for submitting tax returns and making it easier to understand the procedures and processes. The tax laws should be explained in easier understandable terms. SARS should communicate the changes in tax laws and regulations better and in a more understandable language to make it easier for business owners to stay up to date with the tax laws.

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## APPENDIX

## Appendix A. Data Collection Instrument

Resp. no. 

## The influence of South African tax laws on the success of Small Business Enterprises (SME's) survey -

## QUESTION 1

Please indicate which of the following have you registered your SME with the South African Revenue Services (SARS)? Tick ALL that is applicable.

|                       |  |
|-----------------------|--|
| Provisional tax       |  |
| Value Added Tax (VAT) |  |
| Employee tax          |  |
| Income tax            |  |
| None                  |  |

## QUESTION 2

Please read each statement carefully and then indicate the extent to which you agree or disagree that the statement describes **how you experience the tax registration process of your business**

|  | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly agree |
|--|-------------------|----------|-------------------|---------|----------------|-------|----------------|
| I think the registration process for provisional tax, value added tax, employee tax and income tax is very lengthily.                          | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I cannot begin operating my business without having completed my tax registrations.  | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I do not understand the procedures I need to follow to register for provisional tax, value added tax, employee tax and income tax              | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| Preparing the necessary documentation for the registration for provisional tax, value added tax, employee tax and income tax is difficult      | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I ask for help with preparing the necessary documents for the registration of provisional tax, value added tax, employee tax and income tax.   | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| Submission of my tax registration is easy for me   | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| Submitting all my tax registration forms for provisional tax, value added tax, employee tax and income tax is quick                            | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| SARS received my application for registration of provisional tax, value added tax, employee tax and income tax within an acceptable time frame | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| Registering my SME for provisional tax, value added tax, employee tax and income tax cost me a lot of money                                    | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I cannot afford to register my SME for provisional tax, value added tax, employee tax and income tax   | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |

## QUESTION 3

Please read each statement carefully and then indicate the extent to which you agree or disagree that the statement describes **your perception of the service you receive from SARS.**

|   | Very poor | Poor | Average | Good | Very good |
|---|-----------|------|---------|------|-----------|
| Personal communication                              | 1         | 2    | 3       | 4    | 5         |
| Written communication by post                       | 1         | 2    | 3       | 4    | 5         |
| Written communication by fax                        | 1         | 2    | 3       | 4    | 5         |
| Telephonic communication                            | 1         | 2    | 3       | 4    | 5         |
| E-mail communication                                | 1         | 2    | 3       | 4    | 5         |
| Technical knowledge of SARS staff                   | 1         | 2    | 3       | 4    | 5         |
| Communication of changes in tax laws and regulation | 1         | 2    | 3       | 4    | 5         |
| Communication about which tax I am liable for       | 1         | 2    | 3       | 4    | 5         |

**QUESTION 4**

Please read each statement carefully and then indicate the extent to which you agree or disagree that the statement describes **how you think the tax laws of South Africa impacts the success of your Small Business Enterprise (SME).**

|   | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly agree |
|---|-------------------|----------|-------------------|---------|----------------|-------|----------------|
| The registration process for provisional tax, value added tax, employee tax and income tax is complex.                              | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| The registration process for provisional tax, value added tax, employee tax and income tax threatens the success of my SME.         | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| The registration process for provisional tax, value added tax, employee tax and income tax positively affects the success of my SME | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| It takes me long to prepare, complete and submit my tax returns.  | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I do not know how to prepare, complete and submit my tax returns  | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| It costs me a lot of money to prepare, complete and submit my tax returns   | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I think there are too many forms to fill and too many procedures to follow in filing my tax returns                                 | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I think there is a high frequency of submission of tax returns  | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I think the tax laws are written in a very complex language   | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I think the amount of time spent addressing tax regulations affects the productivity of my business                                 | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I cannot afford to comply with tax laws because I cannot afford all the costs involved  | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |
| I think tax laws affect the success or failure of small businesses  | 1                 | 2        | 3                 | 4       | 5              | 6     | 7              |

**QUESTION 5**

Please indicate if you think that the tax laws are a burden to your small business

|     |   |
|-----|---|
| Yes | 1 |
| No  | 2 |

Why?

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