



Understanding the challenges encountered by small business owners regarding value-added tax compliance

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Background: South African tax practitioners fulfil a worthwhile advisory role and have unique insights into and emotional responses to the challenges faced by small business owners (SBOs) regarding value-added tax (VAT).

Aim: The study aims to understand the insights of tax practitioners around the challenges encountered by SBOs regarding VAT compliance.

Setting: A combination of face-to-face and online interviews took place with tax practitioners who service SBOs situated in the Gauteng province of South Africa.

Method: The study employed a qualitative research methodology and an interpretivism paradigm. Twenty-two semi-structured interviews were conducted with tax practitioners to gather their insights regarding challenges encountered by SBOs regarding VAT compliance.

Results: Tax practitioners generally argue that SBOs struggle with compliance challenges. There is a lack of understanding regarding the basic principles of the concept of agency for VAT purposes. Operational needs often impel the SBOs to utilise the VAT monies for ongoing business concerns. Accounting for VAT on an invoice basis is difficult for SBOs. Also, at the compulsory VAT registration threshold of R1 million, the SBOs are not ready to handle the VAT compliance burden yet. Lastly, there are negative attitudes towards VAT powered by the view that VAT encompasses constant outflows of cash.

Conclusion: Tax practitioners have important, yet complicated, interlocutor roles in ensuring VAT compliance. There needs to be a collaborative effort from all relevant role players to improve the day-to-day lived experiences regarding VAT compliance of SBOs.

Contribution: The study's philosophy adds differentiated dimensions around the key challenges facing SBOs regarding VAT compliance with a view towards alleviating these obstacles.

Keywords: agency; invoice basis; qualitative, SARS; semi-structured interviews; small businesses; SME taxation; VAT.

Introduction

Value-added tax (VAT) constitutes the third largest source of revenue for the Organisation for Economic Cooperation and Development (OECD) countries (Gale, Gelfond & Krupkin 2016). Compared to other tax types, VAT is relatively a new type of tax. It was introduced for the first time in France in 1948 and today, approximately, 160 countries around the world levy VAT (Erero 2021; Gale et al. 2016). Countries introduced VAT for several reasons. Value-added tax is less susceptible to volatility compared to other tax types (Erero 2021). Furthermore, VAT is arguably less vulnerable to fraud because it is remitted to revenue authorities at each stage of the production process (Gcabo et al. 2019; Kowal & Przekota 2021).

Value-added tax continues to be an important source of revenue for countries that are dealing with fiscal consolidation pressures while seeking to restore economic growth (Owens 2011). Value-added tax is a broad-based system that is levied on the local consumption of goods and services (SARS 2021). The consumption nature of VAT has demonstrated its ability to raise government revenue in a neutral and transparent manner (Owens 2011).

Prior to the introduction of VAT, most consumption taxes were in the form of retail sales taxes (Charlet & Owens 2010). In contrast to VAT, where traders levy output VAT on sales and claim input

VAT on purchases, retail sales tax is imposed on consumption at the time of the final sale (OECD 2017). Although the ultimate VAT burden is carried by the final consumer, VAT is collected at each stage of the production process, which inherently includes qualifying small businesses (Owens 2011).

In South Africa, VAT was introduced in 1991 to replace general sales tax (GST) as an indirect system of taxation. The contribution share of VAT to the South African government tax revenue amounted to 25% for the 2021/22 fiscal year (SARS 2022). In this regard, VAT has become the second-highest source of government revenue (SARS 2022). South African small businesses with a turnover of up to R20 million per annum represent the largest share of the number of registered VAT vendors, at 185 295. This constitutes 83% of all registered VAT vendors (SARS 2022). This translates into small businesses with a turnover of up to R20 million contributing R32037 million in net VAT payments to the government tax revenue (SARS 2022). This constitutes 26% of total net VAT payments for the 2021/22 fiscal year (SARS 2022), making them a useful unit of analysis for research. These statistics suggest that small businesses with a turnover of up to R20 million per annum play an important role in the tax revenue collection for the state. Thus, compelling scholars and practitioners to understand key challenges that small businesses face in VAT compliance. A highly useful lens is to probe these challenges through the lens of tax practitioners who wrestle with, and translate, the intricacies of VAT, for small business owners (SBOs).

Notwithstanding the enormous contribution that small businesses make to tax revenue in the form of VAT collection, research shows that they face unique challenges which often stretch the SBOs' limited resources, constraining their business development. A study undertaken among small businesses by Naicker and Rajaram (2019) found that 51.8% of the small business participants ranked VAT to be the most complex tax. Furthermore, Smulders (2013) found that VAT is the most burdensome tax, followed by PAYE and income tax. Evans et al. (2014) endorsed this view and further claimed that VAT or GST carried the highest tax compliance costs, compared to other tax types.

This study is therefore motivated by previous research that demonstrated that VAT is the most challenging form of taxation and therefore strongly warrants additional theorisation (see Evans et al. 2014; Naicker & Rajaram 2019; Smulders 2013). Naicker and Rajaram (2019) recommended that the South African Revenue Service (SARS) ought to invest resources into finding alternative solutions to assist small businesses with VAT compliance. Studies thus far have followed quantitative methodologies and, to date, this is one of few studies using qualitative insights (Evans et al. 2014; Naicker & Rajaram 2019; Smulders 2013). A qualitative methodology was chosen to achieve the aim of the study, which is to understand key challenges encountered by SBOs pertaining to VAT compliance. The qualitative methodology allowed the researchers to dig beyond surface issues, garnering

a concentrated and human-centric view of what is often treated as only an operative legalistic mandate. The main question, therefore, guiding the study is: *what are the key challenges encountered by SBOs regarding VAT compliance?*

The intended contribution of this article is to extend theory and inform further research, policy-making and everyday practice, using a participatory bottom-up approach. The remainder of the article is structured as follows: the 'Literature review' section delineates the topic of small business VAT compliance in the context of existing literature, setting up the theoretical impetus for the study. In the 'Research methodology' section, the researchers discuss the research methodology employed to answer the research question. The 'Findings' section presents findings and discusses their implications. The study presents conclusions inclusive of recommendations for researchers, policymakers and practitioners.

Literature review

Value-added tax is a consumption tax, charged on the difference between a business' sale of goods and services and its purchase of inputs from other businesses; it represents the tax on the value added to goods or services (Gale et al. 2016). Value-added tax compliance entails the accurate submission of tax returns including the payment of the VAT liability in a timely manner in line with relevant tax legislation (OECD 2004).

Mascagni et al. (2023) argued that VAT is a sophisticated tax because it is complex to administer. The implementation of multiple VAT rates impacts the efficiency of the VAT system, while also increasing the complexity, resulting in increased administrative and compliance costs (Charlet & Owens 2010). The use of a single standard rate is instrumental in reducing the complexity of the VAT system (De la Feria 2013), a necessary attribute to support small business tax compliance. Although a single rate is used in many countries, including South Africa, there are other exceptions such as exemptions and zero rating of certain goods and services. The zero rating of certain goods and services is aimed at offsetting the regressivity of VAT and thus lowering the burden of this tax on low-income families (Gale et al. 2016). On the other hand, exemptions are warranted for certain goods and services, because they are hard to tax (such as financial services) or are merit goods (such as education) (Parliamentary Monitoring Group 2011).

As it pertains to SBOs, researchers found concerns regarding confusion and administrative difficulty, particularly relating to input tax claims and net refunds (Mascagni et al. 2023). Although it may be straightforward when it comes to the levying of output tax, there are many rules that govern the deductibility of input tax on purchases. For instance, there are certain goods and services that are not eligible for input tax deduction such as salaries, fuel, entertainment costs and certain motor vehicles, among others (Value-Added Tax Act 89 of 1991: Sections 1, 17). Certain supplies are exempt from levying of output tax, such as financial, education and

transportation services among others, with the implication that expenses incurred to produce these goods and services will not be eligible for input tax deduction (Value-Added Tax Act 89 of 1991: Section 12). In this regard, a study undertaken among small businesses by Naicker and Rajaram (2019) found that 51.8% of the participants ranked VAT to be the most complex tax.

Furthermore, concerns have been raised about tax compliance costs regarding VAT as it relates to small businesses. Research has shown that tax compliance costs are regressive, the smaller the business, the more cumbersome the relative burden (Matarirano, Chiloane-Tsoka & Makina 2019). More so, tax compliance costs are higher for newer businesses as confirmed by studies carried out by DeLuca et al. (2007); Evans et al. (2014) and Smulders and Stiglingh (2008). A comparative analysis of internal tax compliance costs per tax type for small businesses in Australia, Canada, South Africa and the UK was conducted by Evans et al. (2014). This comparative analysis found that in three of the four countries VAT or GST was regarded as the most burdensome tax in terms of tax compliance costs compared to other tax types (Evans et al. 2014). Smulders (2013) also reported that VAT is the most burdensome tax followed by PAYE and income tax as mentioned in the Introduction.

There are three ways that governments often exploit to reduce the burden linked to VAT compliance. Firstly, there is less frequent filing of tax returns and payments. Secondly, there is the cash basis of accounting. Lastly, there is the presumptive input tax calculation (Zu 2018). In South Africa, less frequent submission of tax returns is applied to a very limited extent by vendors consisting solely of agricultural, pastoral or other farming activities with a turnover limit of R1 million over a 12-month period (Value-Added Tax Act 89 of 1991: Section 27). The cash basis of accounting is only applicable to vendors who operate as sole traders or partnerships or unincorporated persons with an annual turnover of up to R2.5 million (Value-Added Tax Act 89 of 1991: Section 15). South Africa does not currently utilise the third way mentioned to reduce the tax compliance burden, namely presumptive input tax calculation. The only presumptive tax that is available to small businesses in South Africa is in the form of a turnover tax, which is applicable to businesses with a turnover of R1 million or less (Income Tax Act 58 of 1962: Schedule six).

The preceding discussion demonstrates that many small businesses with a turnover of between R1 million and R20 million contend with the same requirements that are expected from large corporations. One million Rand is the compulsory VAT registration threshold, although some small businesses register voluntarily with a turnover of less than a million. From this point of view, SBOs who feel that they are being treated unfairly may have a valid point because large corporations have systems, infrastructure and a qualified staff complement in place to deal with the increased tax compliance burden and make judgements regarding input tax deductions among others.

Of course, most countries employ a threshold that exempts small businesses from registering for VAT. The registration threshold significantly reduces the number of tax returns that must be filed as well as the level of bookkeeping required (Brashares et al. 2014). This significantly reduces the tax compliance costs, which have been proven to be regressive, and the administrative costs that revenue authorities incur to collect the tax (Brashares et al. 2014). In addition, having a threshold, may, in certain instances increase the net VAT collected by the revenue authorities as many small businesses receive refunds as well as pay little tax (Brashares et al. 2014).

The current study is underpinned by the theory of mental accounting in conjunction with the theory of planned behaviour. The theory of mental accounting is particularly important to the concept of agency for VAT purposes (the understanding that the SBOs collect VAT on behalf of SARS), while the theory of planned behaviour is instrumental in understanding the influence of challenges and attitudes towards the VAT compliance behaviour of SBOs.

The theory of 'mental accounting' refers to 'the cognitive processes that individuals use to keep track of and group (monetary) costs and benefits' (Kamleitner, Korunka & Kirchler 2012:338). Mental accounts entail 'frames for outcomes that influence the perception of these outcomes' (Kamleitner et al. 2012:338). Vendors, in effect, act as agents who collect VAT from their respective clients and remit it to SARS (Schoeman, Evans & Du Preez 2021). However, SBOs often perceive the VAT money as their own (Adams & Webley 2001; Webley 2004). This perception, in part, also sets up the logic for the research problem of this study.

Taxpayers who book the VAT portion into a separate mental account may find it easier to hand over the tax to revenue authorities (Webley, Adams & Elffers 2002). On the other hand, taxpayers who do not book the VAT portion into a separate mental account and who perceive it to be their own may find it hard to remit it over to revenue authorities (Webley et al. 2002). There is thus a positive relationship between mental accounting of taxes and voluntary tax compliance (Mutanga et al. 2021).

The theory of planned behaviour is a theory intended to predict and explain human behaviour in specific situations and it is centred around three conceptually independent causes of intention (Ajzen 1991). These three conceptually independent causes of intention are the attitude (favourable or unfavourable) of a person towards the behaviour in question; the perception of societal pressure to perform or not perform the behaviour, referred to as subjective norms; and the perception of how easy or difficult it is to perform the behaviour, referred to as perceived behavioural control (Ajzen 1991). A positive attitude towards tax compliance behaviour joined with the required opportunities, resources and societal pressure may lead to success in performing the intended behaviour (Ajzen 1991). The perception of how easy or difficult it is to perform a certain task will be influenced by past experiences and expected challenges

(Ajzen 1991). The theorist argues that people's behaviour is influenced by their confidence in their ability to perform it (Ajzen 1991). The three concepts of this theory, therefore, signal why the lens of tax practitioners is a useful one because tax practitioners mediate for SBOs around these concepts. The 'Methods' section explores the research methodology employed to achieve the aim of the study.

Methods

The study employed a qualitative research methodology. The epistemological stance adopted in this study is interpretivism. Semi-structured interviews were utilised as the method for data collection. A qualitative research methodology allowed the researchers to comprehend the context, phenomena and experiences of tax practitioners in their journey of assisting small businesses with VAT compliance (Cleland 2017; Islam & Aldaihani 2022).

The target population for the study included tax practitioners who service small businesses that meet the following inclusion criteria: (1) a turnover not exceeding R20 million; (2) registered for VAT and (3) operating in the economically vibrant Gauteng province of South Africa. A combination of purposive and snowball sampling techniques was employed to select the participants. This is because participants in a qualitative study must be carefully selected to be individuals who have deeply experienced the phenomenon under consideration (Creswell 2007). Sandelowski (1995) recommends a sample size of 10 for a homogenous population. In the current study, data saturation served as a guide in the determination of an adequate sample size. The sample size was increased to 22 tax practitioners because the researchers made a decision to probe further as they were of the opinion that the analysis was under-formulated and called for an increase in participants. The relevant characteristics of each of the 22 tax practitioners are listed in Appendix 1.

Themes arising from the literature review were utilised to develop the interview questions. The interview questions are included in Appendix 2. The length of the interviews with the tax practitioners ranged between 40 min and 1 h 17 min with an average time of 1 h and 6 min. The study followed the ethical approval granted by the North-West University's Economic and Management Sciences Research Ethics Committee (EMS-REC) (ref. no. NWU-00616-20-A4). For methodological richness, the research team also included an independent coder (Williamson et al. 2020) and a transcriber.

The results of this study are presented thematically. The first step in the data analysis process involved the preparation of the transcripts. The researchers checked the accuracy of the transcripts by listening to the digital audio files, while at the same time reading the transcripts. This process kept the researchers close to the phenomena and afforded them the opportunity to re-live the interviews.

The second step in the data analysis process involved a process whereby the researchers repeatedly read the

transcripts and reflected on the text again, this time with the aim of assigning codes. During this process, five levels (rounds) of coding emerged, namely: (1) holistic coding; (2) separating the data into manageable parts; (3) highlighting significant statements; (4) assigning codes to the significant statements (line by line coding) and (5) assigning codes to a paragraph containing a significant statement. An inductive approach to coding was followed. As a result, most of the codes were data-driven. The aim was to elevate the voice of the tax practitioners by allowing the primary data to speak for itself. These coding cycles were compared and confirmed or newly informed by the independent coder.

The third and last step in the data analysis process entailed the development of themes from the first cycle codes. This was done through ongoing dialogue and engagement with the first-cycle codes. During this process of developing themes, the first cycle codes were reorganised and reconfigured to generate a list of categories. Several categories were thereafter probed and reflected upon to form sub-themes. The sub-themes were brought together and analytically aggregated, through inductive means and the use of the theories to form the themes that are discussed here.

Ethical considerations

Ethical clearance to conduct this research was obtained from the North West University's Economic and Management Sciences Research Ethics Committee (EMS-REC) (ref. no. NWU-00616-20-A4). Written and verbal informed consent was obtained from all participants.

Results

Research shows that VAT is the tax type that small businesses struggle with the most when compared to other taxes such as income tax (see Evans et al. 2014; Naicker & Rajaram 2019; Smulders 2013) as already noted in 'Introduction' and 'Literature review' sections. Therefore, the current article explores the challenges identified by tax practitioners as it pertains to small business VAT compliance.

The data analysis process resulted in four themes. Firstly, the participants in this study raised concerns associated with the concept of agency for VAT purposes. Secondly, the study found that the requirement to account for VAT on an invoice basis is particularly challenging for small businesses because SBOs are not always paid on time by their clients. Thirdly, at the compulsory registration threshold of R1 million, the researchers noted that some of the businesses are not yet ready to deal with the tax compliance burden linked to VAT as their stretched resources are devoted to keeping the business running. Lastly, the researchers found that SBOs associate VAT with constant cash outflows and almost resent this fact. This is especially the case for small businesses in the service industry, as they do not have enough input tax to offset the output tax. Each of the themes is deliberated in this section.

Challenges linked to the concept of agency for value-added tax purposes

The tax practitioners (tax practitioners 1, 3, 4, 5, 6, 8, 9, 10, 11, 12, 14, 15, 17, 20 and 22) raised concerns regarding the concept of agency for VAT purposes. In the first instance, these participants noted that some SBOs lack understanding of the basic principles of the concept of agency for VAT purposes. Secondly, operational needs often impel the SBOs to utilise the VAT monies in their businesses. Thirdly, it is not always possible for small businesses to add 15% over and above their existing prices as a result of competition. Lastly, because of the survivalist nature of small businesses, SBOs are sometimes forced to accept payments that do not include VAT.

The tax practitioners (tax practitioners 1, 3 and 9) argued that there is sometimes a lack of understanding by the SBOs that the VAT portion of the invoiced amount belongs to SARS:

'That is always a challenge because once the money is in your account it is your money. You forget that the 15% does not belong to you ... they do not think of it as SARS's money because it is their invoice, and they see the total amount coming into their bank account ...' (Tax Practitioner 1, Male, SAICA)

In addition, the operational needs of small businesses often demand that SBOs utilise the output VAT to pay for other business expenses such as salaries and suppliers. Therefore, although some of the SBOs may understand the agency principle, they are sometimes impelled to use the VAT monies in their business, and they are therefore unable to remit the monies over to SARS when it is due providing a difficult financial and professional quandary for them and the practitioners as advisors:

'Yes, also if you have got clients that have enough money that is profitable, they understand that [the concept of agency for VAT purposes] but as soon as a business starts struggling then that money becomes part of their cash flow and just goes into the operating expenses and by the time, they have to pay the VAT they have to pay it out of their own cash ...' (Tax Practitioner 10, Male, SAICA)

'So when they look at an invoice, you will tell them that if you look at your invoice you have put in 15% it was not yours, but when it comes through sometimes they are first with their expenses, they are first with the next order which needs to be paid, so it is difficult then for a person to say this 15% that I have received let me put it aside and when the tax time comes I pay it over. So, then it comes as part of what business expenses is.' (Tax Practitioner 15, Female, IRBA&SAICA)

To ensure that the SBOs do not utilise the output VAT for daily business operations, tax practitioners encourage their small business clients to transfer it to a separate bank account. Tax practitioners 1, 6, 8, 9, 11, 14, 17 and 20 encourage their clients to open a separate bank account where they can transfer the VAT money while they are waiting to remit it over to SARS:

'... Those who have more than one bank account, sometimes I am like open a VAT account and just put the VAT in there. So that at least you will have money at the end.' (Tax Practitioner 11, Female, IRBA&SAICA)

The SBOs are supposed to first set the desired price and levy the VAT on top of the price. In practice, however, it is difficult for small businesses to merely add VAT on top of the desired price they are currently charging because of pressures that come with competition and specific industry challenges. The SBOs still need to remain competitive, as a result, they are not always able to increase their prices by the 15% VAT. In such cases, VAT adds to the cost of sales or the cost of doing business for some of these small businesses. This led to the SBOs ultimately carrying the VAT burden instead of the final consumer. The concerns regarding pricing were raised by tax practitioners 4, 5, 12 and 15:

'... especially the people that are in the service industry those are the ones that are very difficult ... let's say they were not VAT vendor and now they are VAT vendor, and we are telling them now, you need to charge 15%, so it is like I now need to increase my services [*prices for my services*] I am going to lose clients. And adding 15% on top of that so I am going to lose my clients and I cannot afford to increase the prices so where will this money come? So does that mean that my revenue is decreasing.' (Tax Practitioner 4, Female, IRBA&SAICA)

Registered VAT vendors are required by the tax legislation to ensure that their prices are inclusive of VAT (except for exempt supplies); however, their clients sometimes refuse to pay the VAT portion of the invoiced price. Because of their survivalist nature, small businesses are then forced to accept payments that exclude the VAT portion of the invoice, thereby forcing the SBOs to adjust the prices down:

'... we have one client, their customer was not paying them VAT. It [the client] was not paying them VAT, like saying you know what I am not going to pay you VAT. And because you know it is for survival, it is like ok fine do not pay me VAT ...' (Tax Practitioner 22, Male, SAIBA & SAIT)

The concept of agency for VAT purposes is not always easy to implement for small businesses. This is because some SBOs lack a basic understanding of the agency principle. A full understanding of the concept of agency for VAT purposes may enable the practical application of the 'mental accounting' theory. This theme, specifically as it pertains to the agency principle, asserts the statements by Webley et al. (2002) who argued that taxpayers who do not book the VAT portion into a separate mental account and who perceive it to be their own may find it hard to remit it over to revenue authorities. On the other hand, challenges related to working capital, pricing and survivalist nature make it hard for small businesses diligently to implement the agency principle, which, in turn, makes the tax practitioners' good governance behaviour more complex to advocate. In this section, the researchers delineate the struggles encountered by SBOs because of accounting for VAT on an invoice basis.

Accounting for value-added tax on an invoice basis is burdensome to small businesses

According to the tax legislation, VAT ought to be accounted for using the invoice basis except under a few circumstances. These few exceptional circumstances include among others, where the business is trading as a natural person with an

annual turnover of less than R2.5 million (Value-Added Tax Act 89 of 1991: Section 15). Theoretically, accounting for VAT on an invoice basis should be beneficial for small businesses because they are able to utilise the money in their businesses prior to remitting it over to SARS for up to 3 months. However, tax practitioners 1, 4, 8, 9, 11, 13, 14, 15 and 18 all expressed sympathy and unhappiness with accounting for VAT on an invoice basis, especially for small businesses. Small business owners are not always paid on time by their clients; thus, they are not always able to fulfil their tax compliance responsibilities timeously. The inability to fulfil tax liabilities on time often leads to the SBOs incurring penalties and interest unfairly:

'I think I will throw the question back to you, go and do research and find out today on the 20th of April 2022 how many businesses that have done a job like especially SMMEs that have done a job for the government department and then they will pay it within 30 days.' (Tax Practitioner 21, Male, SAIPA)

Ndlovu and Schutte (2022) further argued that accounting for VAT on an invoice basis impels SBOs to think about 'creative' ways to hide unpaid invoices from SARS, thereby compromising tax morality, which practitioners have a 'professional code' to honour. In this regard, Tax Practitioner 9 argued that the legislation must be changed to compel the state, its departments and private corporations to pay SBOs soon after the services are rendered or goods delivered:

'The easiest response will be the government should, I mean they need to change the legislation to pay small businesses maybe within 15 days once they have issued the invoice ... And they can also drive that within the private sector ...' (Tax Practitioner 9, Male, IRBA&SAICA)

Accounting for VAT on an invoice basis may often be beneficial, especially for businesses that receive payments for their services on the spot. However, for small businesses that sell goods on credit, it has proven to be burdensome to pay tax obligations on time, thus leading to penalties and interest (Ndlovu & Schutte 2022). The difficulty associated with making timely payments has a negative bearing on perceived behavioural control and consequently tax compliance behaviour. This section explores the level of readiness by SBOs regarding VAT compliance burden.

Small businesses are not ready to handle the value-added tax compliance burden

According to tax legislation, businesses are required to register for VAT when, among others, their taxable supplies for the preceding 12 months exceed R1 million (Value-Added Tax Act 89 of 1991: Section 23). Once a company registers for VAT, it needs the right infrastructure and the support to cope with this increased administrative burden. The right infrastructure may include acquiring accounting software to capture and safeguard documents as well as to appoint or procure the services of a person who will capture the invoices onto the software, calculate the VAT payable and file the returns with SARS. Because of the cost associated with

accounting software and the specialist nature of taxation, it is not always possible for the SBOs to have the required infrastructure.

The tax practitioners argued that the compulsory VAT registration threshold amount is too low and should be increased. Tax practitioners 3, 4, 6 and 11 emphasised that at a turnover level of R1 million, the businesses are not yet ready to deal with the burden associated with VAT compliance:

'Well, the VAT threshold I think should be lifted again. I do not know when it was last increased, but I think that can be looked at. Because working with VAT and dealing with VAT becomes expensive for clients because they have to submit these returns every two months and then we find that a lot of clients are getting selected for VAT reviews which also just increases their costs ...' (Tax Practitioner 4, Female, IRBA&SAICA)

'It is a lot because what SARS is doing as well is it uses businesses to collect all its other taxes. So, I must take tax from my employees, I must take tax from somebody for VAT for whoever I am servicing for VAT, I must you know they make it the business' problem. And you get penalised through a non-compliance and not being able to get a tax clearance and, and and. So, I do not think it is fair in the admin burden of it.' (Tax Practitioner 11, Female, IRBA&SAICA)

There are instances where businesses register for VAT before they reach the R1 million compulsory threshold. There are several reasons behind this, including tender requirements, bad advice, as well as pressure from private corporations. Some private corporations compel their small business suppliers to register for VAT before they reach the R1 million compulsory registration threshold. This is so that private corporations can be eligible for input tax deductions for goods and services sourced from small businesses:

'The majority of my clients that have registered for VAT do not need to register for VAT. It is pressure from suppliers. If they do not qualify for their vendor listing because they are not registered for VAT.' (Tax Practitioner 7, Female, SAIPA)

In addition, some small businesses register for VAT before they reach the R1 million compulsory registration threshold because, to bid for certain tenders, they may be required to have a VAT number:

'... OK, so for one, a lot of these tender requirements will simply say your VAT registration number or notice of registration. So, without asking too many questions then they voluntarily register ... and just government tenders it is just compulsory if you are going to apply for that tender, they want you to be registered for VAT.' (Tax Practitioner 12, Female, SAICA&SAIPA)

Other SBOs are advised to register early by their accountants. The aim here is to take advantage of the input tax deductions, but in effect, the input tax may be insignificant, especially in the case of service businesses. This is because the biggest cost in a service business is salaries which do not attract VAT:

'... But bad advice, it is either this accountant told me to do this, and I did it. But you do not meet the threshold, ok I did not know I was told that I did.' (Tax Practitioner 16, Male, SAICA)

Registering for VAT early often means that the SBOs are not ready to deal with the administrative burden that is linked to VAT compliance, adding another challenging layer to the practitioners' advisory roles and their sense of responsibility to their SBOs. The current theme concurs with arguments made by Matarirano et al. (2019) that tax compliance costs are regressive; the smaller the business, the more cumbersome the relative burden. Additionally, tax compliance costs are higher for newer businesses (DeLuca et al. 2007; Evans et al. 2014; Smulders & Stiglingh 2008).

The theory of planned behaviour argues that people's behaviour is influenced by their confidence in their ability to perform it (Ajzen 1991). Perceived behavioural control, which is the perception of how easy or difficult it is to perform the behaviour, acts as a precondition to the intention to comply (Ajzen 1991). As a result, the administrative burden as well as costs associated with VAT compliance impact negatively the perceived behavioural control and consequently the intention to comply. Furthermore, SBOs associate VAT with constant cash outflows as discussed in this section.

Value-added tax is associated with constant cash outflows

Tax practitioners 11, 12, 19 and 22 argued that there are negative attitudes and resentment towards VAT compliance. Attitude, favourable or unfavourable, acts as one of the independent causes of intention (Ajzen 1991). Negative attitudes towards VAT compliance reduce the chances of success in performing the intended behaviour. Such emotions also make the practitioners' roles more emotionally fraught. The negative attitude emanates from the notion that VAT encompasses constant outflows of cash:

'... at the end of the day it is significant amounts that needs to be paid over to SARS... let's say they have got their sales but a lot of their expenses relating to that are either zero rated or exempt from tax ...' (Tax Practitioner 12, Female, SAICA&SAIPA)

This is especially the case for service industries and logistics companies. Business owners levy VAT on their supplies; however, not many of their expenses attract input tax:

'Because ultimately also a lot of things also are not VAT deductible, so people may incur expenses where they unfortunately will not be able to claim for this or whatever ...' (Tax Practitioner 11, Female, IRBA&SAICA)

Small business owners often find themselves in a difficult position where they are expected to remit VAT to SARS even when they are sitting with a trading loss. The tax practitioners are also the ones who must convey this kind of advice to the SBOs, having insights into their frustrations and helplessness, but yet conveying 'unpopular' news:

'... So for example you have got your diesel, you have got your salaries, maybe let's say it is a transport company or a service company where at the end of the month regardless of the fact that their expenses were incredibly high and they are running at a loss they are still required to pay VAT simply because of that output where there is not much input that can be claimed. So, it

as much as we discuss it with clients, and we submit the returns you can tell that it definitely leaves a bitter taste.' (Tax Practitioner 12, Female, SAICA&SAIPA)

'It is always a challenge, and the thing is the biggest expense of the company is sometimes your payroll and your payroll does not attract VAT, that or if you are in a logistics company the biggest expense is your fuel which is zero rated. So especially such companies, it is a big challenge because you can claim input VAT, but you do not have much of input VAT to claim.' (Tax Practitioner 19, Female, SAICA)

In addition, there are strict requirements around what information needs to be included on an invoice for it to qualify for input tax deduction. Small business owners sometimes lose out on the opportunity to claim a legitimate input tax because the invoice received from their suppliers falls short of SARS requirements and the tax practitioner only sees this after the fact:

'... you find that a guy is a hardworking guy and so on he does not care whether he receives a valid tax invoice or not and I have got companies that still issues invalid tax invoices. You will find that you go somewhere, nearest repair or where you buy repair equipment for your truck for example. You go there, and they do not take all the information from you to put on the invoice ...' (Tax Practitioner 22, Male, SAIBA&SAIT)

'So, in order for you to claim input VAT you need to meet all those requirements like make sure that you get an invoice. That invoice is directed to the company, they are both VAT numbers on it, it is a tax invoice, and it also shows the VAT because SARS rejects if you do not have all these things that they want they reject ...' (Tax Practitioner 19, Female, SAICA)

At the point of purchase, the SBOs often disregard whether the price is inclusive of VAT or not because what they care about at that point is lower prices. This is because of the survivalist nature of small businesses. This behaviour poses a challenge because if the price paid for the goods and services did not include VAT, the SBO will not be able to claim an input tax deduction and again, the tax practitioner advises them of this negative trade-off:

'Yes, at times it is a problem and themselves as well you know when credit guys are trading between themselves right this is what I have picked up. If you give me the cash, I am not going to charge you VAT. Do you understand?' (Tax Practitioner 22, Male, SAIBA&SAIT)

'... sometimes when they do comparisons, they will take a cheapest quotation not bearing in mind that that quotation does not have VAT, so they cannot even claim. So, you need also to you know explain to them that you also need to deal with VAT registered vendors for you to be able to claim but sometimes they go for the cheapest quotations.' (Tax Practitioner 19, Female, SAICA)

Oftentimes, the main expenditure of the businesses in the service industry comprises employee costs which do not qualify for input tax deduction. Few input tax deductions imply that the SBOs are likely to end up with a net VAT payable at the end of each VAT period. Some of the key challenges raised by this theme emphasise the complexity

regarding the deductibility of input tax as noted by Mascagni et al. (2022). There is a layered complexity to the issues at hand, with tax practitioners serving as the intermediaries for these compliance directives and also having to handle the emotional and professional responses of the SBOs.

Conclusion

This article has shown the layers of VAT compliance challenges for over-stretched SBOs. The discussion also highlighted that the theoretical lenses of mental accounting and the theory of planned behaviour have uncovered the multiple-layered nature of challenges encountered by SBOs in response to the research problem and central question. The insights of tax practitioners combined with the theory of mental accounting and the theory of planned behaviour lifted the discussion beyond surface issues, garnering a concentrated and human-centric view of what is often treated as only an operative legalistic mandate.

The analysis leads to several policy and practical recommendations. Regarding policy recommendations, the South African government must consider compelling, through legislation, medium to large corporations including the state and its departments to pay small businesses on time. Although it would be helpful to allow small businesses to account for VAT on a payment basis, it would however create an imbalance in the VAT system, wherein, the input tax and output tax for the same invoice are accounted for at different stages. Thus, paying small businesses on time is the most viable solution. The VAT registration threshold has not been adjusted for inflation for years. At the registration threshold of R1 million, small businesses are not able to cope with the VAT administrative burden. In this regard, the National Treasury ought to consider increasing the compulsory registration threshold.

As it pertains to practical recommendations, more awareness and educational initiatives are needed to educate small businesses about the concept of agency for VAT purposes. Small business owners must be aware that the VAT portion of the invoice belongs to SARS. Furthermore, large corporates need to be made aware of the administrative burden linked to VAT especially as it relates to small businesses. This is so that they may refrain from compelling small businesses to register for VAT before they reach the R1 million compulsory registration threshold. Furthermore, SARS ought to consider making accounting software that complies with tax regulations either free of charge or at a marginal cost accessible to SBOs. Small business owners who are registered for VAT must be encouraged to buy from VAT vendors to enable them to claim input tax. Additionally, in order not to forego legitimate input tax deductions, SBOs must be educated about what constitutes a valid invoice.

The current study provides insights into the challenges that small businesses encounter regarding VAT compliance. This

study was conducted with tax practitioners; therefore, a future qualitative study may be conducted with SBOs who are registered for VAT and who do not outsource VAT compliance to tax practitioners. As with any other study, qualitative research has its limitations. Because of the small sample size, the findings of this study cannot be generalised to the broad small business community. For this reason, a quantitative study may be undertaken in future with either tax practitioners or SBOs to determine the extent of these challenges among the broader small business population.

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Authors' contributions

M.O.N. contributed to the conceptualisation, methodology, formal analysis, investigation, writing – original draft, project administration and writing – review and editing. D.P.S. contributed to the conceptualisation, methodology, formal analysis, investigation, project administration, and writing – review and editing.

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Data availability

The data that support the findings of this study are available on request from the corresponding author, D.P.S.

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Appendix starts on the next page →

Appendix 1

TABLE 1-A1: Demographic details of the tax practitioners.

Participant identifier	Gender	The year operations began	Length of interview	Affiliations
Tax Practitioner 1	M	2018	01:16:07	SAICA
Tax Practitioner 2	M	2012	01:16:59	SAICA
Tax Practitioner 3	F	2019	01:02:10	ACCA & SAIPA
Tax Practitioner 4	F	2016	01:11:45	IRBA & SAICA
Tax Practitioner 5	F	2014	01:17:37	SAIBA
Tax Practitioner 6	F	2008	01:15:52	SAIPA
Tax Practitioner 7	F	2017	01:09:19	SAIPA
Tax Practitioner 8	M	2016	01:21:04	SAIBA & SAIT
Tax Practitioner 9	M	2015	00:52:31	IRBA & SAICA
Tax Practitioner 10	M	2010	00:40:44	SAICA
Tax Practitioner 11	F	2006	01:08:37	IRBA & SAICA
Tax Practitioner 12	F	2017	01:11:19	SAICA & SAIPA
Tax Practitioner 13	F	2016	00:56:30	Work under the supervision of a tax practitioner
Tax Practitioner 14	M	2013	01:04:01	SAIT
Tax Practitioner 15	F	2012	01:16:46	SAICA & IRBA
Tax Practitioner 16	M	2020	01:01:14	SAICA
Tax Practitioner 17	F	1998	00:58:16	SAIT
Tax Practitioner 18	M	2012	01:15:40	SAIT
Tax Practitioner 19	F	2015	01:02:20	SAICA
Tax Practitioner 20	F	2015	00:55:08	SAICA & IRBA
Tax Practitioner 21	M	2016	00:52:04	SAIPA
Tax Practitioner 22	M	2014	01:10:18	SAIBA & SAIT

F, female; M, male; ACCA, Association of Chartered Certified Accountants; IRBA, The Independent Regulatory Board for Auditors; SAIBA, Southern African Institute for Business Accountants; SAICA, Southern African Institute for Chartered Accountants; SAIPA, Southern African Institute for Professional Accountants; SAIT, South African Institute of Taxation.

Appendix 2

TABLE 1-A2: Demographic details of the tax practitioners.

<p>Q1: Please tell me more about the background of your business. [e.g., when the business was incorporated, type of business, number of employees, client base, etc.]</p> <p>Q2: Please tell me more about your own background.</p> <p>Q3.1: Would you consider it easy for small businesses to comply with the South African tax system? Yes/No/Unsure ~ WHY?</p> <p>Q3.2: Are there any measures that SARS can put in place to make it easier for small businesses to be able to comply? [Y/N/U] ~ What measures would you suggest?</p> <p>Q3.3: How easy is it to understand the tax legislation? (Scale of 1–3: not easy; easy; very easy)</p> <p>Q3.4: Do you believe small business owners and their employees possess the relevant skills and know-how to be tax compliant? [Y/N/U] ~ WHY?</p> <p>Q3.5: Are you aware of any government initiatives put in place to assist small business owners with tax compliance? [Y/N/U] ~ What are these?</p> <p>Q3.6: Are your clients (especially small businesses) aware of any government initiatives put in place to assist them with tax compliance? [Y/N/U]</p> <p>Q3.7: What may be the reasons behind the lack of awareness, if any?</p> <p>Q3.8: What can SARS do to improve the level of awareness of these government initiatives?</p> <p>Q3.9: Have your clients considered registering on the turnover tax system? [Y/N/U]</p> <p>Q3.10: Would you encourage your clients (with a turnover of < R1m) to register on the TTS? [Y/N/U] ~ WHY?</p> <p>Q3.11: Are your clients making use of s12E provisions of ITA. [Y/N/U]</p> <p>Q4: Have you identified any benefits for your small business clients that were as a direct or indirect result of being tax compliant? [Y/N/U] ~ What benefits are these?</p> <p>Q5.1: What are some of the reasons behind the outsourcing of tax compliance functions by small businesses?</p> <p>Q5.2: What type of costs do small businesses incur to fully comply with the tax system (both quantifiable and unquantifiable)?</p> <p>Q5.3: On average, how much do you charge your small business' clients for tax compliance services per hour?</p> <p>Q5.4: On average, how much do you charge your small business' clients for tax compliance services per annum?</p> <p>Q5.5: Is the hourly rate / annual rate above (Q5.3 & Q4.4) different for small businesses with a turnover of R1m or less? [Y/N/U] ~ WHY?</p> <p>Q5.6: What normally guides your pricing? [e.g. level of turnover/ complexity etc.]</p> <p>Q5.7: Is there anything that the government can do to help reduce the tax compliance costs for small business owners? [Y/N/U] ~ What can government do?</p> <p>Q6.1: Have you encountered challenges in your journey of assisting small businesses with tax compliance (both from your dealings with your client and SARS)? [Y/N/U] ~ Please take me through some or all the challenges that you have encountered in your journey of assisting small businesses with tax compliance.</p> <p>Q6.2: Is there anything that SARS/government/small businesses can do to ease these challenges? [Y/N/U] ~ What can government do?</p> <p>Q6.3: Is there an understanding by your clients of the reality that they are SARS agents, especially when it comes to VAT and PAYE? For example, VAT charged on goods/services do not belong to them but to SARS and that it was never their money in the first place.</p> <p>Q6.4: How would you rate the level of tax knowledge of your small business clients? [excellent/ good/average/poor] ~ WHY?</p> <p>Q7.1: Would you consider the South African tax system to be fair? [Y/N/U] ~ WHY?</p> <p>Q7.2: Is there an equal treatment of taxpayers with the same tax base? [Y/N/U] ~ WHY?</p> <p>Q7.3: Does the government treat small business owners with respect? [Y/N/U] ~ WHY?</p> <p>Q7.4: Does the government appreciate the level of contribution that small businesses make to the economy of the country? [Y/N/U] ~ WHY?</p> <p>Q7.5: Does the level of service received by small business owners match the level of contribution that small business owners make to the economy of South Africa? [Y/N/U] ~ WHY?</p> <p>Q8.1: Have you identified any loopholes/opportunities/chances/openings in your clients' line of business that can make it easier for one to reduce/avoid/evade taxes? [Y/N/U] ~ Can you please take me through these loopholes/opportunities/chances/openings?</p> <p>Q8.2: And do you believe that taxpayers are justified to take advantage of these opportunities? [Y/N/U] ~ WHY?</p> <p>Q8.3: Do you believe that small businesses will comply more if these loopholes were not available? [Y/N/U] ~ How can these loopholes be closed?</p> <p>Q9.1: Do you believe that the government is willing to identify and punish those taxpayers who are earning income through trade but are not registered for tax? [Y/N/U] ~ WHY?</p> <p>Q9.2: Do you believe that penalties and interest charged on taxes due but not paid are an effective form of deterrence especially for small businesses? [Y/N/U] ~ WHY?</p> <p>Q9.3: Do you perhaps think that dialogue and persuasion may be effective in encouraging voluntary tax compliance among most small business owners? [Y/N/U] ~ WHY?</p> <p>Q10.1: Is tax compliance embraced by many South Africans? [Y/N/U] ~ WHY?</p> <p>Q10.2: Is tax compliance embraced by many small business owners? [Y/N/U] ~ WHY?</p> <p>Q10.3: In your view, who influences the tax compliance decisions of small businesses? (Family/ Friends/ Business partners/ Clients/ Bookkeeper/ Other small business owners/ Society/ Politicians/ Other) ~ WHY?</p> <p>Q10.4: Is tax compliance typical among them? (people identified in Q10.3 above)</p> <p>Q10.5: Do you believe that tax evasion is a common occurrence among most South Africans? And small businesses? [Y/N/U] ~ WHY?</p> <p>Q11.1: In order of importance what are the four key factors that may encourage voluntary tax compliance among small business owners?</p> <p>Q11.2: In situations where a taxpayer is not willing to comply voluntarily, is there anything that SARS can do to force them to comply? [Y/N/U] ~ In order of importance, please name three measures that SARS can take to force taxpayers to comply.</p> <p>Q12.1: How would you describe the attitudes of most small business owners towards tax compliance?</p> <ul style="list-style-type: none"> • Disengaged taxpayers who have decided not to comply, or • Resistant taxpayers who don't want to comply, or • Captured taxpayers who try to comply, but don't always succeed, or • Accommodating taxpayers who are willing to do the right thing <p>Q12.2: WHY?</p> <p>Q13: What is the best possible way that government can communicate with small business owners? [Radio/ TV/ Banks/ Retail stores/ Schools/ Other] ~ WHY?</p> <p>Q14: Any other comments/closing remarks?</p>

Q. question.