

TAX003 A comparative study on the tax compliance burden for SMMEs in South Africa (SA)

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Abstract

Small, medium and micro enterprises (SMMEs) play a key role in the development of the economy and are a significant contributor to employment. To achieve the objective of economic growth, job creation as well as income redistribution, the government is actively promoting SMMEs. The SMMEs increase the average employment rate in SA by pulling into production unemployed low skilled labour, whose skills level is not sufficient to qualify for employment in larger businesses. How does the SA tax compliance burden for SMMEs measure up in comparison to the tax compliance burden for SMMEs in the United Kingdom (UK) and the United States of America (USA)? The research reviews the tax compliance burden of SMMEs in SA in comparison to the tax compliance burden for SMMEs in the UK and the USA. The research was conducted through an extensive review of the literature and has revealed that tax compliance act as a deterrent to the formalisation of SMMEs for tax purposes. The review of the literature also revealed that tax compliance burden for SMMEs in SA is in line with tax compliance burden of SMMEs in the UK and the USA.

Keywords: Income tax, small business, SMMEs, taxation, tax compliance costs, turnover tax, value-added tax (VAT).

1 INTRODUCTION

In many developing countries (both poor and middle-income), SMME's business owners complain that tax compliance costs (that is the cost of preparing, handling and submitting required tax forms to the country's tax authorities) add a serious burden to their operations and significantly affect their bottom line (FIAS, 2008). In SA, these complaints are compounded by anecdotal evidence that tax compliance costs also prevent many of SMMEs from registering (with the Companies and Intellectual Property Commission, the SARS and other regulatory bodies) and joining the 'formal'¹ economy (FIAS, 2008).

The burden of tax payments are a deterrent to the formalisation of being a taxpayer. There is strong evidence that the burden of tax compliance (the time and cost associated with preparing tax returns, filing, effecting payment and interacting with the tax authorities) can often be heavier than the amount of the tax payments themselves. (Coolidge, 2012:250).

¹ Sector which encompasses all jobs with normal hours and regular wages, and are recognized as income sources on which income taxes must be paid. (Business dictionary)

Taxation ranks high as a source of regulatory costs (time taken to register and comply, bookkeeping costs) for the private sector². Each tax (for example, income tax, employees' tax, VAT) imposes administrative burdens on the taxpayer. Many of these tax returns are required to be submitted on a monthly basis which places the added burden on business to employ bookkeepers to keep its records up to date. For many SMME entrepreneurs, their role as the SARS's agent comes at a high price - high administrative costs, the burden of having to hire experts to manage the compliance burden (income tax returns, VAT returns and employees' tax returns) and cash flow problems (late payments by debtors). (Hudson, 2003).

To achieve the objectives of economic growth, employment generation and income redistribution, SA's SMME economy has been actively promoted since 1995 by the government (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam, and Van Seventer, 2002:1). The SMME sector of the economy increases the employment in the economy as a whole by 'pulling into production' unemployed low skilled labour, whose skill levels are not sufficient to qualify for employment in larger businesses (Berry et al., 2002:10).

The SMME sector is in itself the main key to whether SA will succeed or fail in confronting its employment and poverty challenges (Berry et al., 2002:10). It is estimated that SMMEs represent more than 95% of formal business enterprises in various countries throughout the world (De Clercq, Tustin and Venter 2006:9).

SMMEs play a key role in the development of the economy and are a significant generator of employment in SA. The government simplified financing of SMMEs by the creation of the Small Enterprise Finance Agency in 2012. The government has been progressively working to simplify the tax compliance burden for SMMEs (National Treasury, 2013:12).

In SA, the importance of small business as a creator of jobs, particularly for those with a low skills level, is widely recognized. It is estimated that SMMEs contribute 36.1% of the country's gross domestic product (GDP) and employ 68.2% of the workforce in the private sector. In the agricultural, construction and retail sectors, it is estimated that SMMEs employ more than 80% of the total workforce in SA. (FIAS, 2007:1).

2 RESEARCH PROBLEM

The main problem for the research is how does the SA tax compliance burden for SMMEs measure up in comparison to the tax compliance burden for SMMEs in the UK and the USA?

3 OBJECTIVES OF THE STUDY

The primary objective of the research is to review the tax compliance burden of SMMEs in SA in comparison to the tax compliance burden for SMMEs in the UK and the USA.

² The part of the economy that is not state controlled, and is run by individuals and companies for profit. (Investopedia dictionary)

4 RESEARCH METHODOLOGY

This research will be performed using a qualitative approach in the form of an extensive literature review. The extensive literature review included the following sources: books, legislation, journals, electronic resources – internet and websites, and government publications.

This study will use SA as a comparative study with the studies done in UK and the USA. UK and USA are known as the international leaders in tax legislation (Broomberg, 2007: 112). Another reason for selecting these two countries is mainly based on the availability of the most recent literature on tax compliance costs for SMMEs in English.

5 COMPARISON BETWEEN TAX COMPLIANCE BURDEN FOR SMMEs IN SA VERSUS UK AND USA

Tax compliance costs fall most heavily on SMMEs. The literature review will analyse the tax compliance cost for SMMEs in SA in comparison to UK and USA and offer some recommendations.

Generally, compliance costs include among others, monetary, time and psychological costs as follows: Fees paid to tax advisors, lawyers and accountants, salary of staff working on preparation of tax returns and tax accounting (accounting for tax in financial records), tax literature and software, phone calls and postage, time spent by taxpayer on studying tax laws and filing tax returns, time spent to prepare and support tax audit, time spent to prepare tax appeals, stress and anxiety arising from complying with specific tax or from a tax related activity, frustration as a result of taxpayer harassment. (Engelschalk, 2007:11).

5.1 Benefits and costs associated with non-compliance with tax laws by SMMEs worldwide

In order to avoid the high tax compliance costs, some SMMEs may choose to trade informally so that they don't have to comply with tax laws and regulations. There are however costs as well as benefits associated with informal trading to SMMEs, Government and the public. Some of the advantages of informal trading for SMMEs are the comparative advantage due to the possibility of offering products at lower prices, less harassment from tax officers and the avoidance of high compliance costs. For tax administrators some of the advantages of non-compliance by SMMEs are lower administration costs and the possibility of allocating scarce resources to administering high potential clients. (Engelschalk, 2007:20).

Disadvantages of non-compliance for SMMEs are inability to obtain formal licenses and permits from local and other governmental agencies, challenges in securing credit from formal sources, to avoid attracting the attention of the authorities, informal business may need to maintain a low profile that will exclude the use of advertising. This will negatively affect growth for the business and suppress employment opportunities, informal trading will attract rent seeking by officials (bribes) to turn a blind eye to informality, inability to

trade with the formal sector that may only buy from registered VAT vendors, inability to claim and offset withheld tax, possibly leading to over taxation in some cases and higher tax burden on compliant businesses. (Engelschalk, 2007:20).

In SA the cost of non-compliance originates in many ways. A business needs to be registered for tax before trading with government and a contract will only be issued if the business's tax issues are in order and up-to-date. Some government agencies request a tax clearance certificate every time they have to make a payment above certain thresholds. For those SMMEs whose tax matters are not up-to-date they may have to pay bribes in order to get contracts or payments from government.

Costs of non-compliance with tax laws by the SMMEs to government are incorrect revenue estimation of revenue potential for the SMMEs sector, loss of tax revenue due to tax evasion, violation of tax equity, risk of erosion of general compliance attitude, non-compliance with the tax system risks being associated with non-compliance with other laws. Costs of non-compliance by the SMMEs to the public are less tax revenues available for public service. (Engelschalk, 2007:20). According to Engelschalk (2007:6) factors influencing compliance behaviour of businesses can be categorised into a business profile (structure- sole trader, partnership, company, trust; size and age of business; type of activity carried out; business focus local or international;), industry (size of the industry, major participants in the industry, profit margins, cost structures, industry regulation, working patterns, infrastructure issues, level of competition), sociological (cultural norms, ethnic background, attitude to government, age and gender, education level), economic (investment, interest rates, tax system, government policies, international influence, inflation, markets) and psychological (greed, risk, fear, trust, values, fairness/equity, opportunity to evade) factors. (Engelschalk, 2007:6).

Research indicates that the level of activities of the underground economy (black market) is substantially higher in developing countries compared to developed countries. There is a correlation between the stability of small businesses and tax compliance attitudes. There is a higher likelihood of small businesses with fixed premises and multiple years of operation to comply with the tax system compared to businesses with no fixed premises and few years of operation. (Engelschalk, 2007:4).

5.2 Tax compliance burden of SMMEs in SA

Small businesses worldwide have the potential to grow the economy, generate jobs and reduce poverty. Research, however, indicates that they face many challenges, including relatively high tax compliance costs as a percentage of turnover. This is mainly due to the fixed costs associated with systems necessary to comply with the requirements of the tax system, the frequency for submitting certain returns such as provisional tax, income tax and employees' tax are the same regardless of the size of the business. (SARS, 2011/12:5).

The cost of complying with the tax system may involve a significant fixed cost component largely invariant to business size. This means high tax compliance costs measured as a

percentage of turnover or assets for SMMEs compared to large businesses. The smaller the business measured using turnover or assets the higher the tax compliance burden measured as a percentage of turnover. (Clark and Thomas, 2009:93-94).

Small businesses (including sole proprietors, partnerships and corporations) need enabling regulatory environment, which are developed by taking into account the needs of SMMEs and facilitating their integration into the formal sector. This will require a tax system with low compliance costs (Engelschalk, 2007:43). The Grant Thornton's 2006 International Business Owners Survey confirmed that regulations and red tape are reported as one of the constraints to the expansion of businesses worldwide (Grant Thornton, 2006).

According to independent research commissioned by the SARS and the National Treasury in 2007, tax practitioners charge their small business clients an average of R7 030 a year for making sure that tax returns for income tax, provisional tax, VAT and payroll tax are prepared, completed and submitted (SARS, 2011/12:5).

Tax compliance costs are regressive in nature. According to the tax guide for micro businesses issued by the SARS, compliance costs ranges between 2.2% of turnover for businesses with a turnover of up to R300 000 per annum and 0.1% of turnover for businesses with a turnover of around R14 million per annum (R14 million is the old small business corporation turnover amount, for 2014 the amount is R20 000 000) (SARS, 2011/12:5).

The SARS and the National Treasury agreed to explore various options to reduce the tax compliance burden for SMMEs. It was for this reason that in 2009, an optional simplified tax system was introduced for businesses with a qualifying turnover not exceeding R1 million per annum. (SARS, 2011/12:5).

According to Venter and De Clercq (2007) the compliance burden of SMMEs varies according to the size of the business. The size of the organisation also has an impact on whether or not the taxation function of the business is outsourced or is performed internally. Bigger organisations hire accountants and tax specialists and are able to carry out the tax functions internally. The SMMEs however, do outsource the tax function due to a lack of capacity as well as funds; it is cheaper for an SMME to outsource compared to hiring a full time accountant who comes at a high price. (Venter and De Clercq, 2007:144).

The findings of a survey of tax practitioners in SA by FIAS (2007) confirmed the following:

- VAT is the most time consuming tax for small businesses. The number of hours required to comply with tax legislation increased as the size of the business increased; the hours are regressive if taken as a percentage of turnover (Smulders, Stiglingh, Franzsen and Fletcher, 2012:193).

- It requires small businesses an average of 251.95 hours per annum to deal with VAT, income tax and employee's tax compliance related matters. For businesses that are on the turnover tax system, a total of 155.2 hours were documented (which consists of 67.3 hours to comply with the turnover tax system and 87.9 hours to comply with employees' tax as the turnover tax system does not replace employees' tax). (Smulders et al., 2012:215).
- The total time spent by a micro-business registered on the turnover tax system on complying with tax is less than two thirds of the time (61%) in comparison with a normal business (business not registered on the turnover tax system) with a turnover of less than R1million. The turnover tax regime is meeting one of its intended objectives, reducing tax compliance costs for micro businesses by reducing the number of hours required for tax compliance activities. (Smulders et al., 2012:193).
- According to Table 1 (indicating in hours) recording information for VAT is the tax compliance activity that is the most time-consuming for small businesses. Employees' Tax takes up the most time to calculate, submit and pay tax due, because employees' tax returns are submitted to the SARS on a monthly basis. The number of hours spent dealing with the SARS and learning about tax was also the highest for Employees' Tax, due to tax changes by SARS. Tax planning and dealing with the tax advisor for SMMEs is the highest in respect of income tax. (Smulders et al., 2012:194).
- The total time spent in hours for recording information, calculating tax, filing returns and paying tax is 78.55 hours for VAT compared to 42.72 hours for income tax and 53.81 hours for employees' tax. The hours are higher for VAT due to VAT returns for SMMEs being submitted every two months which is equivalent to six returns annually while income tax returns are submitted three times a year (one income tax return per year and two provisional returns per year). Information regarding income and expenses is initially recorded when preparing VAT returns and when it is due to prepare income tax return some of the information has already been recorded while preparing VAT returns reduce the time required to record information for income tax by more than half compared to that required for VAT. The time spend to calculate, file and pay tax was the highest for employee's tax due to taxpayers that are required to submit returns monthly and over and above the monthly returns they are required in addition to submit employee's tax reconciliations twice a year. (Smulders et al., 2012:194).

Table 1: Number of hours spent by SMMEs on tax compliance (in hours)

Activity	VAT	Income tax	Employees' tax
Recording information	64.78	31.4	35.31
Calculating tax, filing return and paying tax	13.77	11.32	18.50
Dealing with the SARS	6.5	6.2	10.62
Tax planning	2.73	5.0	4.66
Dealing with tax advisors	5.14	8.2	5.48
Learning about tax	6.00	7.6	8.61
Other activities	0.00	0.00	0.00
Total time spent	98.92	69.85	83.18

Source: (Smulders et al., 2012:194)

In the survey conducted by the International Finance Corporation, the Multilateral Investment Guarantee Agency and the World Bank, tax practitioners were asked what tax would be the most burdensome to comply with for taxpayers with a turnover under R14 000 000 (R14 000 000 was the turnover threshold for small business corporations in 2007). The results show that provisional tax is regarded by tax practitioners, who deal with small businesses, to be the most burdensome tax. (FIAS, 2007:vii). In SA particularly, the reason for provisional tax to be the most burdensome is because the biggest client for small businesses is Government and research has indicated that they don't always pay on time. Therefore the taxpayer is faced with a situation where they need to pay the provisional tax before they receive the money from their clients and resulted that they have to pay from their pockets.

In a study 'Counting the Cost of Red Tape', conducted in SA, by the Strategic Business Partnerships (SBP) for business growth in Africa VAT was regarded as being the single most troublesome and time-consuming regulation for all businesses except the big companies (SBP 2005:34). Tax practitioners regarded VAT as the most time-consuming tax (FIAS, 2007:54).

Table 2: Summary of certain compliance costs incurred by a small business – including compliance costs expressed as a percentage of turnover (based on highest turnover in each turnover bracket)

Service rendered	TURNOVER			
	R1-R300 000	R300 001-R1 000 000	R1 000 001-R6 000 000	R6 000 001-R14 000 000
Once-off burdens				
Registration	R1 414	R1 488	R1 568	R1 629
Objection- interest & penalties	R892	R944	R1 031	R1 093
Audit/inspections	R3 084	R3 164	R3 297	R3 483
Written queries	R1 208	R1 262	R1 370	R1 449
	R6 598	R6 858	R7 266	R7 654
Recurring burdens				
Prepare tax returns	R6 604	R6 959	R7 372	R7 118
Prepare IRP5 reconciliation	R539	R580	R645	R600
	R7 143	R7 540	R8 017	R7 717
TOTAL TAX COST				
	R13 740	R14 397	R15 283	R15 372
% of turnover-total tax cost over max turnover	4.6%	1.4%	0.3%	0.1%

Source: (FIAS, 2007:40)

Table 2 illustrates that tax compliance costs are regressive in nature, the higher the turnover the lower the tax compliance cost as a percentage of turnover (FIAS, 2007: 40). For SMMEs with turnover of R300 000, their total estimated tax cost is R13 740 which is equivalent to 4.6% of turnover, compared to SMMEs with a turnover of R14 000 000 with a total tax cost of R15 372 which is equivalent to 0.1%, a huge variance. Even though the total tax cost is increasing with increases in turnover, the total cost as a percentage of turnover is regressive. (FIAS, 2007: p 40).

Tax compliance is not always a bad thing, it does have some benefits. Research has indicated that it can result in benefits such as cash-flow benefits arising from the use of tax revenues for a period before payment to SARS as is the case for VAT and employees' tax. Managerial benefits may arise in the form of better record-keeping, the use of technology, and improved knowledge of the financial affairs of the business and improved business or managerial decision-making due to a requirement in terms of tax legislation to maintain records. (Smulders et al., 2012: p 189).

According to the estimates of tax practitioners surveyed in the tax practitioner survey (The survey of tax practitioners was carried out by the Foreign Investment Advisory Service of the World Bank Group, with contribution from the Public Sector Governance Group of the Poverty Reduction and Economic Management Network of the World Bank Group and co-financing from the Government of Switzerland. It was performed with the assistance of the University of Pretoria and local survey company BLUEtub Design and Production, and with the cooperation of the South Africa Institute of Chartered Accountants, the South Africa Institute of Professional Accountants, and the South Africa Institute of Certified Bookkeepers), over 60% of businesses with a turnover of R300 000 and less decide to stay informal rather than formalise their business operations, when this research was done businesses were required to register for VAT when their turnover was R300 000, this may change now that businesses are required to register for VAT when their turnover is over R1million. To assist in reducing this percentage, it is recommended that the SARS make the tax compliance process, starting with registration, simple and quick. The SARS should intensify its educational campaigns by offering assistance to newly formed small businesses by means of training. Consideration should be given to expanding the tax content included in the syllabuses currently taught at high school level. Regular training sessions (offered at a nominal fee) for small businesses or aspirant small businesses can assist in reducing the lack of knowledge or understanding of the tax compliance requirements by small business owners. (FIAS, 2007: p xi).

SMMEs with more employees were more likely to express a likelihood to register (75% for those with six or more employees) than sole proprietors with no employees (61%). SMMEs who kept complete financial records on paper or computer were more likely to report an intention to register for tax (75%) than those not keeping such records (63%). SMMEs in the service sector reported a lower likelihood to register for tax (62%) than those in trade (66%) or agriculture, manufacturing and construction sectors (78%). (Coolidge, 2012:271).

Coolidge (2012) stated that those who rented separate premises for their business reported a much higher likelihood of registering for tax (74%) than others, perhaps because they were aware that their tax payments would be reported by their landlords. Those who were within 30 minutes of the SARS office reported a higher likelihood to register (75%) than those farther away (67%) and much higher than those who said they did not know where the nearest SARS office was located (57%).(Coolidge, 2012:272).

SMMEs who agreed that Government offers a good return on taxes paid in the form of government services reported a much higher likelihood of registration (80%) than those who disagreed (57%). The effect of the fear of getting caught was relatively less among the SMMEs who believed that more than 10% of non-registered businesses were caught by the SARS last year for tax. Those who believed that keeping books was relatively easy, or that tax compliance was relatively easy reported a higher likelihood of registering. (Coolidge, 2012:272).

5.3 Tax compliance burden for small businesses in the USA

The burden of complying with the tax system is significant for SMMEs in the USA. The Internal Revenue Service (IRS) estimates that owners of SMMEs (with less than \$10 million in assets) spent between 1.7 and 1.8 million hours and around \$15 billion in out-of-pocket expenses in preparing and filing tax returns in 2002 (DeLuca, Guyton, Lee, O'Hare and Stilmar, 2007). Toder value small business owners' time at an estimated \$45.40 per hour (Toder, 2007). The estimates above imply a total compliance burden of about \$100 billion per year on SMMEs (Gale and Brown, 2013:881).

The tax compliance cost is larger relative to business size for small businesses than large businesses (De Luca et al., 2007). Using an estimate of small business owners' time spent on tax of \$25 per hour, it is estimated that compliance costs decrease from $\pm 150\%$ of gross receipts for businesses with gross receipts lower than \$10,000, to $\pm 10\%$ between \$50,000 and \$100,000, and decrease to 0.3% for businesses with receipts over \$1 million. (Gale and Brown, 2013:881).

Small businesses account for a large share of tax evasion in the USA. According to the 2001 data provided by the IRS, business income accounted for 55% of all underreporting of income in the income tax. About 43% of all business income that should have been reported on the income tax form was not reported. This figure is a weighted average figure of the underreporting rate for non-farm proprietor income (57%), farm income (72%), rents and royalties (51%) and partnerships, corporations and trusts (18%). Individuals earning income from businesses have a higher chance of underreporting income since their earnings have fewer third parties reporting. (Gale and Brown, 2013:881).

5.4 Tax compliance burden of SMMEs in the UK

The burden of red tape falls most heavily on the smallest businesses and has caused most work for small businesses in the UK. On average small businesses with one or two employees spend 5.1 more hours per person per month dealing with government regulations compared to businesses that employ more than 50 employees, a significant difference. (Chittenden et al., 2003:104).

Furthermore in the UK, income tax imposes a lower compliance burden than VAT and pay as you earn (PAYE). At the time when these studies were conducted, income tax was, for most businesses, assessed and paid annually. In contrast, VAT and PAYE are continuously recorded and generally paid over to the Revenue authorities either monthly or quarterly. (Chittenden et al., 2003:101).

The UK indicated that the current tax regime and the VAT registration threshold in particular, act to restrain the growth and development of small business. The Small Business Research Trust (1998) found that 15.3% of VAT registered businesses have expressed the view that the registration threshold is a significant problem and 18% of non-registered businesses state that they intentionally decline growth opportunities for their

business that their turnover can remain below the VAT registration threshold. (Chittenden et al., 2003:102).

Taxation is a major compliance cost for SMMEs; in the UK the area of red tape that has caused the greatest concern for small business is taxation (Small Business Research Trust, 2000). The Small Business Research Trust indicated that over 60% of business with 1 to 4 employees suggested that they spent most of their time dealing with taxation issues compared with less than 10% of small businesses who felt that other regulations such as employment, environmental and health and safety were more burdensome. (Chittenden et al., 2003:104).

In the UK, business taxpayers were grouped in terms of their annual turnover involving three categories: small (up to £100 000), medium (between £100 000 and £1m) and large (over £1m). On average for every £1 000 of sales for companies with a turnover below £100 000 the average tax compliance cost is £33.6 compared to £1.7 for companies with a turnover over £1m. (Chittenden et al., 2003:101).

6 CONCLUSION, LIMITATIONS AND RECOMMENDATIONS

SMMEs are integral to SA's economy, job growth, eradication of poverty and innovation. They are recognised as a key source of dynamism, innovation and flexibility in advanced, emerging and in developing economies. They are important not only in terms of the number of firms, but also in terms of their contribution to creating employment. They account for a large and growing share of employment in OECD countries. (Clark and Thomas, 2009).

For South African SMMEs VAT was considered to be the most time consuming (Smulders et al., 2012:193) while provisional taxes were considered to be the most burdensome form of tax for SMMEs (FIAS, 2007:vii). The UK indicated that the current tax regime and the VAT registration threshold in particular, act to restrain the growth and development of small business. The Small Business Research Trust (1998) found that 15.3% of VAT registered businesses have expressed the view that the registration threshold is a significant problem and 18% of non-registered businesses state that they intentionally decline growth opportunities for their business so that their turnover can remain below the VAT registration threshold. (Chittenden et al., 2003:102). Over 60% of SA's businesses with a turnover of R300 000 and less decide to stay informal rather than formalise their business operations.

In the USA it is estimated that compliance costs decrease from $\pm 150\%$ of gross receipts for businesses with gross receipts lower than \$10,000, to $\pm 10\%$ between \$50,000 and \$100,000, and decrease to 0.3% for businesses with receipts over \$1 million. (Gale and Brown, 2013:881). In the UK on average for every £1 000 of sales for companies with a turnover below £100 000 the average tax compliance cost is £33.6 compared to £1.7 for companies with a turnover over £1m. (Chittenden et al., 2003:101).

For each of the countries referred to above, there is a widespread concern about the tax compliance burden on SMMEs. Tax compliance costs make up a major component of total regulatory costs for SMMEs. The literature review confirmed that tax compliance costs are regressive in nature and fall most heavily on SMMEs. The literature review also does indicate that the National Treasury as well as the SARS is trying very hard to reduce the tax compliance costs for SMMEs, this is also evidenced by the introduction of the Davies Tax Committee in 2013.

Delimitations

The study was limited to SA, the UK and the USA and tax revenue types were limited to income tax, employees' tax, VAT and turnover tax.

Limitations

SMME definitions are not consistent across SA, the UK and the USA. Different definitions are also applied within a country. The benchmark of comparison was not equal across all countries i.e. ZAR versus USD and GBP. Also, an hourly rate is used in the USA to calculate tax compliance cost for SMMEs while the number of hours is used in the UK to calculate the tax compliance cost for SMMEs. Direct comparability is not easy.

Recommendations

It is recommended that the SARS make the tax compliance process, starting with registration, simple and quick. The SARS should intensify its educational campaigns by offering assistance to newly formed small businesses by means of training. Consideration should be given to expanding the tax content included in the syllabuses currently taught at high school level. (FIAS, 2007: p xi).

It is recommended that the SARS consider allowing SMMEs to submit PAYE returns every quarter if their payroll taxes do not exceed a certain amount. It is also recommended that the SARS allows SMMEs to submit their VAT returns every six months if their turnover is below a certain amount. For SMMEs, the SARS may consider the cash basis of accounting for VAT and provisional tax as a result of cash flow problems experienced by SMMEs in the early stages.

The National Treasury must intensify the fight against corruption; those who agreed that government gives a good return on taxes paid in the form of services reported a much higher likelihood of registering for tax, compared to those who disagreed.

Further research

Further research should be conducted to establish the effectiveness of the initiatives undertaken by the SARS to reduce the tax compliance burden for SMMEs such as the effectiveness of the turnover tax system.

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