

# South Africa

## TAX COMPLIANCE BURDEN FOR SMALL BUSINESSES: A SURVEY OF TAX PRACTITIONERS

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## List of acronyms

BEE	Black Economic Empowerment
CC	Close Corporation
DTI	Department of Trade and Industry
GDP	Gross Domestic Product
ICT	Information and Communication Technology
QSES	Qualifying Small Enterprise Scorecard
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
PWC	Price Waterhouse Coopers
SAICA	South African Institute of Chartered Accountants
SAICB	South African Institute of Certified Bookkeepers
SAIPA	South African Institute of Professional Accountants
SARS	South African Revenue Service
SBA	Small Business Act
SBP	Small Business Partnership for Growth in Africa
SDL	Skills Development Levy
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprise
SMME	Small, Medium and Micro-enterprise
STC	Secondary Tax on Companies
RSC	Regional Service Council
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
UK	United Kingdom
UNISA	University of South Africa

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# Preface

## Response of the South African Revenue Service (SARS)

SARS acknowledges the Compliance Cost Survey of Tax Practitioners in respect of their small business clients. This report is consistent with the findings of recent and ongoing studies that are conducted internally by SARS.

SARS is pleased to note that in most cases it has already set in motion different initiatives aimed at responding directly to the issues raised. Some of the initiatives that speak to the concerns raised in the report include:

1. Our taxpayer education programme already includes interventions at school and university level. It also includes training sessions for small business to better equip them to deal with the tax system.
2. We are in the process of designing a more streamlined VAT registration process which should address the various concerns raised in the report.
3. We are also in the process of designing a system to automate the submission and tracking of objections and appeals. This will not only allow for easier submission of disputes, but should also specifically address the concerns relating to acknowledgement of receipts which is raised as a concern in the report.
4. Our Call Centre will be substantially enhanced through the extension of systems functionalities at their disposal, and the ability to now better track documents throughout SARS with the implementation of a tracking mechanism throughout our various offices, We are confident that these developments will address a large number of the concerns raised in the report about the Call Centre.
5. In respect of addressing issues around capturing errors, we are making electronic filing far more accessible this year, with easier registration for electronic filing, and the availability of an electronic form which can be completed offline and submitted back to SARS – the new process will drastically reduce capturing errors

on the part of SARS, as the capturing will in essence be done by taxpayers themselves.

This report has provided a valuable yardstick against which to measure our strategic programme, and it is encouraging to note that the initiatives identified by SARS in fact address the very concerns raised in this independent survey.

# Executive summary

## **TAXATION COMPLIANCE BURDEN FOR SMALL BUSINESSES: A SURVEY AMONGST TAX PRACTITIONERS IN SOUTH AFRICA**

Internationally it has been recognized that the small business sector plays an important, if not critical, role in the economic and social development of a country. This sector, however, consistently reports that complying with taxation regulations is a constraint on their growth, due to the costs they have to incur to become and remain tax compliant. The objective of this study is, therefore, to identify and measure the tax compliance costs for small businesses in South African and to develop recommendations where appropriate to both reduce unnecessary tax compliance costs and to encourage formalization.

This report is focused on the survey of the compliance experience of professional accountants and bookkeepers (referred to as “tax practitioners” for the purposes of this document) in respect of their small business clients in South Africa. It will be complemented by two related surveys, one of small businesses that are registered with the South African Revenue Service, regarding their time and cost requirements for tax compliance, and one of informal businesses, regarding their perceptions about tax compliance.

The purpose of the set of three surveys is to document estimated tax compliance costs for small businesses in South Africa, to identify the most onerous compliance burdens based on these costs in order to confirm and guide reform priorities, and to provide inputs towards the development of an educational campaign by SARS that will help to encourage tax compliance amongst small businesses in South Africa. It is envisaged that the surveys will also be used as a baseline against which future progress can be measured.

The findings of this survey revealed that tax practitioners estimate that R7 030 per annum is the average fee they charge to their small business clients to ensure that tax returns (for

four key taxes – income tax, provisional tax, value added tax and employees’ tax) are prepared, completed and submitted as required by SARS. Furthermore, should the small business require assistance from their tax practitioners with completing/maintaining their accounting/bookkeeping records, (which occurs amongst a quarter to almost one third of the tax practitioners’ clients), then it is estimated that an additional R12 185 is payable by the small businesses. From a time and cost perspective, registering and preparing, completing and submitting VAT returns takes the longest and costs the most. It is also evident that overall the compliance costs are regressive – the smaller the business, the heavier the burden.

Another interesting finding is that from the point of view of professional tax practitioners, provisional tax is the most burdensome tax<sup>1</sup> for small businesses. The tax practitioners report that “penalties and interest incorrectly raised by SARS” is the most burdensome aspect of this tax. A possible reason why tax practitioners found that penalties and interest incorrectly raised by SARS was the most burdensome aspect of provisional tax could be due to the fact that SARS charged thousands of provisional taxpayers with penalties by mistake. This fact was mentioned in an article<sup>2</sup> published in the Pretoria News on 1 February 2007 in which SARS admitted that it had mistakenly charged thousands of provisional taxpayers with penalties amounting to millions of Rands. While taxpayers and tax practitioners themselves are often the ones who make the errors, they feel particularly burdened when SARS makes an error. In such cases, small businesses invariably have to incur the additional costs of a tax practitioner to ensure the matter is resolved.

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<sup>1</sup> No definition of “burdensome” was provided in the questionnaire, however, as separate questions regarding the costs of each tax was asked, it was intended that in this context “burdensome” should not only take into account the cost and time factors, but should also include the psychological aspects and frustrations of dealing with SARS in respect of each tax and therefore could be seen to relate more to the most problematic tax rather than the most costly tax – although it is possible that a tax could be seen as being the most burdensome due to it being the most costly. Whether or not this was perceived as such by all the respondents is not certain and should be borne in mind when considering the responses received.

<sup>2</sup> Bateman, 2007:2. Although newspaper articles present "anecdotes" that are not necessarily representative of what everyone else experiences, it is interesting that this recent article illustrated some of the findings of the survey.

Penalties and interest are therefore an area that causes significant frustrations for small business, when they are imposed, all the more so as this is an area that could be avoided if SARS as well as taxpayers and tax practitioners were more diligent. A special simplified tax regime<sup>3</sup> for small businesses is the single most recommended reform (by the tax practitioners) to reduce the provisional tax compliance burden.

It was also found that capturing and processing errors when made by SARS and the time taken to correct these errors are the most burdensome aspect of both income tax and employees' tax. Once again the tax practitioners regard a special simplified tax regime for small businesses as the most recommended reform to reduce these tax compliance burdens. Another problem raised by the tax practitioners is the lack of technical knowledge of some SARS personnel.

From a VAT perspective, the period taken to register as a VAT vendor and - notably - the "time taken to be notified of such registration" is regarded as the most burdensome aspect of this tax<sup>4</sup>. This problem was also recently highlighted in the press<sup>5</sup> where there was an example of a taxpayer who applied for VAT registration but, due to the fact that SARS failed to respond with timely notification of its registration and its tax return, the taxpayer was accused by SARS of being "late" and charged with penalties and interest. SARS should take keen interest in this result, as it could potentially be one of the reasons why small businesses decide not to register for VAT. Regarding recommended reforms to reduce the VAT compliance burden, tax practitioners regarded higher mandatory registration thresholds as being an important solution. Increasing the threshold every year

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<sup>3</sup> It should be noted that no definition of "special simplified tax regime" was provided in the questionnaire and was thus up to interpretation by the respondents.

<sup>4</sup> Almost half of survey respondents (47%) cited this problem. It is clearly a significant worry for tax practitioners.

<sup>5</sup> Fisher-French, 2007:5. Although newspaper articles present "anecdotes" that are not necessarily representative of what everyone else experiences, it is interesting that this recent article illustrated some of the findings of the survey.

as inflation increases might not be a very practical recommendation, but it must be ensured that inflation does not erode the threshold over time and that firms that are inappropriately small for VAT aren't forced over the threshold just because of inflation.

SARS' service standards in respect of receiving a registration number, processing tax returns, responding to objections, paying out of refunds, responding to written correspondence, answering telephone calls, providing personal assistance and addressing enquiries sufficiently were also considered in the survey. It was found that SARS at this stage does not meet all of the intended standards set out in its Service Charter. 2007 is the first year that the standards contained in the Service Charter will be effective.

SARS was found to meet the time (as laid down in the tax law) it takes to respond to an objection. However, this time period, together with the lack of acknowledgement of receipt of the objection by SARS are regarded by tax practitioners as aspects of the objection process that are burdensome. A review of these time limits and the implementation of an electronic notification system are recommendations that SARS should consider to alleviate these burdens for the taxpayers and tax practitioners. The following aspects of the alternative dispute resolution ("ADR") process were seen as burdensome by the tax practitioners, and thus needs to be revisited by SARS:

- The time spent on the ADR;
- The total time taken to finalize the ADR process; and
- The time taken by SARS to respond to the ADR process.

It was also established that most respondents felt that SARS could still improve – especially with regard to their customer relations. The survey invited “open responses” to questions about SARS' service. The main areas of concern that were raised by the tax practitioners are as follows:

- SARS call centre is not operating as optimally as it could due to the following reasons:

- personnel not trained and do not have the required knowledge; and
  - no direct access to assessors<sup>6</sup>/person dealing with the specific query or who has the authority to make decisions.
- Taxpayer has no knowledge of whom to talk to regarding a particular issue/document as the person's name is not reflected anywhere – this results in the call centre putting the taxpayer through to a person who is unable to respond to their query.
  - Some SARS personnel not competent/capable of answering technical<sup>7</sup> questions.
  - Registration process is complicated and cumbersome.
  - Loss of some documentation by SARS, even if there is proof of receipt, is a problem.
  - Penalties are sometimes too high, incorrectly raised and not consistently applied.

Although these areas have been highlighted as possibly meriting a SARS and National Treasury intervention, we realize that only so much can be done immediately to alleviate the problems and frustrations experienced by small businesses with regard to tax compliance. Despite the fact that the standards set out in SARS' Service Charter were not effective at the time this study was performed, this study will definitely assist SARS in identifying where it should focus its attention for improvements in order to meet these standards.

The following areas are the ones that appear to be of critical importance and that require immediate attention by SARS and National Treasury, either as part of initiatives that SARS has already introduced or as new initiatives:

- Registration process – needs to be simplified and streamlined with prompt and reliable notification to the taxpayers when SARS has completed their registration;

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<sup>6</sup> This is a matter of SARS policy, in order to avoid opportunities for collusion or corruption.

<sup>7</sup> No explanation or definition of “technical” was provided in the respondents responses.

- Technical knowledge of SARS personnel – needs to be improved;
- Call centre – the functionality thereof needs to be improved;
- Payment of refunds to taxpayers – needs to be done in a timely manner to help businesses avoid unnecessary cash flow difficulties;
- Responses to written correspondence, answering of telephone calls, personal assistance and sufficient handling of enquiries – this needs to be done more quickly and with more accuracy.

To address these and other problem areas, it is recommended that thought should be given to the creation and efficient functioning of a Small Business Centre and Small Business help desks. Although the implementation of small business help desks with dedicated facilities and extended hours were mentioned in the 2005 budget speech, concrete progress has not been made in this regard at some SARS regional offices. SARS should strive to communicate with taxpayers not only when things go wrong in the tax process, but rather before it gets to this stage. This communication should be done in a positive constructive manner which will lead to a healthy relationship of trust between the taxpayer and SARS.

Various other recommendations have been made in this report to address *inter alia* the above areas of concern, and if implemented by SARS and National Treasury, will emphasize their commitment to simplifying the tax environment and reducing the compliance cost burden for small businesses. This is important, as according to the estimates of tax practitioners surveyed, over 60% of businesses with a turnover of R300 000 and less decide to stay informal rather than formalize their business operations. To assist in reducing this percentage, it is recommended that SARS make the tax compliance process, starting with registration, simple, quick and reliable. In addition to this, SARS should intensify its educational campaigns by offering assistance to newly formed small businesses by means of training and mentorship programs. 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 are also important means of combating the lack of knowledge/understanding of the tax compliance requirements by small business owners.

In order to ascertain if any changes implemented by SARS and National Treasury have indeed been successful, it is recommended that this study should be used as a baseline measurement of tax compliance costs, with the possibility to measure improvement over time as further reforms are enacted. It should also be possible, if SARS and Treasury are interested in “piloting” some reforms, to select some random provinces to host some pilot reform initiatives (“treatment regions”) while the others maintain the status quo for a period of time (“control regions”). Then follow-up surveys could compare “treatment” vs. “control” regions to ascertain whether the piloted reforms are yielding better results than the status quo. If so, then the piloted reforms can be enacted more widely; if not, they can be discarded, on the basis of a scientific assessment of their effectiveness.

Finally, it is important to stress that the results of this survey should not be viewed in isolation, but should be considered and compared with the results of the formal and informal small business surveys that are currently being conducted.

# 1 Introduction

## 1.1 Background

Small businesses are generally recognized as important drivers of economic success. They are a key ingredient in the “ecology of firms” in a healthy economy, as job creators, sales generators and a source of tax/fiscal revenue.

In South Africa the importance of small business as a creator of jobs, particularly for those with a low skills level, is widely recognized. Small, medium and micro-enterprises (“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 agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce. Over the last few years, the growth in employment by SMMEs has exceeded the growth in their contribution to GDP, highlighting the job creation potential of this sector of the economy<sup>8</sup>.

Regulations and red tape are reported as one of the constraints to the expansion of businesses both in South Africa and internationally<sup>9</sup>. International research in this field shows that tax regulatory compliance costs are a significant portion of the total regulatory cost<sup>10</sup>. Several other patterns emerged from the various local and international studies performed, among the most important being that tax compliance costs comprise a much larger proportion of total compliance costs for smaller firms<sup>11</sup>.

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<sup>8</sup> Arendse, Karlinsky, Killian and Payne (2006:1).

<sup>9</sup> Grant Thornton (2006).

<sup>10</sup> Turner, Smith & Gurd (1998:95).

<sup>11</sup> SBP (2005:42).

Regulation costs specifically relating to small businesses and taxation were raised in the 2005 Budget Speech made by Finance Minister, Trevor Manuel, in which he stated the following:

*“...we have directed attention this year at the costs and complexity for small businesses of the tax code, because there is compelling evidence that simplified arrangements can assist significantly in creating an environment conducive to enterprise development”.*

Furthermore, he suggested that any effective approach to assist small business requires both policy and administration model adjustments in order to be effective. The 2005 year, therefore, saw the beginning of a process of structural change that was intended to:

- Build a positive tax compliance climate in South Africa;
- Assist small business in its start-up phase;
- Reduce compliance costs and red-tape; and
- Provide tax education and assistance.

## **1.2 Need for the study**

To date, in South Africa, no comprehensive system exists for regular accounting of tax compliance costs. Vast information shortages exist in the area of tax compliance costs specifically for small businesses in South Africa. This study will try and establish what the cost of compliance is for small businesses by surveying the accountants and bookkeepers (“tax practitioners”) who assist small businesses with their tax affairs. This will provide small businesses, the South African Revenue Service (“SARS”), National Treasury and tax practitioners with insight into the tax compliance cost-burden that small businesses face.

## 1.3 Small Business Definition

In order to achieve this objective, it is essential to first establish what is regarded as a “small business”. From an economic perspective, it would appear from the literature reviewed<sup>12</sup>, that references to the term “small business” include micro and medium-sized businesses and therefore “SMME” equates (to a large extent) to the term “small business”. However, there does not appear to be one consistent “small business” definition that is used in an economic sense in South Africa. From a taxation perspective, relief measures or special dispensations are granted by SARS to small businesses. As the qualifying criteria to obtain these relief measures or special dispensations differ in respect of the individual taxes, the qualifying criteria (where applicable) for each of the key taxes (limited to the taxes covered in the questionnaire – Income Tax, Provisional Tax, Value Added Tax (“VAT”) and Employees’ Tax) will be reviewed individually.

### Income Tax

For income tax purposes a small business will qualify for a tax incentive if it meets the requirements of the “*small business corporation*” definition.

A “*small business corporation*” (before the amendments promulgated in 2007<sup>13</sup>) is defined in section 12E of the Income Tax Act and it contains the following requirements for a business to be classified as such:

- the entity must be a private company registered in terms of the Companies Act or a close corporation (“CC”) – but not an employment company;
- all its shareholders/members are natural persons;
- its entire shareholding/members interest is held at all times during the year of assessment by shareholders/members who are natural persons;

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<sup>12</sup> Refer to Appendix A.

<sup>13</sup> As the survey was prepared, performed and responded to before the 2007 amendments included in the Revenue Laws Amendment Act, 2006 were legislated, these changes were not disclosed or considered in this document.

- the shareholders/members do not hold or have any interest in any shares, at any time during the year of assessment of the company/CC, in another company (few exceptions to this rule);
- the gross income of the company/CC for the year does not exceed *R14m*; and
- the personal service income does *not exceed 20%* of the companies total receipts and accruals and all its capital gains.

The effect of being classified as being a small business corporation for income tax purposes, as set out in section 12E of the Income Tax Act (before the amendments promulgated in 2007<sup>5</sup>), is as follows:

- no tax is payable on the first R40 000 of taxable income; only 10% tax is payable on the annual taxable income of a small business corporation between R40 000 and R300 000; and the tax rate for taxable income over R300 000 is 29%;
- a 100% write-off of manufacturing assets in the year the asset is brought into use; and
- a 100% write-off over three years (50% in the first year, 30% in the second year, and 20% in the third year) on non-manufacturing assets like computers, tills and delivery vehicles (this is an accelerated allowance compared to the normal income tax rules).

## **Provisional Tax**

No special relief measures are available for small businesses from a provisional tax perspective other than the fact that it is not obliged to make a third provisional payment (it is optional for all taxpayers), but, should the taxable income of the small business (and any other provisional taxpayer trading as a company or CC) be less than or equal to R20 000 as finally determined for any year of assessment (R50 000 in respect of any person other than a company or CC), then no interest will be charged on the outstanding tax due.

## **Value Added Tax**

South African businesses with taxable supplies (similar to turnover) not exceeding R300 000 over a twelve-month period are not required to register for VAT purposes and are therefore spared from having to submit VAT returns. These businesses may apply for voluntary registration<sup>14</sup>, which enables them to benefit from input tax credits on certain expenses, but also then imposes upon them the obligation to lodge VAT returns and levy output VAT. Certain businesses (taxable supplies less than R1,2 million) are permitted to submit VAT returns every four months, instead of the normal monthly or bi-monthly requirement. Submission of an annual VAT return is also available to companies or trusts where the income consists solely of property rentals, management or administration fees charged to connected persons that are entitled to a full deduction of input tax on such fees. This option relates more to the simplicity of the business and not necessarily to the size of the turnover of the business. In addition to the above, certain businesses (for instance sole proprietors) may elect to pay VAT on the cash (payment) basis, rather than the accrual basis, if their turnover is less than R2.5 million per year.

## **Employees' Tax**

No special relief measures are available for small businesses from an employees' tax perspective other than the fact that it (or any other employer for that matter) need not register for employees' tax if the salaries, wages and other remuneration paid by it to any of its employees are below the tax thresholds.

## **Tax Amnesty**

The Small Business Tax Amnesty and Amendment of Taxation Laws Bill of 2006 introduced a tax amnesty for small business. This amnesty applies to the following taxes:

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<sup>14</sup> As long as the annual taxable supplies exceed R20 000.

- Income tax;
- Employees' tax;
- VAT;
- Withholding tax on royalties;
- Secondary tax on companies ("STC");
- Unemployment Insurance Fund contributions ("UIF"); and
- Skills Development Levy ("SDL").

To qualify for the small business tax amnesty, the entity must be an individual, unlisted company, close corporation, trust, co-operative or insolvent or deceased estate of an individual which meets certain requirements. These requirements are as follows:

- the individual or entity must have carried on a business;
- the gross income (turnover) of the business (or businesses if the individual or entity carried on more than one business) during the 2006 year of assessment was not more than R10 million;
- in the case of a company or close corporation all the shares or members' interests were held directly by individuals throughout the 2006 year of assessment; or
- in the case of a trust all the beneficiaries of that trust throughout the 2006 year of assessment must have been natural persons.

Should you comply with the definition of "small business corporation" from an income tax perspective in terms of the section 12E or any other tax for that matter, it does not imply that you qualify for the relief for amnesty purposes. Thus, careful consideration needs to be given to the definition of small business in each situation to ensure that you qualify for the benefits offered by each separate act.

In summation, from a taxation perspective, although there are certain similarities between certain of the criteria, SARS does not appear to apply a consistent approach in respect of the taxation of small businesses. It may be argued that using different definitions is a fundamentally valid approach because each of the taxes could have different objectives,

but it must be recognized that the use of different definitions complicates compliance considerably.

For the remainder of this research study, the term “small business” will be used and will be deemed to include small, medium and micro-enterprises. As discussed and agreed with SARS and National Treasury, the turnover limit for a business to qualify as a small business in this study, will be a turnover smaller than **R14 million** which coincides with the limit to qualify as a “small business corporation” for income tax purposes.

## 1.4 Compliance costs

Small businesses are subject to numerous regulations. In order to comply with these regulations, small businesses have to incur certain costs. One of these costs is compliance costs, and the area of this study’s attention is specifically on the tax compliance costs.

Whilst this is an area in which there will always be debate<sup>15</sup>, overall, all definitions or descriptions of compliance costs generally appear to include the following elements:

- the value of time spent by business owners/managers/staff etc. on understanding the rules and applying them;
- record-keeping costs, that is, costs of compiling the necessary receipts and other records and costs incurred in respect of the preparation of tax returns;
- the payments made for the expertise of professional advisors such as consultants, lawyers and accountants; and
- incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities.

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<sup>15</sup> Refer to Appendix B for more detailed research on tax compliance costs

Despite careful attempts in most recent studies to isolate tax compliance costs from the underlying costs of being in business there is almost certainly some **overlap** between business or **accounting costs and tax compliance costs**. There is uncertainty about the extent of overlap and therefore most estimates of taxation compliance costs can only be indicative at best. Being able to distinguish a clear cut off point between these types of costs and tax compliance costs is a task that is very difficult, if not impossible, to achieve.

It has now been established what generally constitutes tax compliance costs - but how are these costs measured? A very rough idea of the average cost of time spent on taxation compliance activities could be obtained by multiplying the average time taken by the average market cost of tax advisors per hour.

There is, to date, no fool-proof technique or method that can be utilized to measure the cost of taxation compliance costs incurred by taxpayers. The extent of the tax compliance costs and their burdens to small businesses in South Africa still need to be properly understood and quantified. Once these facts have been obtained, a baseline against which future progress can be measured will have been established. This is what this study aims to provide.

However, to quantify these costs, the necessary information regarding compliance costs is needed. Obtaining this information from a small business can be a difficult task, but their professional advisors may be able to assist with this. The frequency of use of these professional advisors and their impact on the tax compliance costs to small businesses will therefore be briefly reviewed next.

## **1.5 Use of professional tax advisors**

The study undertaken by Upstart Business Strategies CC in 2004 estimated that 60% of the small businesses were hiring tax practitioners. The UNISA study of small and medium enterprise (“SME”) manufacturers in Gauteng, revealed that more small and

medium manufacturers outsource (78,7%) normal income tax functions than those who handle it internally (28.0%). This study also mentioned that the following are regarded<sup>16</sup> as the main reasons for outsourcing certain tax functions:

- Own staff are unskilled in tax matters (58.7%);
- Lack of time (41.3%); and
- Outsourcing is a cheaper option than doing it internally (8.0%).

Small businesses thus generally require the assistance of tax practitioners due to the fact that they neither have the time nor the expertise to perform this function themselves<sup>17</sup>. Tax practitioners are therefore a valuable source of information to help quantify the tax compliance costs for small businesses. Thus, approaching the owner of the small business for information regarding tax compliance costs would generally lead you directly to the tax practitioner as he/she is generally the person who has all the necessary information on the small businesses' tax affairs including costs of compliance. It is for this reason, that the tax practitioners of small business were used as respondents in this study. As mentioned previously, the small business owners will, however, still be targeted directly in a second survey that is being conducted by the National Treasury and SARS, in conjunction with USAID, the World Bank and Citizen Surveys, and the results compared to the results of this survey.

## **1.6 Research methodology**

In order to establish the extent of the tax compliance burden for small businesses, research<sup>18</sup> was conducted among accountants and bookkeepers throughout South Africa registered with the South African Institute of Chartered Accountants (“SAICA”), the

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<sup>16</sup> by the respondents in the UNISA study of SME manufacturers in Gauteng.

<sup>17</sup> Refer to Appendix C for more details on the use of professional tax advisors.

<sup>18</sup> Refer to Appendix D for a detailed explanation of the research methodology used.

South African Institute of Professional Accountants (“SAIPA”) or the South African Institute of Certified Bookkeepers (“SAICB”). A questionnaire was prepared by a team that comprised of the World Bank survey experts and a South African consultant - a senior lecturer in the taxation department at the University of Pretoria. Pre-identified tax experts (from local and international universities) as well as SARS and National Treasury were selected to review the survey questionnaire for relevancy, structure, flow and content.

An electronic internet-based questionnaire, developed by Bluetub Design and Production, was selected as the research instrument with which to conduct the research. A database of all the members of SAICA (20 279), SAIPA (5 294) and the SAICB (2 174) was provided to us (27 747 participants in total). No sample was selected and the entire population, which represents many but not all tax practitioners in the country, was used.

A pilot study was then run from 15 September 2006 – 4 October 2006. Randomly selected participants from the total population (250 from SAICB, 500 from SAICA and 500 from SAIPA) were invited to participate in the study. The overall response rate of the pilot study was 14.5%.

The final questionnaire was sent out to the remaining population on 1 November 2006 and access to this questionnaire was closed on 5 January 2007. The overall response rate was 15,75% (3 429 respondents). The pilot study response rate and the overall response rate appear to be in line with the response rates received for online surveys<sup>19</sup>.

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<sup>19</sup> According to the Super Survey white paper on “Online survey response rates and times – Background and Guidance for Industry” by Michael Braun Hamilton, the average response rate is 13,35%. This document analyses meta-data for 199 surveys conducted using the SuperSurvey™ cluster at <http://www.supersurvey.com>.

The questions contained in the electronic internet based questionnaire concentrated on the time and costs involved in complying with tax legislation and included the following focus areas:

- Profile of the respondent; } **Module 1 (generic)**
  - Profile of the respondent's clients; } **Module 2 (generic)**
  - Time and costs involved in respect of the following (for each tax):
    - Registration;
    - Tax returns;
    - Refunds;
    - Assessment, objections and appeals;
    - Penalties and interest;
    - Audit and inspections by SARS;
    - Written queries received from SARS;
    - Keeping abreast of tax changes;
    - Communication with SARS; and
    - Deregistration} **Modules 3 – 6 (taxes)**
  - Record keeping;
  - Retainers;
  - Communication with SARS; and
  - Other information per tax – most burdensome aspects of dealing with SARS and most effective reform to reduce tax compliance burden.
- }
- Module 7 (additional information)**

The confidentiality and/or anonymity of the respondents were assured as the respondents were not requested to provide their names or any other information that can be used to identify them in person in the questionnaire, the research report or any other publications based on the study. Each respondent is identified by a respondent number only. The completed questionnaires and any other documents that are used to identify respondents are only handled by the World Bank team involved in the study and the web programmer

employed by the World Bank (Blue Tub Design and Production). The questionnaire is attached as Appendix F and the limitations to the study are set out in Appendix G.

The analysis and interpretation of the results will be presented in the next chapter.

## **2 Analysis and Interpretation of research findings**

### **2.1 Introduction**

This chapter sets out the analysis and interpretation of the significant findings of the study which was run from 1 November 2006 till 5 January 2007 among accountants and bookkeepers registered with SAICA, SAIPA and SAICB. It must be noted that those tax practitioners who are not members of a professional body were not included in the study.

The results of the survey are calculated based on the weighted average of the mid-points of each category offered in each question in the questionnaire. In those questions where the last category was “open” - for example, R3 000 and above – the lowest end of this category (i.e. R3 000 in this example) was used as the estimate (if respondents did in fact choose this category). Furthermore, in certain questions, information regarding the tax practitioner’s “focus clients” was asked. These focus clients were randomly selected based on the information provided by the tax practitioner in respect of his/her total client base. This selection was randomly made based on the tax practitioners’ clients’ economic activity, turnover, and types of taxes that the tax practitioner assisted it with.

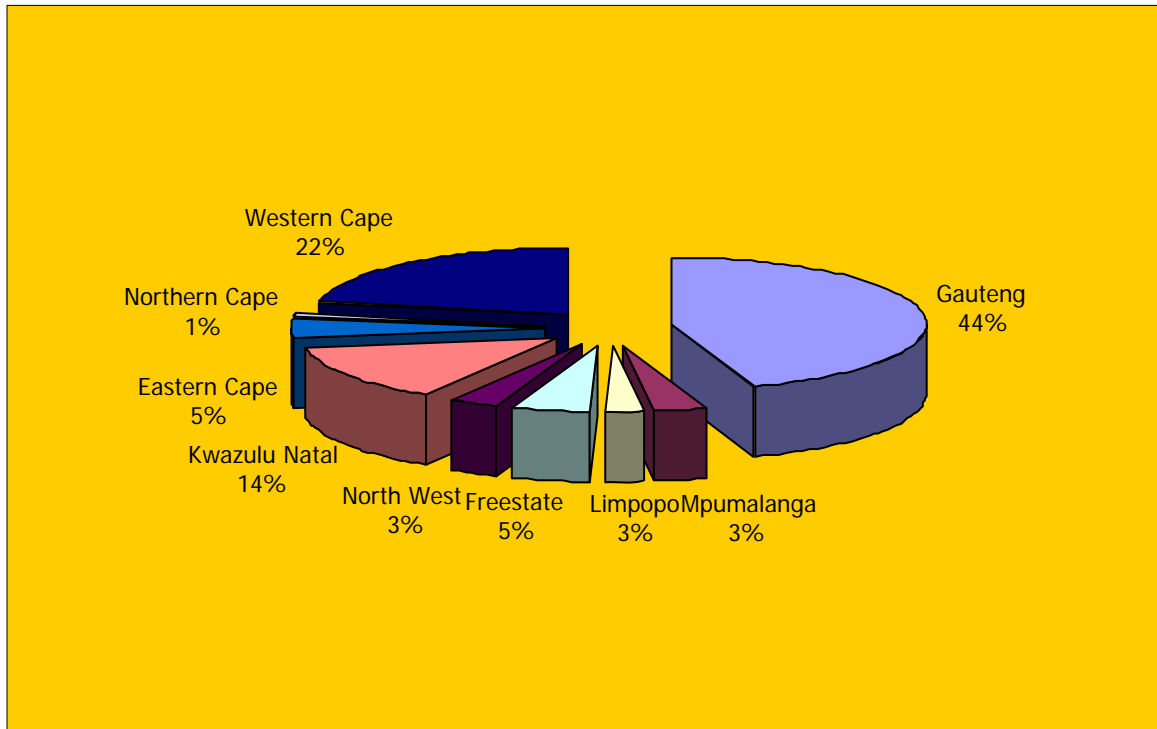
### **2.2 Profile - Respondents and their clients**

#### **2.2.1 Profile of respondents**

As can be seen from Figure 1 below, the largest category of respondents (44%) came from Gauteng, however, at least 3% of the respondents were from each of the remaining eight provinces in South Africa - with the exception of the Northern Cape which had a 1% representation. This appears to be in line with the demographics of certain of the institution’s members, as we were informed that, for instance, SAICA has fewer than 40 members in the Northern Cape. The cities that had more than 7% representation were

Johannesburg (12,8%), Pretoria (14,6%), Cape Town (10,8%) and Durban (7,1%). As these are arguably the four major cities in South Africa, it seems appropriate that a higher percentage of responses came from these cities. Of all the respondents, 11% reported that their offices were situated in a rural area<sup>20</sup>.

**Figure 1: Which province is your establishment primarily situated in?**



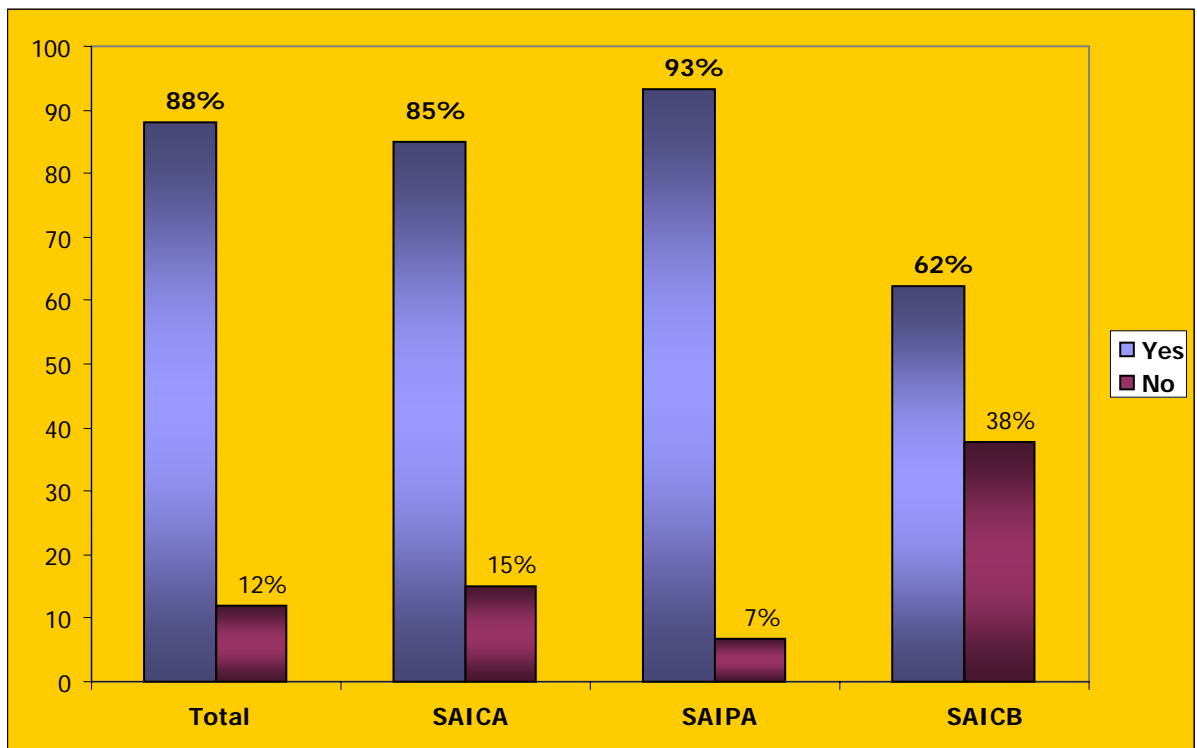
The majority (53%) of the respondents that provide professional services related to taxation matters to individuals and businesses in South Africa are registered with SAICA whereas 43% are registered with SAIPA and 4% with SAICB. This is in line with the membership size of each of the professional institutions. It is interesting to note that the vast majority (88%) of the accountants and bookkeepers surveyed<sup>21</sup> are also registered with SARS as tax practitioners as can be seen from Figure 2 below. From a SARS perspective, the term “tax practitioner” is intended to refer to and include any person

<sup>20</sup> No definition of “rural area” was provided in the questionnaire.

<sup>21</sup> Limited to those that provide professional services related to taxation matters to individuals and businesses in South Africa and that deal with SARS while providing these services,

rendering advice to any other person in respect of an Act administered by the Commissioner, or who completes or assists with the completion of any document to be submitted to the Commissioner for reward. As this is quite a broad definition it could be argued that all the respondents that answered “no” to the question (posed in the questionnaire) whether or not they are registered with SARS as tax practitioners, are actually required to be registered as tax practitioners with SARS - unless of course they fall within one of the exclusions from the requirements to register. Should the exclusions not be applicable to these respondents, then it could be argued that there are certain accountants and bookkeepers that should be registered with SARS as tax practitioners but are not. As the questions posed in the questionnaire did not go into this depth, the extent of this problem (if any) cannot be established with certainty.

**Figure 2: Respondents registered as a tax practitioner with SARS**



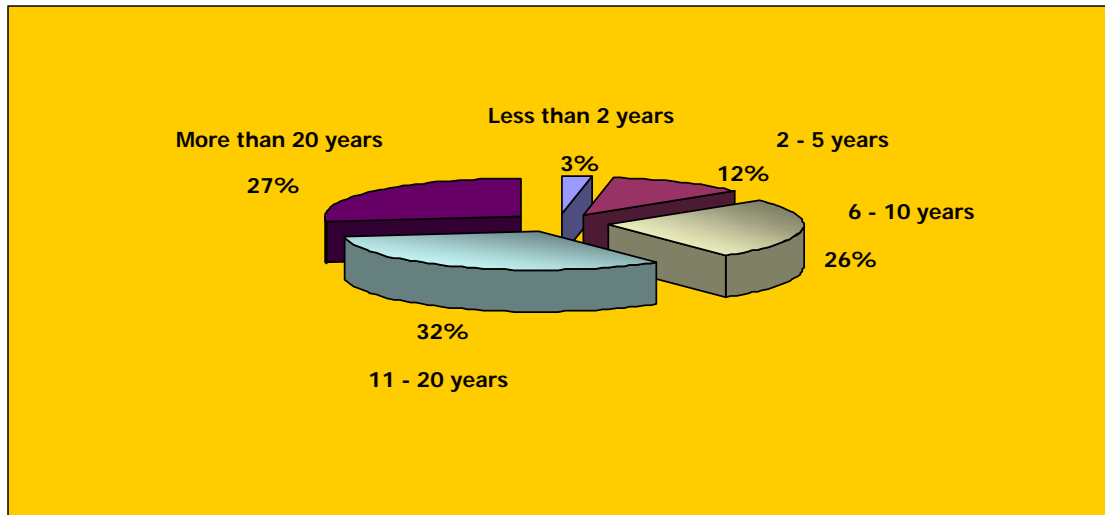
If the percentage of members<sup>22</sup> that are registered as tax practitioners with SARS is analyzed per professional institution (Figure 2 above), it is evident that the SAICB has the lowest percentage thereof. The reason for this is most likely due to the nature of its profession - many of its members are employed as bookkeepers for a business for which they earn a fixed monthly salary. SAIPA on the other hand has the highest percentage of members that are registered as tax practitioners. Once again, the reasoning for this is due to the nature of its profession and members – they mainly consist of professional accountants that are self employed (running their own practices) rendering services to the general public including taxation services as the major income earner. SAICA has the second highest percentage of tax practitioners in its membership base, however, not as many as the SAIPA. This is mainly due to the make-up of its members who can not only run their own practices but are also suitably qualified to work as external or internal auditors etc. in all sized firms, thus covering areas other than pure accounting and taxation services offered mainly to the small business sector. Due to the diversity of employment opportunities available to SAICA members, it is quite possible that all 15% of the members as set out in Figure 2 above are correctly not registered with SARS as tax practitioners.

When considering the experience levels of the tax practitioners, it was found that at least 85% of the respondents have more than five years of experience in assisting clients with taxation matters, and 59% have more than 11 years of experience in this matter (Figure 3). Thus the majority of the respondents appear to be well established in their businesses and thus their responses will be of great value and add credibility to the results.

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<sup>22</sup> Limited to those that provide professional services related to taxation matters to individuals and businesses in South Africa and that deal with SARS while providing these services,

**Figure 3: Years of professional experience in assisting clients with taxation matters**



Due to the nature of tax legislation, changes are inevitable. To ensure that the tax practitioners are up to date with all the changes in the legislation, it was established that it takes, on average, at least *seven days* per year for each tax practitioner to familiarize him/herself with all the obligations and changes in the Income Tax laws and regulations. Each of the other taxes (Provisional tax, VAT and Employees' tax) takes the tax practitioners on average between *3 – 5 days* per year. Practitioners, thus, in total spend at least two weeks per year on maintaining and improving their ability to provide clients the best service possible. This is time that is not directly billable to the tax practitioner's client but will hopefully result in future billable hours. Therefore, it may even be possible to argue that the time spent by the tax practitioner on this activity could influence the price that the he/she will charge his/her client – the longer it takes the tax practitioner to be able to grasp the new legislation, the more expensive the service could potentially be.

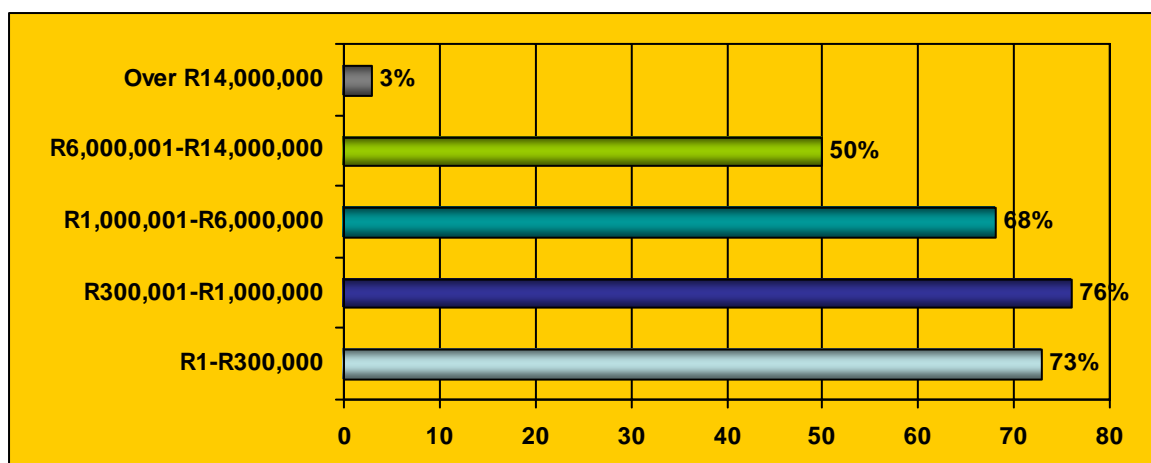
### **2.2.2 Profile of respondent's clients**

The tax practitioners were requested to answer most of the questions in the questionnaire based on their "focus" clients – clients that were randomly selected out of the pool of all the tax practitioners' clients. The turnover, legal form and activities carried on by their

clients were the criteria that were considered when deciding on whether or not these clients qualify as a small business.

The distribution of tax practitioners' clients businesses according to turnover (see Figure 4 below) reveals that most (76%) of the tax practitioners surveyed, service clients that have a turnover of between R300 001 – R1 000 000. However, the other turnover categories below (R1 – R300 000) and above this category (R1million – R6million and R6million – R14million), are also frequently serviced by tax practitioners<sup>23</sup>. As this study was aimed at small businesses (defined as those with a turnover of R14 million or less), this is a good indication that the appropriate individuals responded, as all turnover bands are fairly represented.

**Figure 4: Turnover bands of tax practitioners' clients**



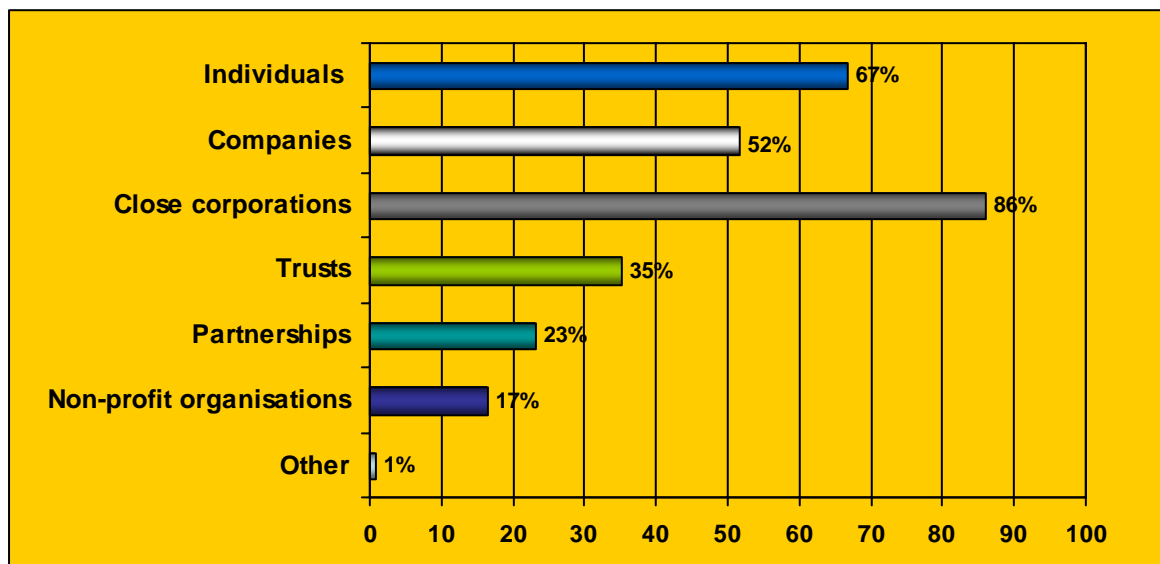
Distribution of businesses by legal form (see Figure 5 below) indicates that close corporations followed by individuals/sole proprietors are the dominant legal forms in which the clients of the tax practitioners surveyed conduct their business<sup>24</sup>. Once again

<sup>23</sup> The total of this graph does not add up to 100% as some tax practitioners may service clients in more than one turnover band. Thus this graph represents the percentage of all the tax practitioners surveyed that have clients in each turnover band.

<sup>24</sup> The total of this graph does not add up to 100% as some tax practitioners may service clients that operate in each of the above legal forms. Thus this graph represents the percentage of all the tax practitioners surveyed that have clients that operate in each of the above legal forms.

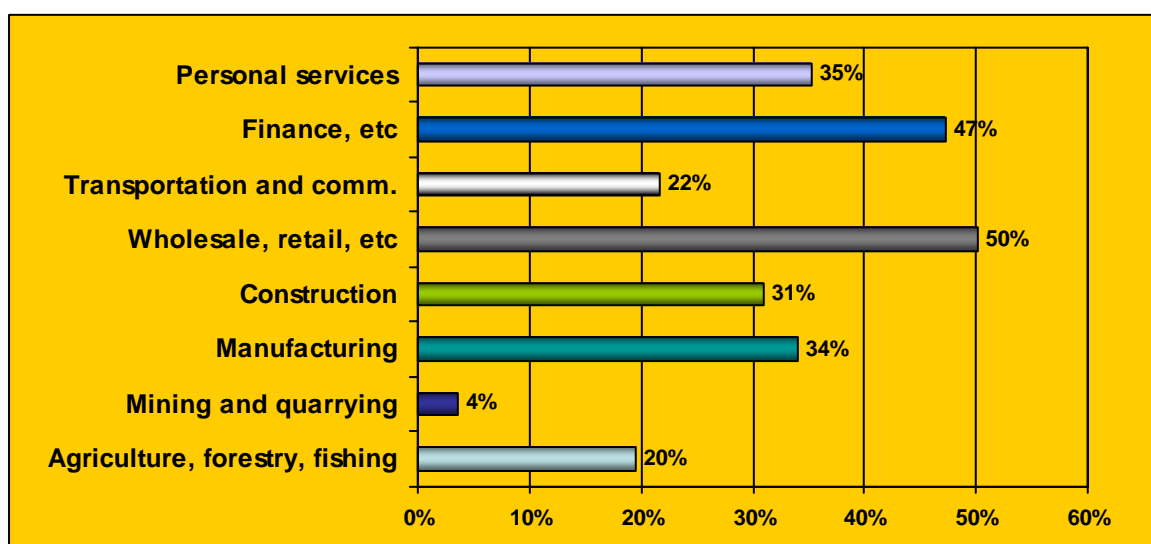
there is fair representation of all the other legal forms in which a small business can operate, thus ensuring that the results are not significantly biased with respect to legal form.

**Figure 5: Legal form of respondent's clients**



The analysis according to activity as set out in Figure 6 below, reveals that the majority of the respondent's have clients that operate in the wholesale, retail, trade, hotels and restaurant sector. This is closely followed by the finance, real estate and business services sector. Mining and quarrying enterprises have the least representation, however, as this is a specialized area in taxation, this should not affect the representativeness of the responses received. Overall, all sectors in the South African economy are represented in the results received, once again ensuring no significant bias regarding area of activity.

**Figure 6: Daily activities of respondent's clients**



## **2.3 Compliance costs**

The objective of the survey is to identify and measure the tax compliance burden for small businesses in South Africa. In order to do this, the compliance costs first have to be established per tax and then analyzed further per business size (turnover) where possible. The time and costs involved in most of the significant processes in complying with tax laws and regulations were investigated in order to establish what the average compliance costs are and if there is an undue tax compliance burden on enterprises with a smaller turnover.

Due to time and cost constraints, only the following four key taxes were investigated in this study – Income Tax, Provisional Tax, Value Added Tax and Employees' Tax. The following significant processes in complying with the above mentioned tax laws and regulations were investigated in the study:

- Registration;
- Preparation, completion and submission of tax returns;
- Objections and ADR's and
- Audits, inspections and written queries from SARS.

## **2.3.1 Registration**

### ***2.3.1.1 Time taken to register***

The time taken by tax practitioners to complete the necessary procedures, prepare and submit all the necessary forms, in order to register their small business clients for income tax, provisional tax, value added tax as well as employees' tax, is on average 12.65 hours in total. Registering for VAT will take the longest period of time (5.9 hours), followed by income tax (2.8 hours). This order holds true for all the different turnover bands under review.

If a business in the lowest turnover band (R1 – R300 000) is to be compared to one in the highest (R6 million – R14 million), it can be seen from Table 1 below that the time to register per tax is only slightly higher in the highest turnover band (with the exception of income tax). Reasons for this could be due to the fact that the same information is required to register for income tax irrespective of the turnover of the business, resulting in the same amount of time being spent by both businesses to register.

**Table 1: Average time taken to prepare, complete and submit tax registration forms**

TAX	AVERAGE TIME TAKEN (HOURS)		
	Total average time	TURNOVER	
		R1 – R300 000	R6m - R14m
Income Tax	2.8	2.73	2.62
Provisional Tax <sup>25</sup>	1.6	1.56	1.61
VAT	5.9	5.30	6.04
Employees' tax <sup>26</sup>	2.3	2.21	2.27

A possible reason why registering for VAT would take a small business longer than any other tax is due to the length and complexity of the VAT registration form (VAT 101). The number of attachments and proof of turnover *inter alia* that are required to be provided by a vendor when registering for VAT are onerous and time consuming. It is submitted that the larger and more complex the business is, the longer the form will take to complete - for instance particulars of the other enterprises/branches/divisions and five of the most senior partners/members/ directors/shareholders/trustees would need to be documented by a generally larger more complex business in addition to the other 'standard' information that is required by SARS.

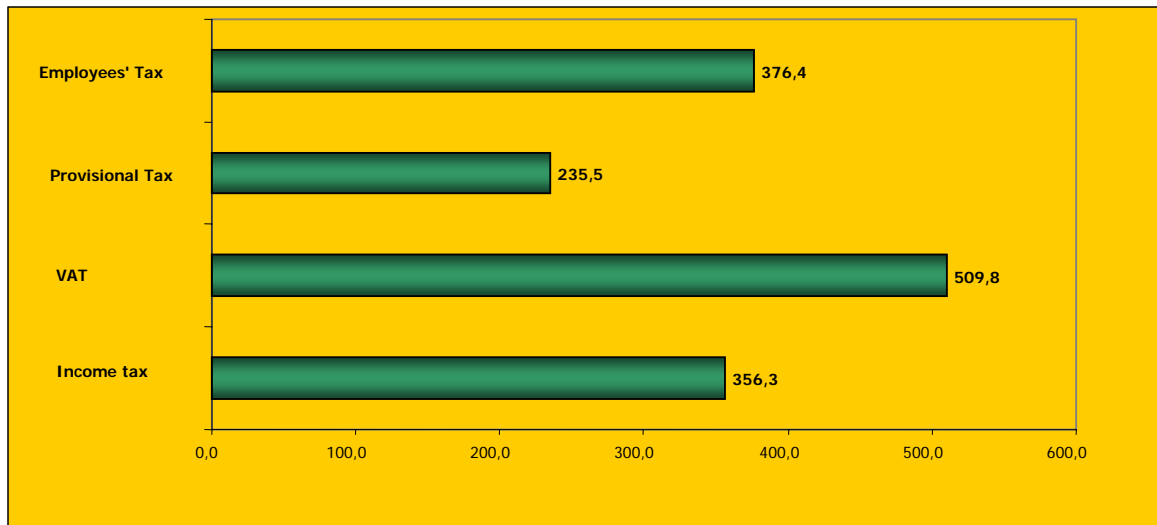
<sup>25</sup> Companies and CC's are automatically registered as provisional taxpayers as soon as they commence trading. Thus no extra time would be allocated to this registration process if the client of the tax practitioner was a company or a CC that is carrying on a business and is required to register for income tax. However, the survey was set out in such a way that each respondent only answered questions in respect of at least one tax (modules 3 – 6). Thus time involved in registering for provisional tax was separately questioned to cater for the situation where the respondent assists, for example, individuals (trading as sole proprietors) with registering for provisional tax, which would involve additional time to the time taken to register for income tax.

<sup>26</sup> Although UIF is not one of the taxes covered specifically by this study, it should be noted that when registering for employees' tax, the taxpayer automatically registers for UIF and SDL (if applicable) as there is only one registration for all these taxes. There is only one short section on this form that deals specifically with SDL – the exemptions - but besides this, whether you are registering for one or all of the taxes, one form needs to be completed.

### 2.3.1.2 Costs to register

The average amount that a tax practitioner charges his/her client to register for each tax is set out in Figure 7 below.

**Figure 7: Cost of registration per tax in Rands**



VAT, appears to be the most costly taxes to register for. Once again one of the possible reasons for this is due to the length and complexity of the VAT registration form. This form definitely requires more time, effort and knowledge to complete if compared to the other tax registration forms as more information is required to be provided. Overall, registration for taxes both from a time and cost perspective appears to be relatively uniform across all turnover bands.

### 2.3.2. Preparation, completion and submission of tax returns

#### 2.3.2.1 Time taken to prepare, complete and submit tax returns

Preparation, completion and submission of *each* of the provisional tax returns (first, second and third) as well as the (monthly) employees' tax return takes tax practitioners

on average between 1.1 – 1.2 hours. However, for income tax (annual) and value added tax returns (per VAT period – ranging from one month to every 12 months) this process takes on average 3.1 hours per return. Preparation of the VAT and then income tax returns thus take the longest out of the four taxes – this is irrespective of the turnover level of the tax practitioners’ clients.

**Table 2: Average time taken per annum to prepare, complete and submit tax returns**

TAX	AVERAGE TIME TAKEN (HOURS)				
	Total	TURNOVER			R6m - R14m
R1 - R300 000		R300 001 - R1m	R1m - R6m		
Income Tax	3.07	2.87	2.99	2.97	2.91
Provisional Tax <sup>27</sup>	2.27	2.22	2.25	2.29	2.22
VAT <sup>28</sup>	18.77	18.41	19.02	19.40	18.76
Employees' tax <sup>29</sup>	13.93	13.25	13.47	13.79	13.44
Total time taken (p/a)	38.04	36.75	37.73	38.44	37.34

If the time taken per turnover category is investigated, the survey has established that the costs to prepare, complete and submit the tax returns steadily increase as the turnover increases up until the turnover reaches the R1 million to R6 million band, after which case the costs once again slightly decrease. The exception to this appears to be in respect of income tax in which case the costs start decreasing when the turnover of the business reaches R1 million. Possible reasons for this might be due to better bookkeeping habits of businesses with a turnover above R1 million or the fact that the tax deductions, allowances etc. do not change or differ significantly compared to a business with a turnover between R300 001 and R1 million and thus it does not require additional time to

<sup>27</sup> This represents the average time taken to submit two provisional tax returns per annum.

<sup>28</sup> This represents the average time taken to submit VAT returns per annum (based on a submission every two months).

<sup>29</sup> This represents the time taken to submit 12 monthly employees’ tax returns (this excludes the time taken to prepare the annual employees’ tax reconciliation).

be spent in order to complete the tax return. Further research would thus need to be conducted to establish exactly why this is the case.

With regard to the preparation, completion and submission of the annual employees' tax reconciliation (IRP 5 reconciliation), it takes tax practitioners on average *4.1 hours* to perform this function.

The recent 'Doing Business 2007: How to reform' World Bank study investigates the regulations that enhance business activity and those that constrain it across 175 economies. Paying taxes is one regulation of every day business that is measured. The study addresses the taxes that a "medium sized company" must pay in a given year. The time to prepare, file and pay three major taxes: corporate income tax, value added tax, and payroll taxes, is recorded in hours per year in this survey. In respect of South Africa, it was found that it takes this specific business 350 hours to prepare, file and pay three major taxes.

In order to compare this to the information that was obtained from this study, it would need to be ensured that a similar business, similar taxes and tax functions are used. With regard to the size of the business, it should be noted that although the Doing Business report states that it used a "medium sized" business, this is in actual fact for all intents and purposes a large business in the South African context and specifically for the purpose of this study – being a business with a turnover of greater than R14m. However, it was still decided to compare the results of this study to the Doing Business study and thus the medium-sized business (company) in the Doing Business Study was compared to a company in this study with a turnover of between R6 million and R14 million that is situated in Gauteng (the country's most populous province).

With regard to the taxes that were covered by the Doing Business study, it should be noted that the 350 hours, as calculated by the Doing Business Study, includes 150 hours in respect of UIF contributions as set out in the Doing Business document on the

internet<sup>30</sup>. As UIF was not one of the four specific ‘taxes’ that was covered in our study<sup>31</sup>, this time was not taken into consideration for the final comparison. However, it was established from comments contained in an email received from Ms E. Koomets<sup>32</sup> from Price Waterhouse Coopers (“PWC”) in South Africa that this time related to the most prominent payroll-based tax, that is, employees’ tax and not UIF contributions as shown on the website. Therefore, the full 350 hours is the figure that needs to be compared to the findings of this study. When this is done, it is apparent that there are huge discrepancies between the two surveys. According to the Doing Business survey, as has already been established, the time taken to prepare, file and pay the company’s annual employees’ tax liability is 150 hours compared to the 14 hours found in this study.

For VAT and corporate income tax this time was 50 and 150 hours respectively.

If these times are compared to the findings of this study – 19 for VAT and 3 and 2 respectively for income tax and provisional tax – then it is quite clear that the estimates made by PWC are not in line with the actual time spent by tax practitioners assisting domestic small and medium businesses but are presumably based on PWC’s experience with their client base which consist mainly of large sized and international businesses.

With regard to the tax functions covered in the Doing Business study, the 350 hours include the time taken to collect the information necessary to compute the tax payable, the time taken to keep separate accounting books and do separate taxation calculations, the time taken to pay the tax either online or at SARS and the time due to delays while waiting. Despite the fact that the time for all these activities was questioned specifically in the Doing Business study, no clear split was provided for each of these activities. This makes any direct comparison to this study very difficult as not all of these functions were questioned in this current study. However, a rough comparison could possibly be made to

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<sup>30</sup> <http://www.doingbusiness.org/ExploreTopics/PayingTaxes/Details.aspx?economyid=172>, accessed 8 November 2006

<sup>31</sup> However, refer to the second limitation of this study as set out in Annexure G.

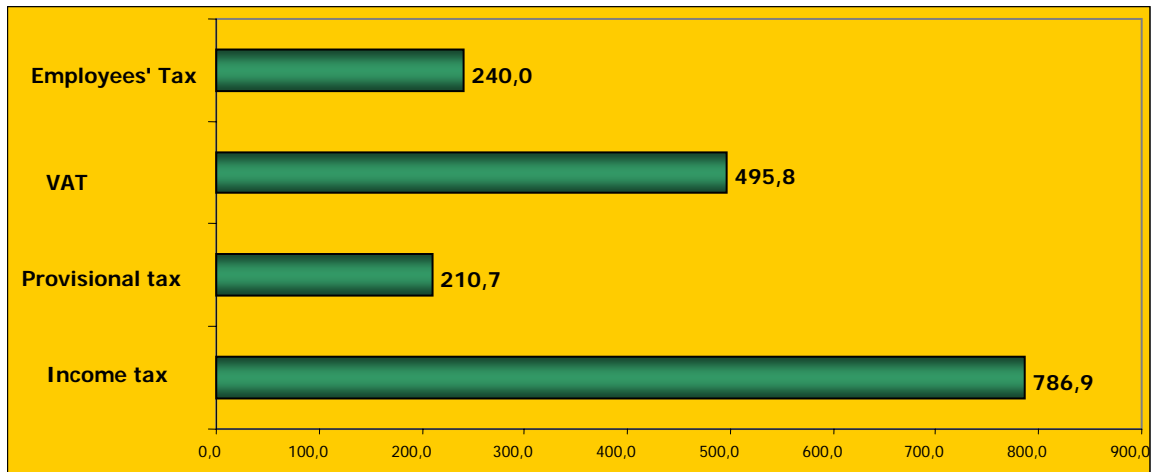
<sup>32</sup> Koomets (2007:1)

this study if a few assumptions are made. Firstly, it is assumed that the total annual cost of tax and accounting services (R40 800), as determined in Table 5 under point 2.3.2.2 below, is the cost payable to collect the information necessary to compute the tax payable, the time taken to keep separate accounting books and do separate taxation calculations by a small business (with a turnover of between R6 million and R14 million). Secondly, the average hourly rate for performing these functions is roughly R200. If the cost of R40 800 is divided by R200 per hour, this results in 204 hours being the time spent on collecting the information necessary to compute the tax payable, the time taken to keep separate accounting books and to do separate taxation calculations. Bearing in mind that the time taken to pay the tax either online or at SARS and the time due to delays while waiting have not been taken into account in this calculation, the actual number of hours to be compared to the Doing Business figure of 350 hours will be a little higher. The large difference in the time between the two studies can possibly be ascribed to the different entities as well as processes that were covered in each study.

### ***2.3.2.2 Costs to prepare, complete and submit tax returns***

The average Rand amount that a tax practitioner charges his/her client to prepare, complete and submit its annual income tax return, one provisional tax return, one VAT period's VAT return and one month's employees' tax return is set out below.

**Figure 8: Cost of preparation, completion and submission of a tax return in Rands**



In addition to the above costs, it costs on average R597 to prepare, complete and submit the annual employees' tax reconciliation (IRP 5 reconciliation) should a small business use a tax practitioner to perform this function.

Although, it appears in terms of Figure 8 above that the income tax return is the most costly tax return to prepare, complete and submit, it should be borne in mind that:

- an income tax return has to be submitted once annually;
- an employees' tax return (EMP201) has to be submitted *monthly*;
- a VAT return (VAT 201), depending on the taxable supplies of the enterprise, has to be submitted either *every month* or every *second, fourth, sixth or twelfth month*;
- *at least two* provisional tax returns need to be submitted *per annum* by any small business.

The costs in Figure 8 for employees' tax, provisional tax and VAT represent only one month's employees' tax return, one VAT period's return and one provisional tax return. Thus, in order to establish what the annual costs would be to ensure that all the tax returns that are due in one year are prepared, completed and submitted correctly, a new calculation is needed (refer to Table 3 below). In this calculation, it is assumed that the

small business has to submit only two provisional tax returns (the minimum), employees' tax returns (excluding annual reconciliation) every month (the minimum) and VAT returns every second month. A two month VAT period was chosen as, according to SARS<sup>33</sup>, 91,3% of VAT filers file every two months - only 0.1% of the total VAT registered filers on the SARS system submit their VAT returns annually or every four months.

**Table 3: Cost in Rands of preparation, completion and submission of tax returns (excluding IRP 5 reconciliation) per turnover category per annum**

	R0 – R300 000	R300 001 - R1 000 000	R1 000 001 - R6 000 000	R6 000 001 - R14 000 000	Average
Income tax	723	786	844	835	787
Provisional tax (2 returns)	363	389	398	416	388
VAT (2 monthly)	2,825	2,918	3,166	3,195	2,975
Employees' tax (mthly) <sup>34</sup>	2,693	2,866	2,964	2,672	2,880
<b>TOTAL</b>	<b>6,604</b>	<b>6,959</b>	<b>7,372</b>	<b>7,118</b>	<b>7,030</b>

Tax practitioners on average charge their small business clients R7 030 per annum to ensure that all their tax returns (for the above mentioned taxes) are prepared, completed and submitted as required by SARS. VAT returns appear to be the most expensive returns for the businesses to obtain assistance with from a tax practitioner. This is followed by the monthly employees' tax returns.

It is evident that the costs for preparation of the provisional tax and VAT returns rise as the entity's turnover increases. In respect of income tax and employees' tax, this is also the case, however, the costs start diminishing once the turnover of the business reaches R6 million. A possible reason for this could be that the tax complexities relating to

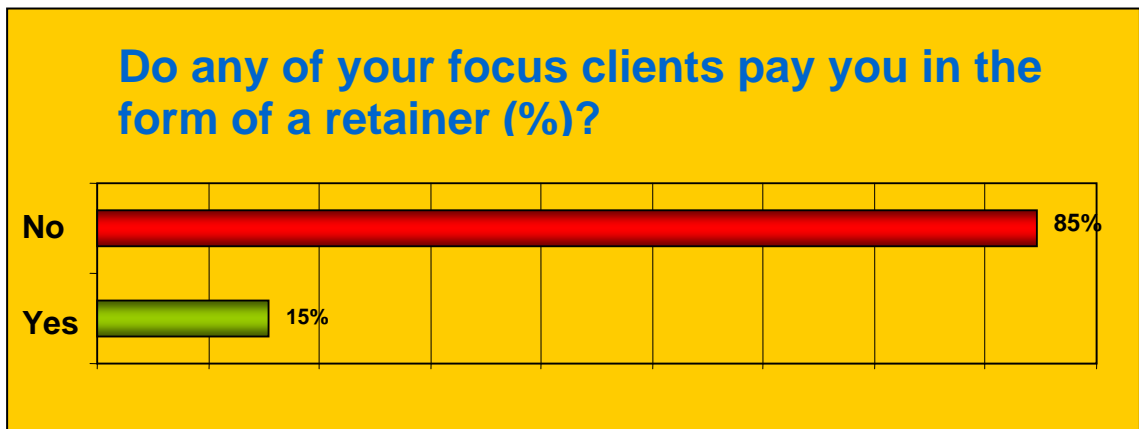
<sup>33</sup> Email from Dorothy Mogotsi from the SARS Small Business Unit dated 29 January 2007.

<sup>34</sup> Should the IRP 5 reconciliation also be prepared by the tax practitioner, it would on average cost the small business an additional R597 totaling R7 627, which would result in employees' tax becoming the most expensive tax to obtain assistance with from a tax practitioner.

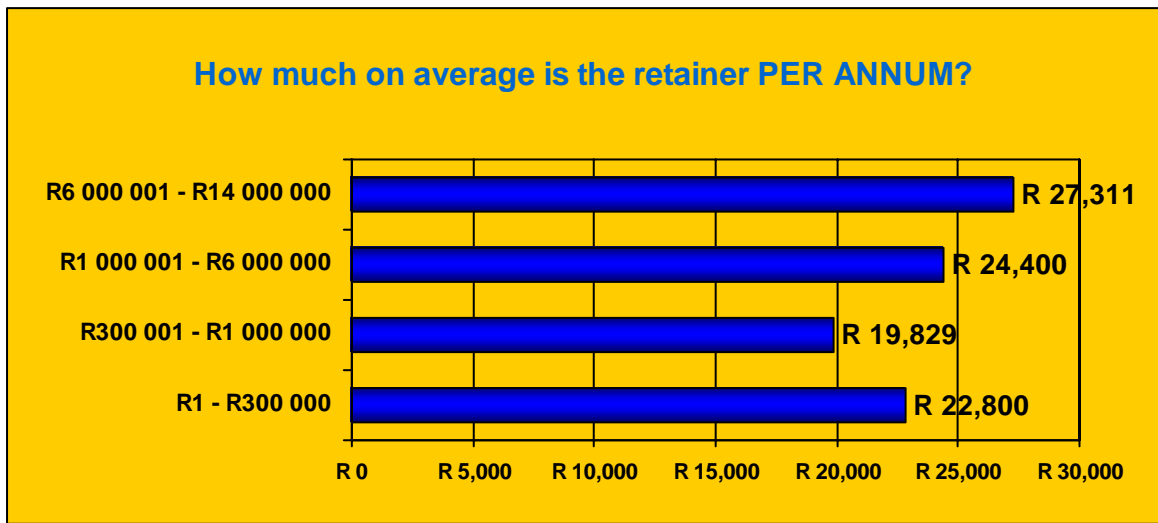
preparing, completing and submitting the income tax and employees' tax returns of such a business do not proportionally increase as the turnover of the business increases. More research would need to be conducted on this before any final conclusions on this matter can be reached.

The basic costs that a tax practitioner would charge its clients for completion of its tax returns per annum, for the four taxes covered in the survey, have now been established. An interesting comparison would be to compare the cost of an annual retainer (for taxation services) paid to a tax practitioner by a small business to the above costs. The following two questions were thus posed to the respondents:

**Figure 9: Payment of retainers for tax-related services**



**Figure 10: Cost of retainers for tax-related services**



It is therefore apparent that retainers are not frequently paid by small businesses to tax practitioners. One of the reasons for this may be due to the cost of the retainers. The average costs involved are shown in Figure 10 above.

If the total weighted average retainer paid by a small business is to be calculated from the information contained in Figure 10 above, it would amount to R24 158<sup>35</sup>. If this is compared to the total weighted average cost of R7 030 (Table 3) for preparing tax returns for four taxes for a whole year it is evident from the information in Figure 10 that per

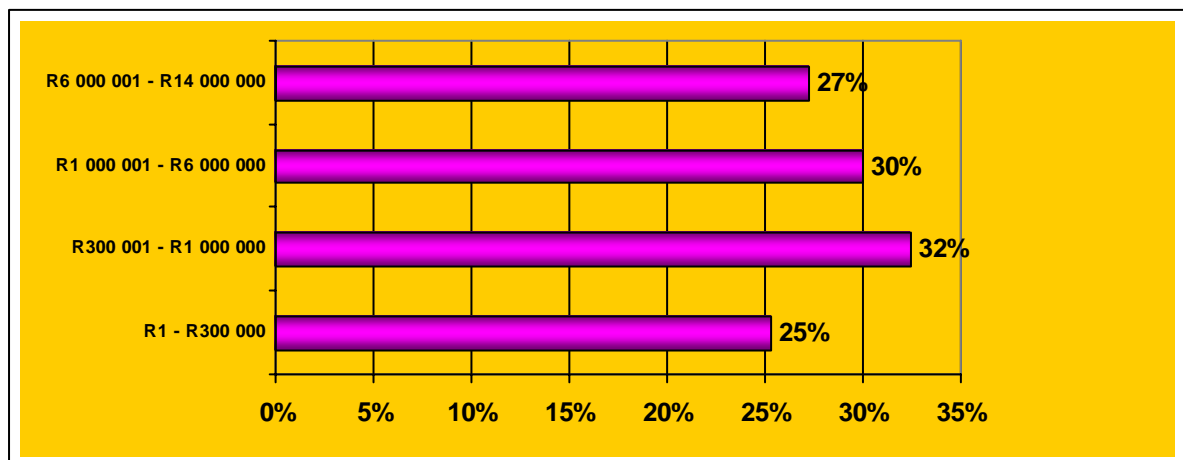
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<sup>35</sup> If a pure “numbers” comparison was to be made to the findings of the 2005 UNISA Study on manufacturing concerns situated in Gauteng, it is noted that the cost of outsourcing some tax functions (not specified in the report which specific tax functions) amounted to R13 445 per annum for small establishments and R21 462 for medium establishments. The average cost for outsourcing was calculated as R15 717. More in-depth investigations should be performed to investigate the methodologies used in establishing these numbers before any meaningful comparisons can be made to the results of this study. The same would apply to the findings of the 2005 SBP study in which it was established that it cost small establishments an average of R8 451 and medium establishments R11 311 in respect of managing and administering tax functions/responsibilities per annum.

turnover category, the retainer is significantly higher than the cost of merely preparing tax returns for a whole year (noting, however, that the sum of the individual tax returns reported above is only for four taxes). Various reasons can be ascribed to this, the most obvious being that the retainer would include additional tax services such as objections and appeals, provision of opinions in respect of certain tax matters, assistance with tax administrative issues such as meetings with SARS and so forth. Another obvious reason might be the cash flow shortages/struggles that most small business appear to experience. This would result in a small business only being able to pay for tax services as and when they are required and not having to pay a fixed amount each month irrespective of the service rendered. More in-depth research would need to be performed to establish the exact reason/s for this large difference in costs in order to ascertain if paying a retainer as opposed to paying for a tax service as and when it is performed, is more or less beneficial for a small business.

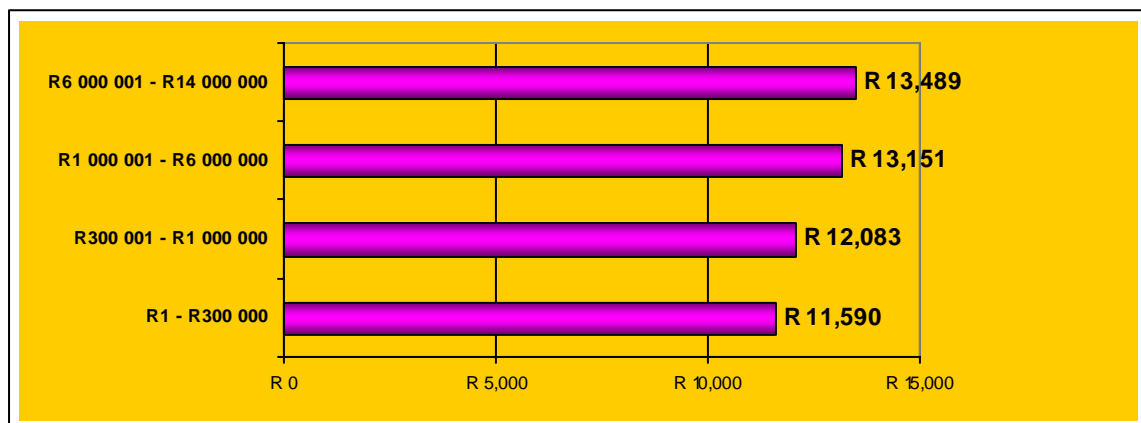
One of the problems associated with obtaining reliable estimates of taxation costs, is the split between true tax costs and actual accounting costs. Tax practitioners can perform both of these services for their clients as can be seen from Figure 11 below.

**Figure 11: Percentage of tax practitioners' clients requesting them to assist with completing/maintaining their accounting and bookkeeping records**



After having established what the annual costs charged by tax practitioner’s were for completing tax returns and tax retainers, the respondents were asked to indicate what the annual costs were that they charged their clients for completing and maintaining their accounting and bookkeeping records. This therefore ensured that some sort of split was made by the tax practitioners between true tax and accounting costs. From our discussions with various tax practitioners and small businesses, it appears that tax practitioners are in a better position to provide this sort of split compared to the small business owners themselves. This will however, be confirmed in the upcoming survey of the small businesses.

**Figure 12: Average charge PER ANNUM for assisting clients with completing/maintaining their accounting and bookkeeping records**



If the overall cost were to be calculated for all small businesses ignoring turnover bands among them, it is estimated that tax practitioners would on average charge R12 185 for assisting their small business clients with their accounting and bookkeeping functions. From Figure 12 above, it is evident that the accounting costs appear to increase as the turnover of the business increases.

A summary of the average costs that a business would pay for taxation and accounting services is set out in tables 4 and 5 below. Table 4 sets out the following:

- the annual costs for small businesses of tax practitioners assisting them with the preparation, completion and submission of their income tax, provisional tax (2 returns), VAT (2 monthly submission of returns) and employees' tax (monthly returns); and
- annual retainers for taxation services.

**Table 4: Summary of annual taxation costs per turnover category**

SERVICE RENDERED	TURNOVER				AVERAGE
	R1 - R300 000	R300 001 - R1 000 000	R1 000 001- R6 000 000	R6 000 001 - R14 000 000	
Tax returns	R 6,604	R 6,959	R 7,372	R 7,118	R 7,030
Various services - Tax retainer	R 22,800	R 19,829	R 24,400	R 27,311	R 24,158

A retainer for taxation services normally includes the costs of completing tax returns and can furthermore be regarded as an insurance policy against the likelihood of queries, objections, inspections, etc. Therefore it can be concluded that the **minimum** that a small business would pay to a tax practitioner for the preparation, completion and submission of **tax** returns to SARS would be **R7 030**. However, this minimum is clearly underestimated due to the fact that only four taxes are covered in this estimate. If we were then to estimate the **maximum** exposure to a small business in respect of annual taxation costs (for the four taxes under review), then the retainer figure of **R24 158** would be the best estimate<sup>36</sup>. It could also possibly be assumed that if the average maximum cost exceeded the retainer of R24 158, then more entities would most probably opt for the retainer option. Taking the R24 158 as the maximum exposure would therefore seem to be in order.

<sup>36</sup> This figure does not appear to be outrageous (taking inflation into account) if compared to the 2005 UNISA study of small and medium enterprise manufacturers in Gauteng, which revealed that the average cost of outsourcing their tax functions amounts to R13 445 per annum for small establishments and R21 462 per annum for medium establishments.

As discovered in Figure 11 above, approximately a quarter to one third of tax practitioners' clients request their assistance with completing/maintaining the small businesses' accounting and bookkeeping records. Table 5 below sets out the annual cost that a small business would incur for assistance with its accounting/bookkeeping functions as well as the maximum amount that a small business would pay a tax practitioner for assistance with its tax and accounting affairs in one year.

**Table 5: Summary of annual tax and accounting costs per turnover category**

SERVICE RENDERED	TURNOVER				AVERAGE
	R1 – R300 000	R300 001 - R1 000 000	R1 000 001 - R6 000 000	R6 000 001 - R14 000 000	
Tax retainer	R 22,800	R 19,829	R 24,400	R 27,311	R 24,158
Accounting services	R 11,590	R 12,082	R 13,151	R 13,489	R 12,185
TOTAL	R 34,390	R 31,911	R 37,551	R 40,800	R 36,343

Should the small business request assistance from the tax practitioner with its accounting and bookkeeping records, then an average of R12 185 would need to be paid by it in addition to the tax fees. This amounts to a **total maximum cost of R36 343 per annum** for the basic tax and accounting/bookkeeping services. The size (based on turnover) of the business also appears to influence the costs that the business is going to incur. That is, the greater the turnover of the business, the greater the costs will be that it will have to pay to a tax practitioner to assist it with its tax and accounting/bookkeeping services. The only exception to this appears to be the small businesses with a turnover between R300 001 – R1 million. The reason/s for this would need to be researched further.

However, it becomes evident that the smaller the business (in terms of turnover), the greater the compliance cost burden becomes. This is demonstrated in Table 6 below.

**Table 6: Tax and accounting costs as a percentage of turnover (based on highest turnover in each turnover bracket)**

COST AS A % OF TURNOVER	TURNOVER			
	R1 - R300 000	R300 001 - R1 000 000	R1 000 001 - R6 000 000	R6 000 001 - R14 000 000
Pay for min tax services	2.2%	0.7%	0.1%	0.1%
Pay for tax & accounting services (maximum)	11.5%	3.2%	0.6%	0.3%

The compliance cost burden appears to be much higher for smaller businesses. Furthermore, although these percentages appear to be quite low, it should be noted that for a small business, it is not necessarily the turnover figure that should be used as an indicator in calculating the compliance cost burden, but rather the net profit before tax as arguably the ability to pay depends on profitability and not on turnover. It is estimated that this figure could become a significant portion of the net profit before tax resulting in a compliance cost that could be unduly high for a small business. The extent to which this statement is correct will be established when the results of the survey of small businesses is completed.

### **2.3.3. Objections and alternative dispute resolutions**

#### ***2.3.3.1 Time taken object***

It takes on average *2.2 hours* for a tax practitioner to prepare and submit an objection to an income tax or VAT assessment on behalf of his/her clients. This time steadily increases as the turnover of the client increases.

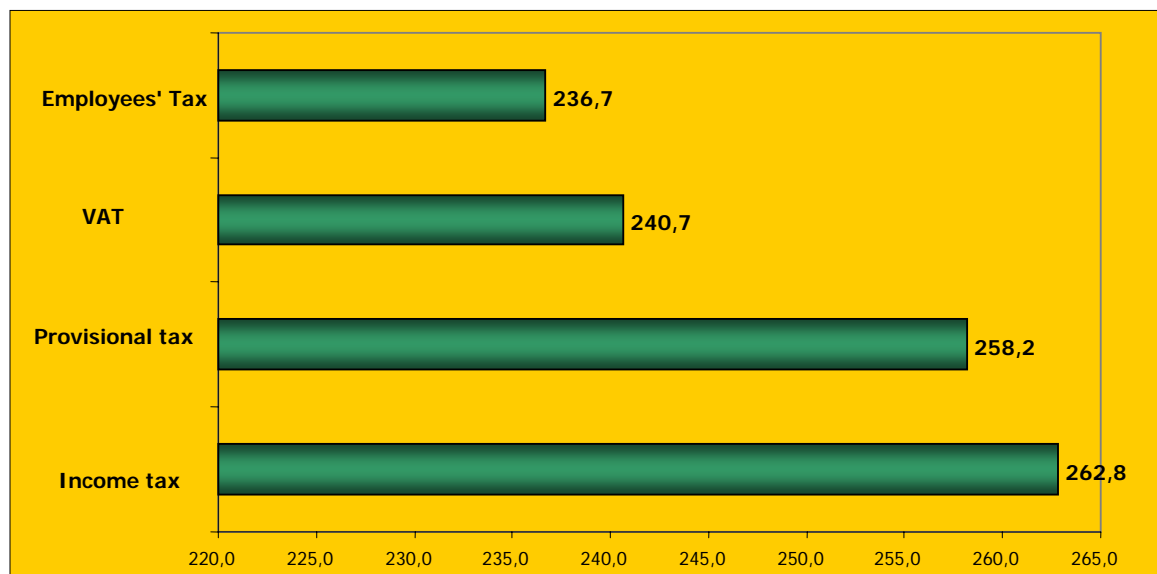
#### ***2.3.3.2 Cost to object***

This service would cost the taxpayer on average R400.13 (income tax) / R396.16 (VAT) in total. This cost appears to increase as the size (based on turnover) of the business increases. A possible explanation for this could be that the complexity of the issues in respect of which an objection has been raised increases as the size of the business

increases. As the data did not allow further interrogation into this matter, further research into this issue would need to be conducted.

One of the reasons why an objection would be lodged by a small business is as a result of the penalties and interest that are raised by SARS. These penalties and interest are usually reflected on the assessments issued to the taxpayers. Assuming that the penalties and interest are the only contentious issues on the assessments received from SARS, and the taxpayer would like to object to these being raised, or request that they are waived, it would cost the taxpayer an average of R249.59 to obtain the assistance from a tax practitioner to assist him with this matter. If this cost is analyzed by tax, the results are as follows:

**Figure 13: Average charge (Rands) for assisting clients with objecting to, or requesting that the interest and penalties be waived**



Objecting to penalties and interest raised on an income tax assessment would cost the small business more than if it was any other tax assessment received. This cost is, however, not far off from the costs of objecting to penalties and interest raised in respect of provisional tax. Possible reasons for this might be due the frequency that these

penalties and interest are raised by SARS in respect of these taxes and/or the complexity of calculating and reconciling these amounts. In respect of provisional tax, the frequency might be a valid reason as can be seen from the information obtained in point 4.5.2.2 below in which the most burdensome aspect of provisional tax was shown to be the incorrect raising of interest and penalties by SARS. More research would, however, need to be done in order to establish exactly why objecting to penalties and interest raised in respect of income tax cost more than objecting to penalties and interest raised in respect of any other tax.

#### **2.3.4. Audits, inspections and written queries from SARS**

The frequency and vigour of Revenue authority audits, inspections and written queries has been an area of great contention in many countries in the world. Even in South Africa 17 special investigative units (such as the integrated audit team and the Woodmead project – an Enforcement-based project to recruit additional audit capacity which would ultimately be absorbed into the National Enforcement Unit.) have been established as it is an area that SARS has been focusing on. It is therefore interesting to note that when tax practitioners were asked what percentage of their small business clients have been subject to a SARS audit/inspection or have received written queries from SARS (in respect of income tax, VAT and employees' tax) since 1 January 2006, the majority answered 2,2% and 3,38% respectively of their clients. Thus although this is an area where SARS is focusing and expanding its efforts, it appears that the small businesses have not [yet] been a major target as presumably SARS has been focusing on the larger business sector in this regard.

However, certain small businesses have been audited/inspected or have received written queries from SARS. On average it appears that these audit and inspections lasted 7.8 *hours*. Should the small business require assistance from a tax practitioner with the audit or inspection, the tax practitioner would on average spend 8.3 *hours* preparing for the audit/inspection on behalf of his/her client. This would cost the small business on average R1 048 in total for the tax practitioner's time. In respect of written queries, the tax

practitioner takes 2.7 hours to prepare a response to these and would charge R435.22 for this service. For both audits/inspections and written queries, it appears that the time and costs increase as the turnover of the business increases.

### **2.3.5 Summary of costs**

It would cost the small business R1 478 on average to register for the four key taxes. Should the small business request a tax practitioner to assist with the following:

- preparation, completion and submission of the income tax return, the first and second provisional tax returns, VAT returns every two months and 12 employees' tax returns;
- preparation, completion and submission of the employees' tax reconciliation,

the average cost for these services would amount to R7 627. This cost would increase by an average of R998 for 4,57% of the tax practitioners' clients (the percentage of tax practitioners' clients that have had to pay penalties and interest on the late submission or payment of their tax returns) if the tax practitioner was requested to object to the penalties and interest raised on the assessments received from SARS. This additional cost is based on the assumption that the small business objects to penalties and interest raised by SARS on its four key tax assessments once a year. Furthermore, should the small business be subject to an income tax, VAT and employees' tax audit/inspection by SARS (currently 4,70% of their clients have been subject to this) and request the tax practitioner to be present at this audit/inspection, then the additional average cost to the small business would be R3 145 (again it is assumed that the occurrence of these audits/inspections is only once a year). For 3,38% of tax practitioners' clients, an additional amount of R1 306 would be payable for acquiring the assistance of tax practitioners with the preparation of responses to the written queries received from SARS in respect of income tax, VAT and employees' tax (assumed written queries only received once per year). Thus should the small business obtain the assistance from tax practitioners with:

- registering for the four key taxes;
- objecting against interest and penalties raised on four key tax assessments received from SARS;
- being present at a SARS audit/inspection; and
- preparation of responses to written queries received from SARS, then the maximum total average annual cost for these services would amount to R14 554. The total maximum annual costs as set out above can be split further into recurring and “once-off” costs as illustrated in Table 7.

**Table 7: Summary of certain compliance costs incurred by a small business – including this amount expressed as a percentage of turnover (based on highest turnover in each turnover bracket)**

SERVICE RENDERED	TURNOVER				TOTAL
	R1 – R300 000	R300 001 - R1 000 000	R1 000 001 - R6 000 000	R6 000 001 - R14 000 000	
<b>Once-off burdens</b>					
Registration	R 1,414	R 1,488	R 1,568	R 1,629	R 1,478
Objection - Interest & Penalties <sup>37</sup>	R 892	R 944	R 1,031	R 1,093	R 998
Audit / inspections <sup>38</sup>	R 3,084	R 3,164	R 3,297	R 3,483	R 3,145
Written queries <sup>39</sup>	R 1,208	R 1,262	R 1,370	R 1,449	R 1,306
	<b>R 6,598</b>	<b>R 6,857</b>	<b>R 7,266</b>	<b>R 7,654</b>	<b>R 6,927</b>
<b>Recurring burdens</b>					
Prepare tax returns	R 6,604	R 6,959	R 7,372	R 7,118	R 7,030
Prepare IRP 5 recon	R 539	R 580	R 645	R 600	R 597
	<b>R 7,143</b>	<b>R 7,540</b>	<b>R 8,017</b>	<b>R 7,717</b>	<b>R 7,627</b>
<b>TOTAL TAX COST</b>	<b>R 13,740</b>	<b>R 14,397</b>	<b>R 15,283</b>	<b>R 15,372</b>	<b>R 14,554</b>
% of turnover - total tax cost	4.6%	1.4%	0.3%	0.1%	

<sup>37</sup> It is assumed that this occurred once per year and is on average incurred by 4,57% of tax practitioners' clients.

<sup>38</sup> It is assumed that this occurred once per year and is on average incurred by 4,70% of tax practitioners' clients.

<sup>39</sup> It is assumed that this occurred once per year and is on average incurred by 3,38% of tax practitioners' clients.

As illustrated in Table 7, the once-off burdens such as registration, objections, audit inspections and dealing with written queries from SARS are not the greatest contributors to the total tax compliance costs. Rather, it is the recurring burdens, namely preparation of the tax returns, that make the greatest contribution to the total tax compliance cost. In addition to this, it is once again clear that the smaller the firm, the higher its tax compliance costs calculated as a percentage of its turnover. These costs appear to be below 5% of turnover in all small businesses, however, it must again be pointed out that this percentage could possibly be calculated based on the net profit of the business to establish the true extent of the burden faced by small businesses.

## **2.4 SARS service standards**

Although the following findings of the survey do not provide any information regarding specific costs incurred by tax practitioners in assisting their small business clients with taxation matters, it was felt that the perceptions of the tax practitioners in dealing with SARS needed to be established. The reason for this being that although there might be no specific cost that can be allocated to some of the ensuing areas of SARS' service, it never the less takes time for either the small business and/or its tax practitioner to discharge their taxation obligations. Taxpayers may suffer stress, anxiety and frustration as a result of attempting to comply with their taxation obligations – this is generally referred to as the psychological costs of compliance. Should the time taken by the tax practitioner in dealing with SARS on matters for his/her client's be excessive, there is an element of that time that might not be billable by the tax practitioner, and as the saying goes – “time is money”. This may be due to errors and omissions by either the taxpayer, the tax practitioner or SARS. According to operational reports as set out in an email received from a SARS official, Mr L. Kirsten<sup>40</sup> commenting on the draft version of this report, it was mentioned that 35% of errors and delays are attributable to omissions and/or errors

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<sup>40</sup> Kirsten (2007a:1).

of the taxpayer or tax practitioner with the remaining 65% attributable to SARS. In these circumstances, regardless of the source of problem, the tax practitioner would be losing money – the matter has not been resolved and more time would need to be spent in order to resolve it. However, should the tax practitioner bill the client for his time dealing with SARS despite the fact that the matter has not yet been satisfactorily resolved (which he/she is legally entitled to do) then the client would be incurring these costs. The more burdensome it therefore is for tax practitioners to deal with a taxpayer's tax obligations, the higher the charge for the service and therefore the higher the direct costs involved in collecting the tax. Tax practitioners would, however, even at the cost of lost fee income, like a tax-assessment system that works effectively<sup>41</sup>.

Questions dealing with specific areas of communication with SARS were posed in the questionnaire, and where possible, the results of these answers are compared to the SARS Service Charter. This Charter was introduced in 2005 to ensure that the public's expectations of service delivery are matched by achievable and measurable performance standards. It states that by creating and publishing appropriate service delivery measures, the compliance climate in South Africa will be positively influenced. It was further hoped to improve the culture of *voluntary* compliance by taxpayers. The published service standards are to be phased in over a two year period, which ends in the current year, 2007 – exactly when in 2007 is not quite clear, although it is thought to be in April 2007<sup>42</sup>. As this survey was conducted at the end of 2006 and concluded at the beginning of 2007, it is appropriate at this stage to get a rough indicator of where SARS is in this process. This was achieved by establishing the time that tax practitioners estimated it takes SARS to engage with them on each of the processes outlined below. These estimated times were then compared to the time limits set out in the SARS Service Charter. It must be noted that the times estimated by tax practitioners were probably based on memory of their experiences with SARS, and not necessarily on actual data.

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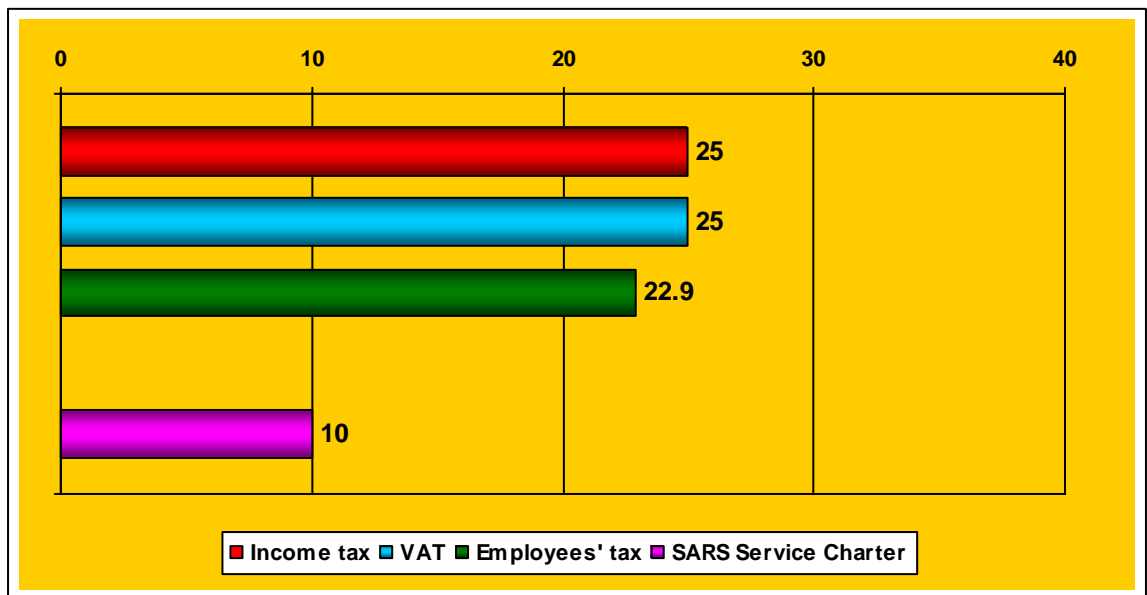
<sup>41</sup> Mitchell 2001:81.

<sup>42</sup> SARS, 2005b:2.

### 2.4.1. Receipt of registration number

The tax practitioners were requested to inform us how long it takes them to receive an income tax and VAT and employees' tax registration number from SARS in respect of their clients once all the necessary documentation has been submitted and the necessary procedures have been completed correctly.

**Figure 14: Average time taken (working days) to receive a registration number**

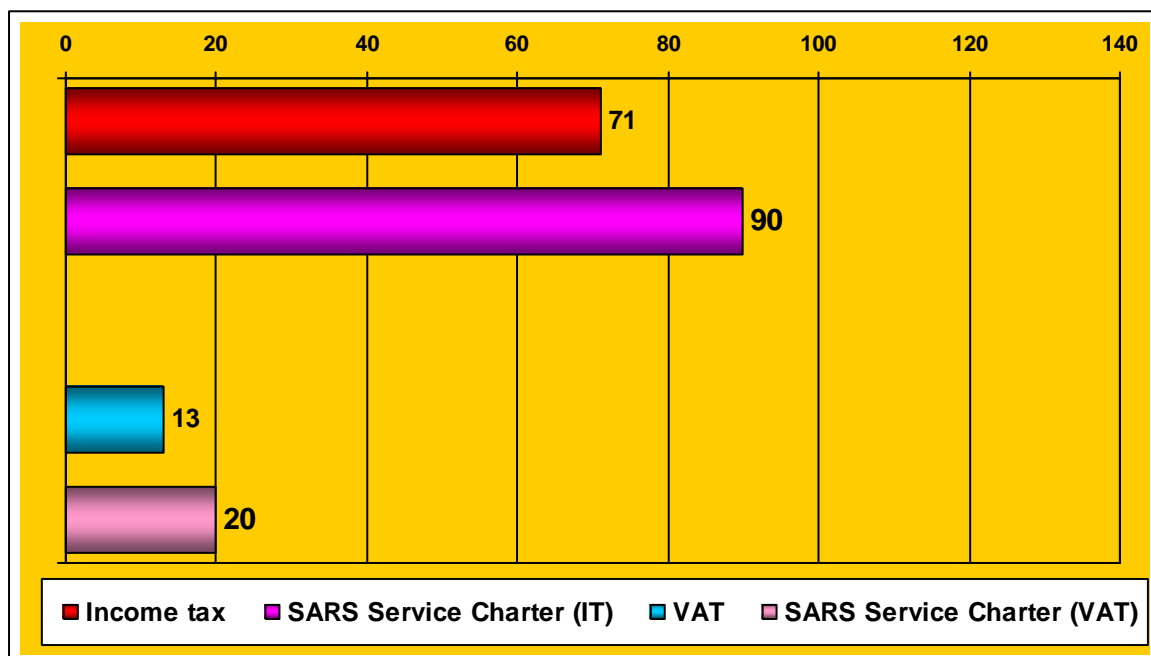


The time taken to receive a registration number for all three taxes is currently longer than the time promised in the SARS Service Charter. SARS has to reduce the time it takes to perform this function by more than half in the case of Income Tax, VAT and Employees' tax if it wants to achieve its aims as set out in this Service Charter

### 2.4.2. Process a tax return

Tax practitioners were asked how long it takes SARS to process a tax return for their clients assuming the form is completed correctly and submitted on time.

**Figure 15: Average time taken (working days) to process a tax return**



In terms of the SARS Service Charter, it is SARS' aim to process and assess 80% of correctly completed and signed income tax returns within 90 working days (20 working days for VAT returns) from the date of receipt during peak periods (July to February) and within 34 working days in off-peak periods (March to June). In respect of VAT returns, this period is 20 working days of receipt thereof.

According to operational reports as set out in an email received from a SARS official, Mr. L. Kirsten<sup>43</sup> commenting on the draft version of this report, it was mentioned that the figures for the year ending March 2007 saw SARS processing 86% of income tax returns within 80 days in peak periods and 91% of income tax returns within 80 days in non-peak periods. From a VAT perspective, SARS processed 92% of VAT returns within the stipulated 20 days with the average processing time per return at 9.8 days.

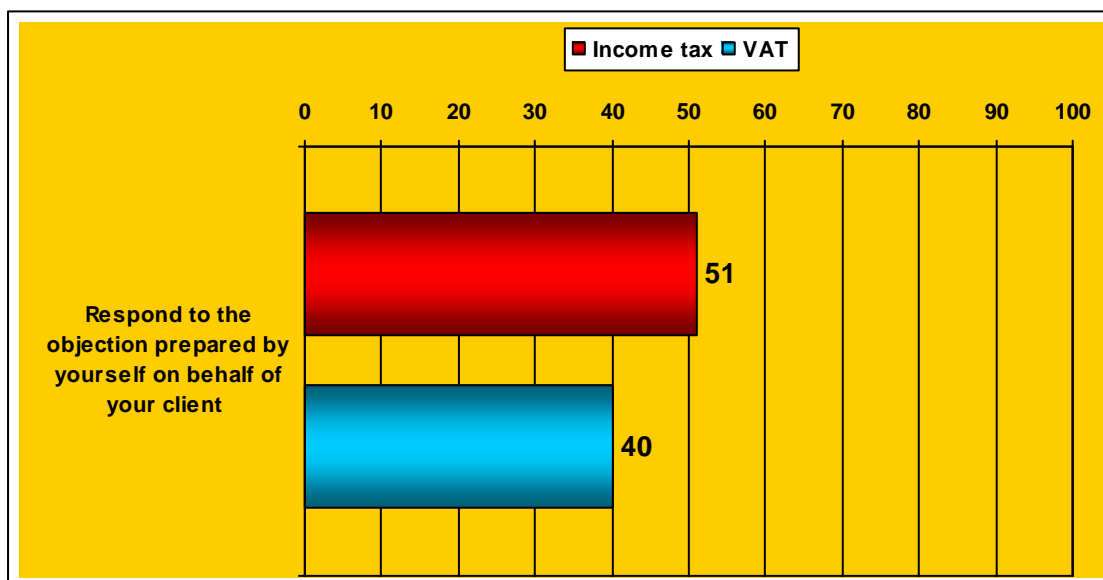
<sup>43</sup> Kirsten (2007a:1)

As can be seen from Figure 15 above, SARS appears to be well within their guidelines laid down in their Service Charter in respect of processing tax returns, assuming that the tax practitioners were referring to income tax returns being submitted during the peak periods as mentioned above. For those returns submitted during off-peak periods, SARS might still have some work to do to meet its guidelines laid down in the Service Charter.

### 2.4.3. Response to objection

Tax practitioners were asked how long it takes SARS to respond to an objection prepared by themselves on behalf of their clients.

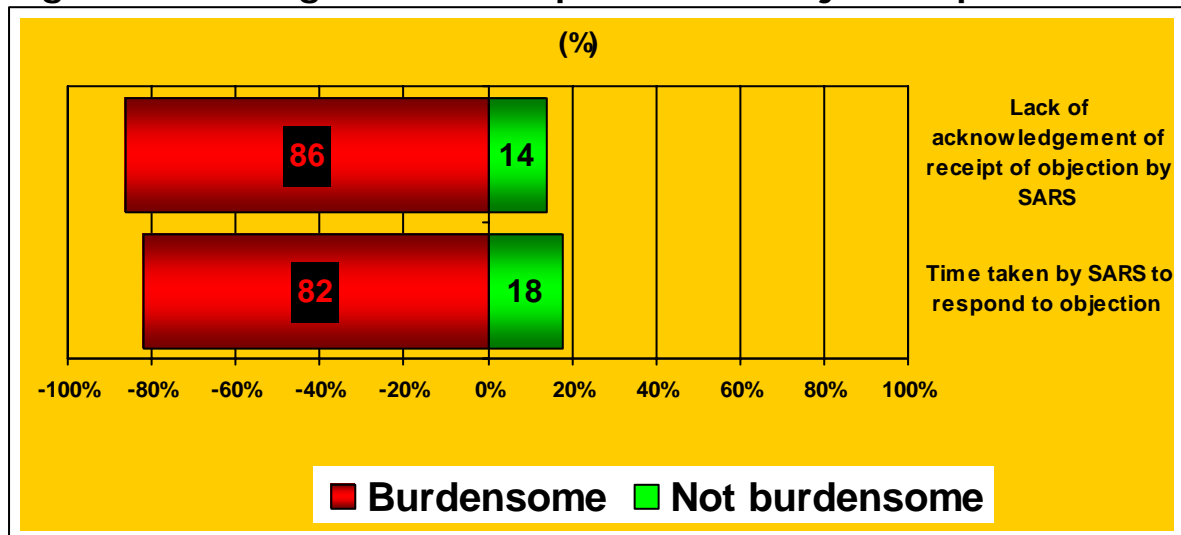
**Figure 16: Average time taken (working days) to respond to an objection**



No time guideline has been provided by SARS in its Service Charter on this matter. However, in terms of section 81 read with section 107A of the Income Tax Act and section 32 the VAT Act, SARS has *90 days* to respond to an objection. Therefore, SARS appears to be well within its guidelines set in terms of the various Acts and should be commended on its efforts in this regard.

Tax practitioners were also asked to rate the objection process in respect of income tax and VAT as a whole.

**Figure 17: Rating of certain aspects of the objection process**



As can be seen from Figure 17, both of the above aspects of the objection process appear to be burdensome to taxpayers, despite the fact that SARS is well within its time limits with regard to responding to objections in terms of the income tax and value added tax acts.

Besides these two aspects, the tax practitioners were given the opportunity to state any other aspects of the objection process that they consider may be burdensome to taxpayers. More than 66% (income tax) / 87,65% (VAT) of the respondents said that there are no other aspects of the income tax / VAT objection process that they consider to be burdensome. Of the minority that said there are other aspects that are burdensome, the following were the most commonly cited as burdensome aspects:

- Lack of knowledge<sup>44</sup> of SARS personnel, especially at the call centre and those dealing with the objections;
- Inability to speak to person responsible for issuing assessment<sup>45</sup>;

<sup>44</sup> No definition or further explanations of this term were given by the respondents in their responses.

- Capturing and processing errors when made by SARS resulting in objections having to be made;
- Inability to follow up status of objection; and
- Loss of some documentation by SARS and the resulting resubmission by taxpayers.

A similar question regarding the objection process was posed to tax practitioners in respect of the alternative dispute resolution (ADR) process. The findings were as follows:

**Figure 18: Rating of certain aspects of the ADR process**

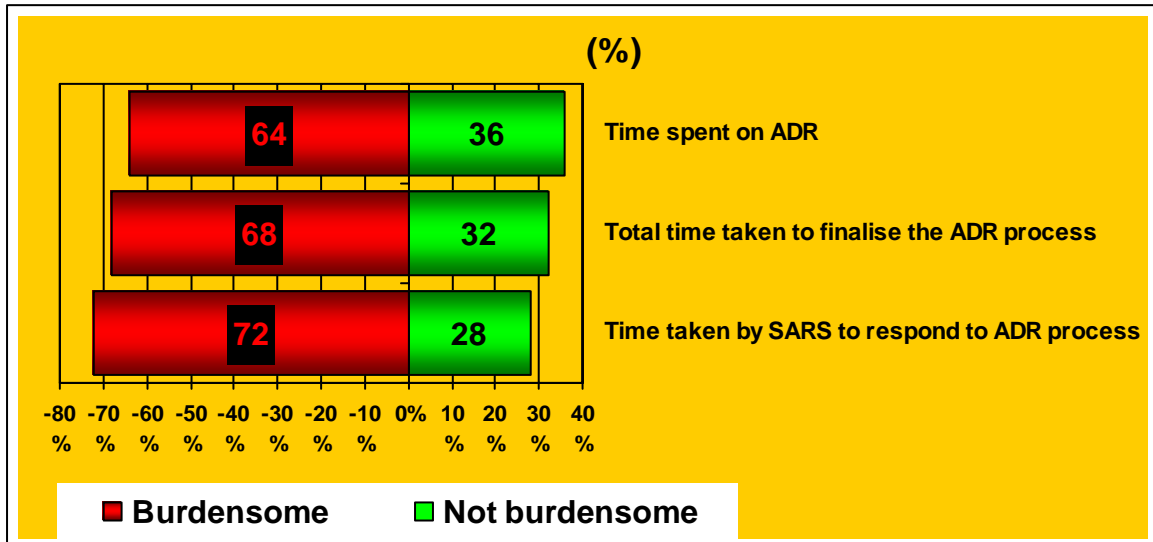


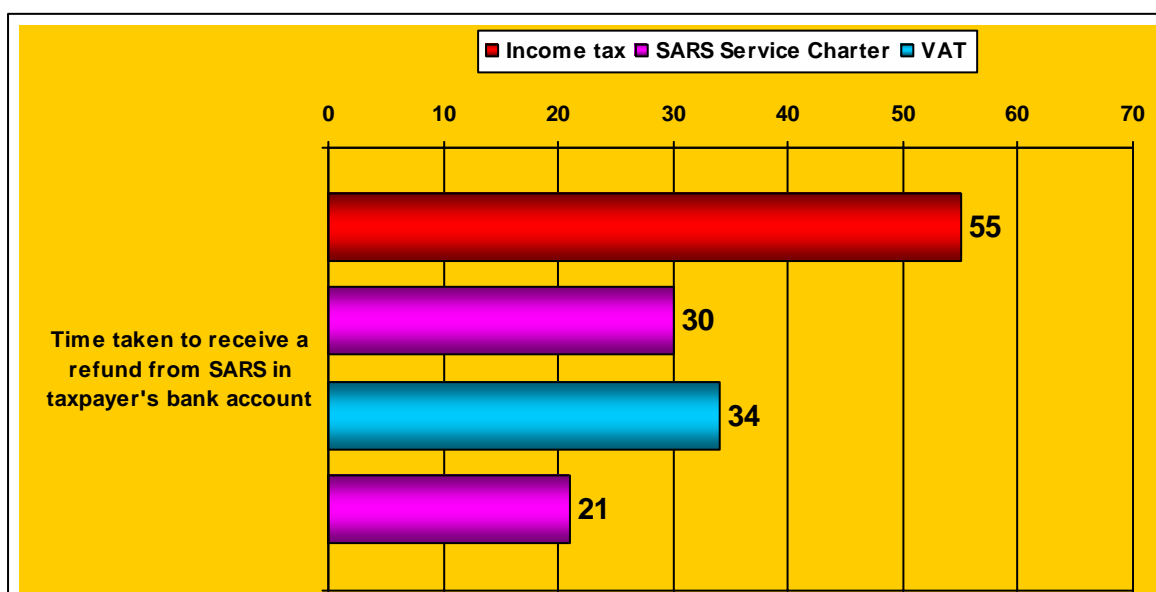
Figure 18 illustrates that most tax practitioners considered the time spent on the ADR, the total time taken to finalize the ADR process and the time taken by SARS to respond to the ADR process to be burdensome. These aspects of the ADR process therefore also appear to be an area where SARS would need to focus its efforts on improving its services.

<sup>45</sup> It must be noted however that this is a deliberate SARS policy in order to prevent collusion and/or corruption.

#### 2.4.4. Payout of a refund

Refunds have also been an area that has raised concern amongst businesses large and small. However, delays in receiving refunds from SARS for a small business could have serious financial implications as their cash flow resources are generally speaking “tighter” than that for larger businesses. VAT refunds are generally more frequent than income tax refunds due to the submission periods of the returns. The tax practitioners were asked what percentage of their clients have had a VAT refund due to them as calculated on their VAT returns, since 1 January 2006. Overall 7,61% of their clients have had a VAT refund due to them. The average time taken (in working days) to receive a refund from SARS is set out in Figure 19 below.

**Figure 19: Average time taken (working days) to receive a refund from SARS**



According to the findings of the survey, it takes on average *55 working days* to receive an income tax refund, compared to *34 working days* to receive a VAT refund. In terms of the SARS Service Charter, if a refund is due to the taxpayer, it is SARS' aim to:

- Process income tax refunds within 30 working days from the assessment date;
- Process VAT refunds within 21 days from the assessment date.

Delays may be due to incomplete submissions or inadequate information provided by the taxpayer or tax practitioner. In these cases the taxpayer or tax practitioner is required to make the necessary corrections and/or submit the outstanding documentation before a refund can be issued. If the survey data is examined in more detail, it is evident that 42,2% of respondents received their refunds after 45 or more working days. It therefore appears that the survey data is relatively consistent with SARS' data as the refunds not processed within the Charter time frame are processed after relatively lengthy delays according to the findings of the survey thus leading to a higher average number of working days as calculated above.

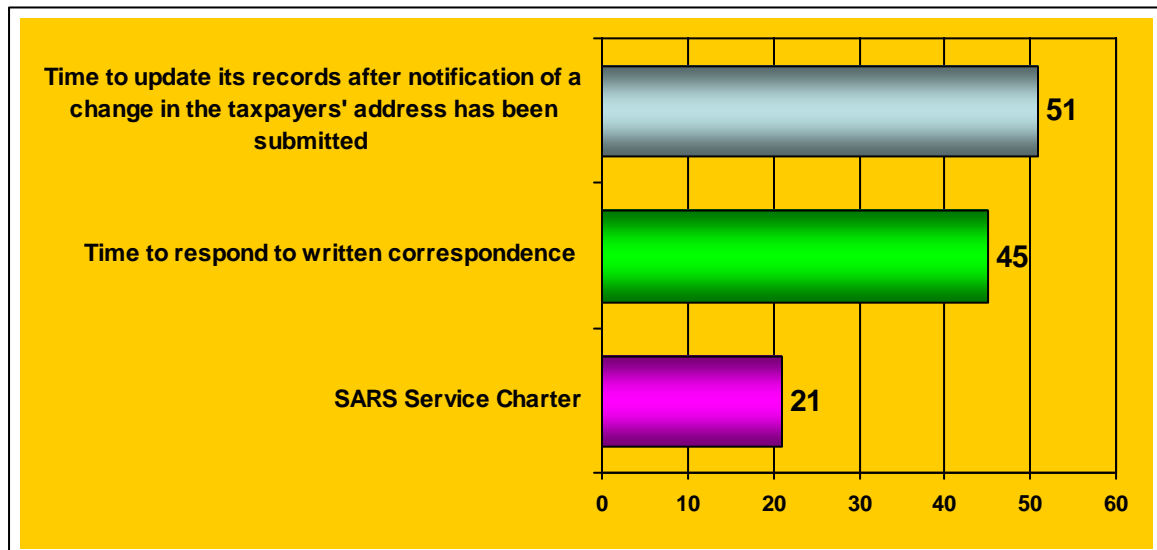
Similarly according to SARS' records, it processes on average 81% of income tax refunds within the stipulated 30 days, unless incomplete submissions or inadequate information has been furnished. In terms of the survey data, 53.5% of respondents receive their income tax refunds after 45 days or more - 33.4% receiving it only after 135 days. Once again, this could be the reason for the high average number of working days as reflected in the figure above.

It is SARS' view that the introduction of e-filing has gone a long way to improve the process and reduce the turnaround times for those tax practitioners who have elected to make use of this channel.

#### **2.4.5. Respond to written correspondence**

The tax practitioners were asked about their perceptions of SARS' services with regard to written correspondence, and specifically the time taken to change the taxpayer's address. The following information was obtained:

**Figure 20: Average time taken (working days) for SARS to respond to written communication**



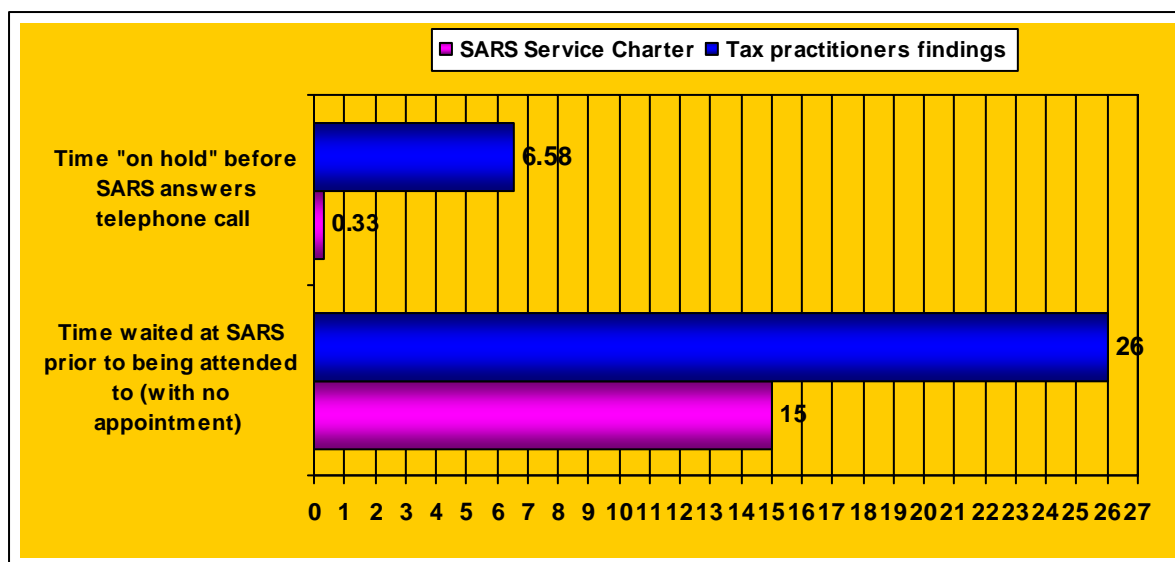
It is SARS' aim to respond to 80% of all correspondence (physical and electronic) received within 21 working days of receipt. Where a resolution is not possible within a reasonable period of time, the tax practitioner will be informed why it is not possible and when he/she can expect a full reply. SARS thus falls short of its aims and should be looking into this matter to resolve the time lag in dealing with written correspondence of any sort.

#### **2.4.6. Answer telephone calls, personal assistance, address enquiries sufficiently**

The experience of tax practitioners with regard to SARS' service proficiency was also investigated in this study. In particular, tax practitioner's personal, telephonic and written experiences with SARS were measured.

According to operational reports as set out in an email received from a SARS official, Mr. L. Kirsten<sup>46</sup> commenting on the draft version of this report, it was mentioned that for the financial year ending 31 March 2007, the SARS Call Centre received 4.2 million calls. Of the 4.2 million calls received, 95% were answered. Only 5% of these calls were abandoned by the Call Centre. Out of the 95% calls answered, 71% were answered within 20 seconds<sup>47</sup>. The experiences of the tax practitioners in the study are set out below.

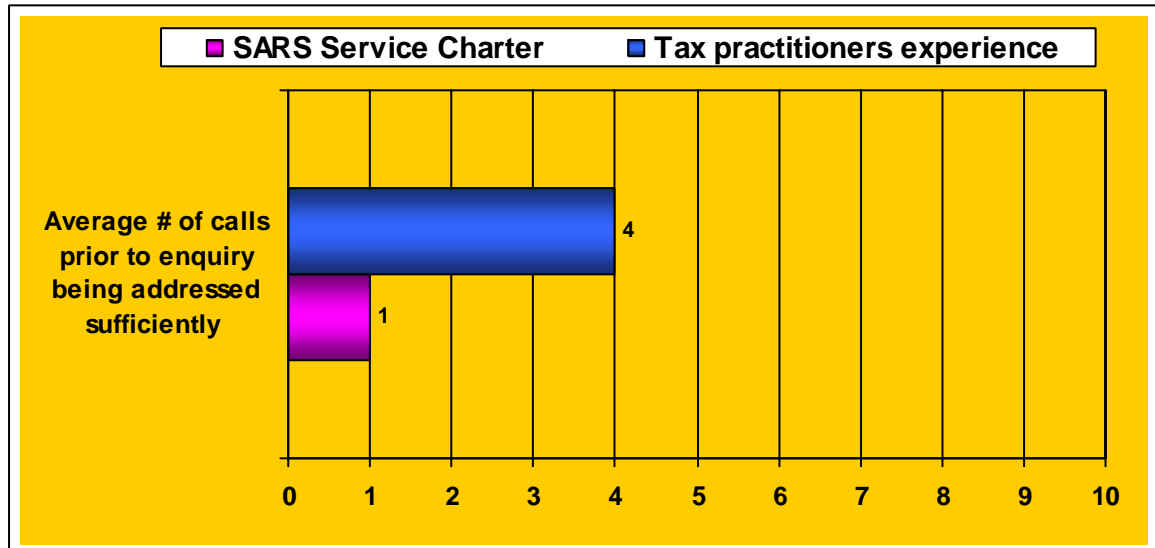
**Figure 21: Average time taken (minutes) holding on the line for SARS and being attended to by a SARS official during a physical visit**



<sup>46</sup> Kirsten (2007a:1).

<sup>47</sup> We were not able to establish from SARS whether this excludes time "on hold" in between the call being answered and transferred to someone who can deal with the issue at hand.

**Figure 22: Average number of calls to SARS prior to enquiry being addressed sufficiently**



In terms of SARS' Service Charter, it aims to:

- Answer 90% of calls within 20 seconds;
- Provide first time resolution; and
- Attend to 95% of personal callers within 15 minutes of arrival without an appointment.

It is clear from the analysis contained in the above two figures, that much still needs to be done by SARS to improve its services in this regard to ensure that it attains the standards as set out in its Service Charter.

It is, however, encouraging to note that in terms of an email received from a SARS official, Mr. L. Kirsten<sup>48</sup> commenting on the draft version of this report, it was mentioned that the Call Centre intends to achieve the target (90% of the calls will be answered in 20 seconds) set out in the Service Charter in the 2008 financial year. It appears that SARS is

<sup>48</sup> Kirsten (2007a:1).

off to a good start on this endeavour as can be seen from the experience of a taxpayer in July 2007 as published in the Finweek<sup>49</sup> in which he stated that his call was answered in less than 30 seconds (most of that taken up by the formalities at the beginning of the call) and every one of his questions was answered.

### **2.4.7 Conclusion**

The findings of the study should be used to confirm some of the strategies and interventions already underway at SARS that will contribute to the future improvement of SARS' services. These findings should furthermore, be monitored over a period of time to determine whether there are any changes in the current service standards offered by SARS to establish if the strategies adopted have been effective.

## **2.5 Additional findings**

### **2.5.1. Most burdensome tax**

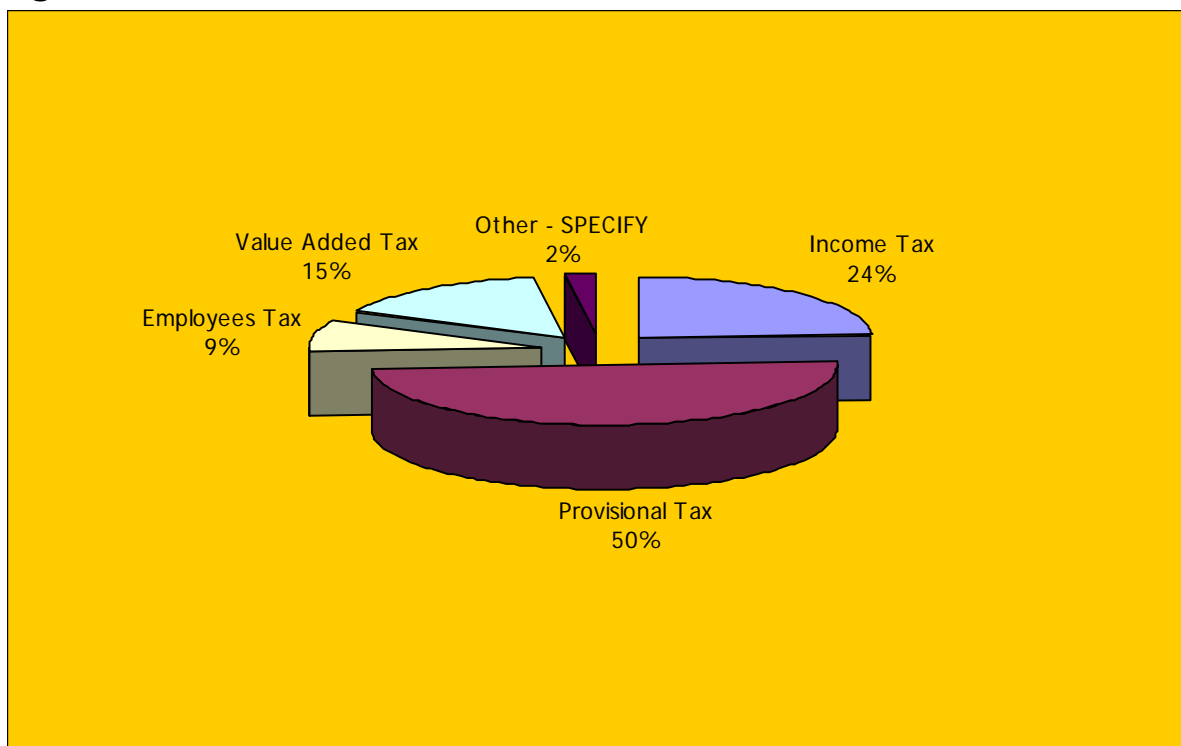
Tax practitioners were asked what tax they thought would be the most burdensome<sup>50</sup> to comply with for taxpayers with a turnover under R14 000 000. The results are shown in Figure 22 below.

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<sup>49</sup> Kelly (2007:17).

<sup>50</sup> No definition of "burdensome" was provided in the questionnaire, however, as separate questions regarding the costs of each tax was asked, it was intended that in this context "burdensome" should not only take into account the cost and time factors, but should also include the psychological aspects and frustrations of dealing with SARS in respect of each tax and therefore could be seen to relate more to the most problematic tax rather than the most costly tax – although it is possible that a tax could be seen as being the most burdensome due to it being the most costly. Whether or not this was perceived as such by all the respondents is not certain and should be borne in mind when considering the responses received.

**Figure 23: Most burdensome tax**



Provisional tax is regarded by tax practitioners who deal with small businesses to be the most burdensome tax. This is an interesting result as in another recent study conducted in South Africa, the SBP report on “Counting the Cost of Red Tape”<sup>51</sup>, VAT was regarded as being the single most troublesome and time-consuming regulation for all businesses except the largest. It is clear from the results of this current study (refer to points 2.3.1.1 and 2.3.2.1 above) that tax practitioners regard VAT as the most time-consuming tax. What exactly constitutes “troublesome” and “burdensome” was not clearly defined in either of the studies and can therefore not be directly compared. However, it might be that on its own provisional tax is the most burdensome tax as it is not specifically linked to an accounting period, whereas VAT, although it takes a long time, is not that burdensome as the accounting information is done on a monthly or bi-monthly basis. It might also be due to the fact that provisional tax payments are not aligned with the cash flows of small businesses. Another possible reason for provisional tax being regarded as

<sup>51</sup> SBP (2005:34).

the most burdensome tax by tax practitioners could be the recent incidence of interest and penalties being raised mistakably by SARS on provisional tax payments allegedly being late<sup>52</sup>.

## **2.5.2. Most burdensome aspect of each tax**

### ***2.5.2.1 Income Tax***

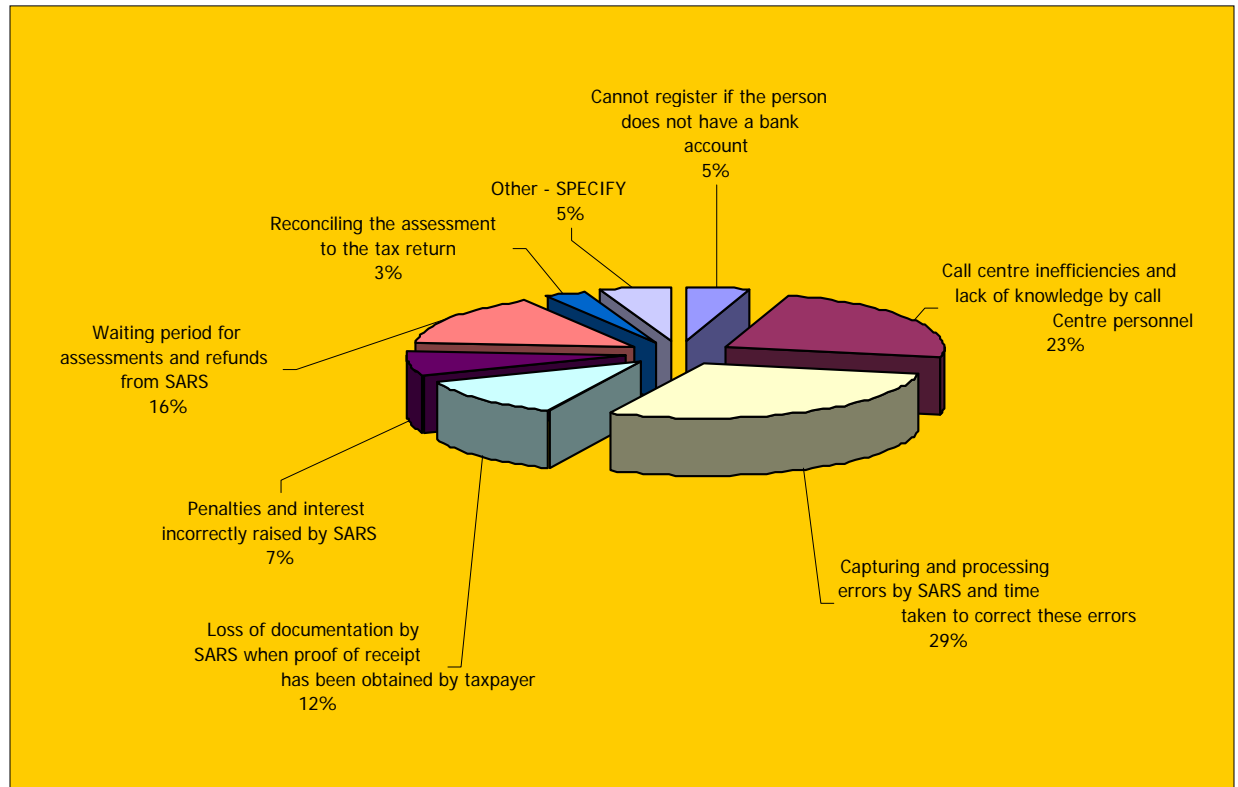
From Figure 24 below, it is clear that the most burdensome aspect of income tax as seen from a tax practitioner's perspective, is the capturing and processing errors made by SARS and the time taken to correct these errors. This result can be linked to point 2.4.3 above where it was found that one of the reasons for objecting to assessments is due to the capturing and processing errors made by SARS. Due to these errors, small businesses or their tax practitioners have to spend valuable time in adhering to the objection processes (completing the ADR 1 form in the required time) in order to ensure that the error is correctly resolved. This invariably results in additional costs having to be incurred by small businesses. It must, however, be noted that in terms of an email received from a SARS official, Mr. L. Kirsten<sup>53</sup> commenting on the draft version of this report, it was mentioned that 35% of errors are either incomplete submissions by the taxpayer or the tax practitioner or the provision of inadequate information.

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<sup>52</sup> Making this mistake was admitted to by SARS in an article printed in the Pretoria News (1 February 2007) (Bateman, 2007:2). Refer also to point 4.5.2.2 below.

<sup>53</sup> Kirsten (2007a:1)

**Figure 24: Most burdensome aspect of income tax**



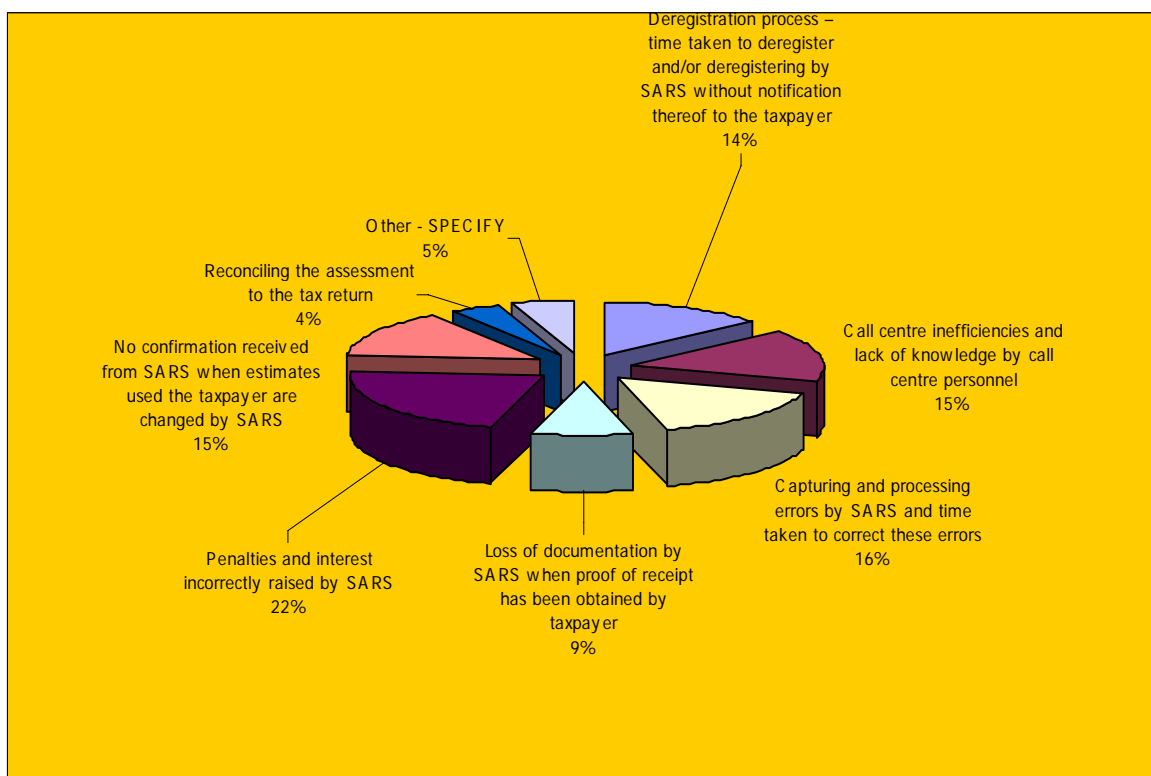
### **2.5.2.2 Provisional Tax**

Penalties and interest incorrectly raised by SARS is the most burdensome aspect of provisional tax as seen from a tax practitioner's perspective (Figure 25). This occurrence was highlighted in an article<sup>54</sup> published in the Pretoria News on 1 February 2007 in which SARS admitted that it had mistakably slapped thousands of provisional taxpayers with penalties amounting to millions of Rands. While taxpayers and tax practitioners themselves are often the ones who make the errors, they feel particularly burdened when SARS makes an error. In such cases, small businesses invariably have to incur the additional costs of a tax practitioner to ensure the matter is resolved.

<sup>54</sup> Bateman, B. 2007:2. Although newspaper articles present "anecdotes" that are not necessarily representative of what everyone else experiences, it is interesting that this recent article illustrated some of the findings of the survey.

A further concern is that many people with their own businesses don't have auditors or tax practitioners to inform them of the mistake and they end up paying the penalties and interest because they are scared of SARS. This is therefore an area that causes large amounts of frustrations for small business.

**Figure 25: Most burdensome aspect of provisional tax**



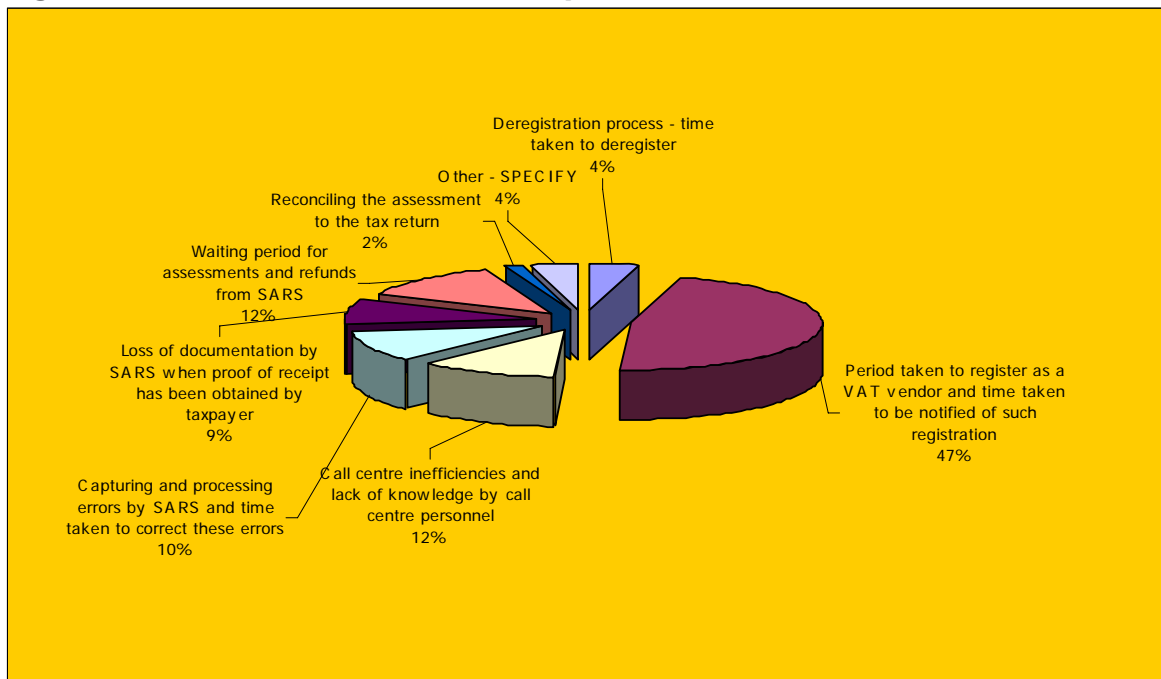
### 2.5.2.3 VAT

From a VAT perspective, the period taken to register as a VAT vendor and the time taken to be notified of such registration, is regarded by tax practitioners as being the most burdensome aspect of VAT<sup>55</sup>. An example illustrating why taxpayers are annoyed about the delays in notification of VAT registration was recently highlighted in an article in the

<sup>55</sup> Almost half of survey respondents (47%) cited this problem. It is clearly a significant worry for tax practitioners.

Mail & Guardian<sup>56</sup> where a newly registered VAT vendor failed to submitted her first VAT return as she received her registration number after the due date and never received the VAT remittance form (return). She therefore assumed she could just include four months VAT in the next return along with the full amount owing. She received a call from a SARS official requesting the first periods VAT return whereafter she explained the whole scenario to him. He asked if she could fax him a letter detailing all this along with a return for the first period. She did all of this and after not hearing from SARS for a while she decided to phone to ensure that all was in order. This is when she was told that she owed SARS more money – penalty and interest charges were owing. SARS should take keen interest in this result, as it could potentially be one of the reasons why small businesses decide not to register for VAT – that is, this might be perceived by small businesses as being a stumbling block to registration and thus they will avoid registration completely.

**Figure 26: Most burdensome aspect of VAT**

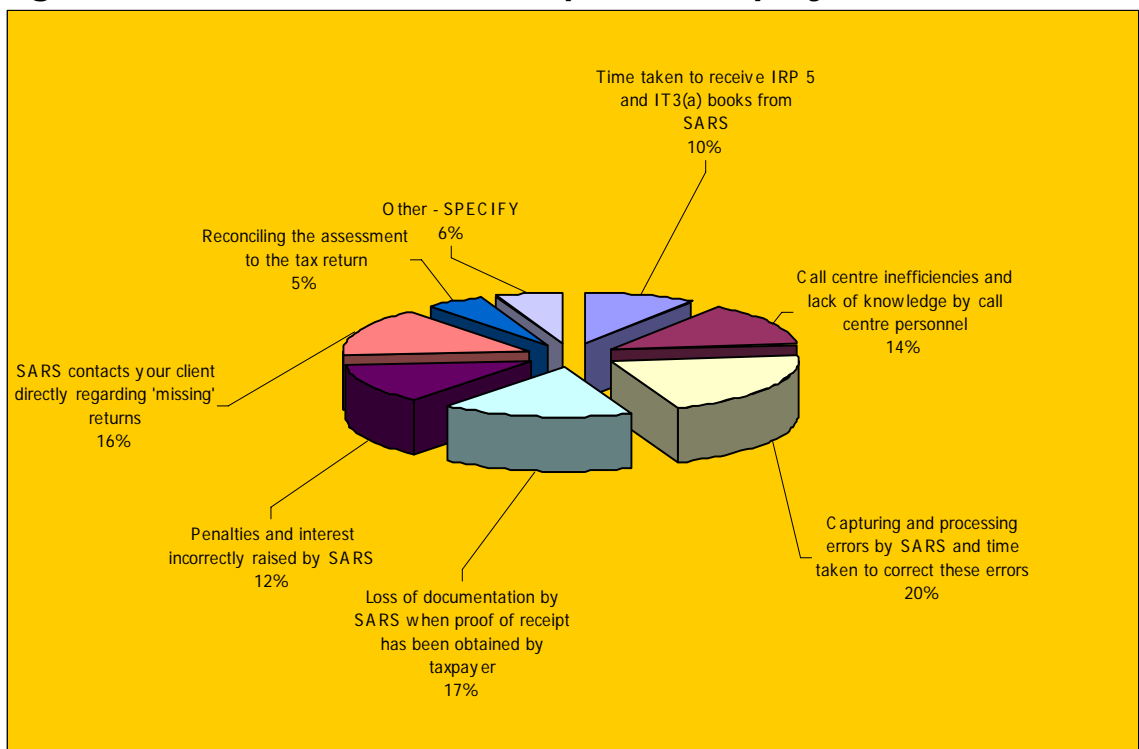


<sup>56</sup> Fisher-French, 2007:5. Although newspaper articles present "anecdotes" that are not necessarily representative of what everyone else experiences, it is interesting that this recent article agreed to the findings of the survey.

### 2.5.2.4 Employees' Tax

As with provisional tax, the capturing and processing errors by SARS and the time taken to correct these errors in respect of employees' tax is once again regarded as being the most burdensome aspect of dealing with SARS. This is closely followed by the loss of documentation by SARS when proof of receipt has been obtained by the taxpayer. Both of these scenarios result in the small business (and/or the tax practitioner) having to spend time rectifying SARS' errors. This in turn creates additional costs for the small business either in the form of having to pay the tax practitioner for his services to assist in this regard, or due to the lack of revenue as a result of his time not being spent actively running his business.

**Figure 27: Most burdensome aspect of employees' tax**



### ***2.5.2.5 Conclusion***

The most burdensome aspects of each of the four taxes under review, as experienced by the tax practitioners, have been set out above. The practitioners were subsequently requested to supply the single most effective reform to reduce the compliance burdens provided by them. These are set out below.

### **2.5.3. Reforms to reduce compliance burden**

The single most effective reform, as perceived by the tax practitioners, to reduce the compliance burden for each of the four taxes under review are provided below.

#### ***2.5.3.1 Income Tax***

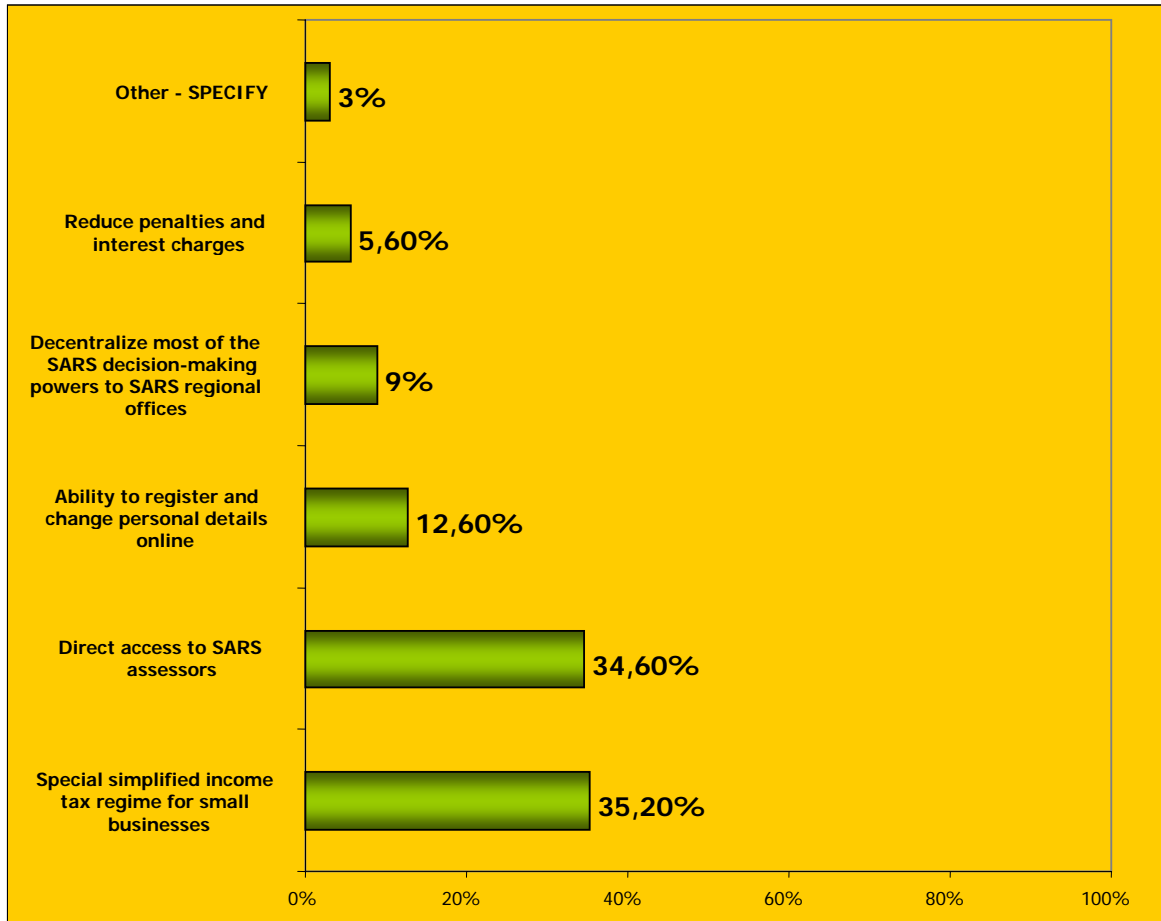
A special simplified income tax regime for small businesses was regarded by tax practitioners as being the single most effective reform to reduce the income tax compliance burden. This was closely followed by having direct access to SARS assessors.

Exactly what the simplified income tax regime would entail was not requested to be specified by the tax practitioners in the questionnaire. This is therefore an area that requires additional research as a matter of priority, as it is obvious that small businesses are finding it very difficult to adhere to the income tax laws and legislations that are currently applicable to them.<sup>57</sup>

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<sup>57</sup> There can be no doubt that, compared to big business in South Africa, small businesses face a wider range of constraints and problems - one of them being compliance with income tax legislation. An example of this could perhaps be the fact that at this stage, a small business is required to prepare, complete and submit the same income tax return, based on the same income tax principles, as a large company, but in the majority of cases they clearly lack the expertise, time and budget to do so.

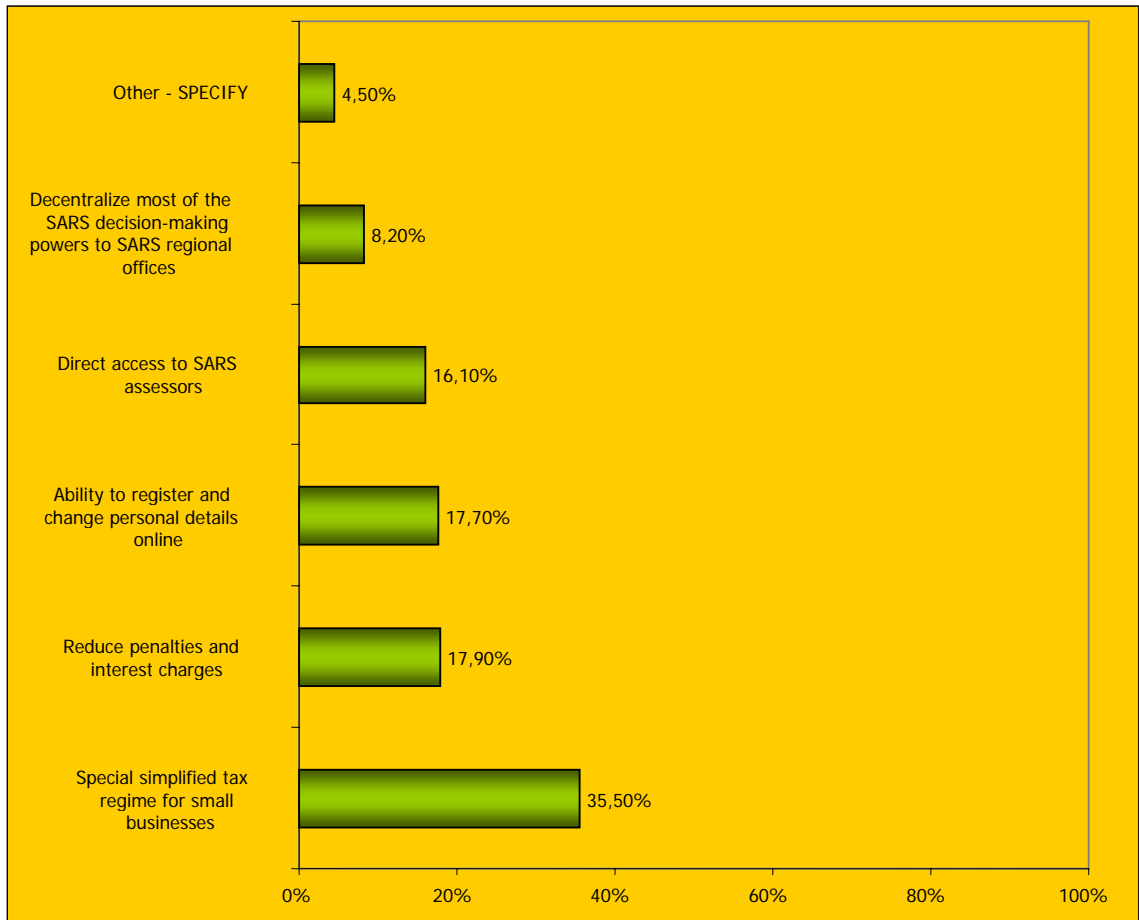
**Figure 28: Single most effective reform to reduce the income tax compliance burden**



### ***2.5.3.2 Provisional Tax***

As for income tax, the special simplified income tax regime for small businesses was regarded by tax practitioners as being the single most effective reform to reduce the provisional tax compliance burden. The calculation and payment of provisional tax appears to be burdensome and complex for small businesses. Simplification of the legislation in respect of both calculation and payment would therefore need to be looked into by SARS in order to alleviate this burden.

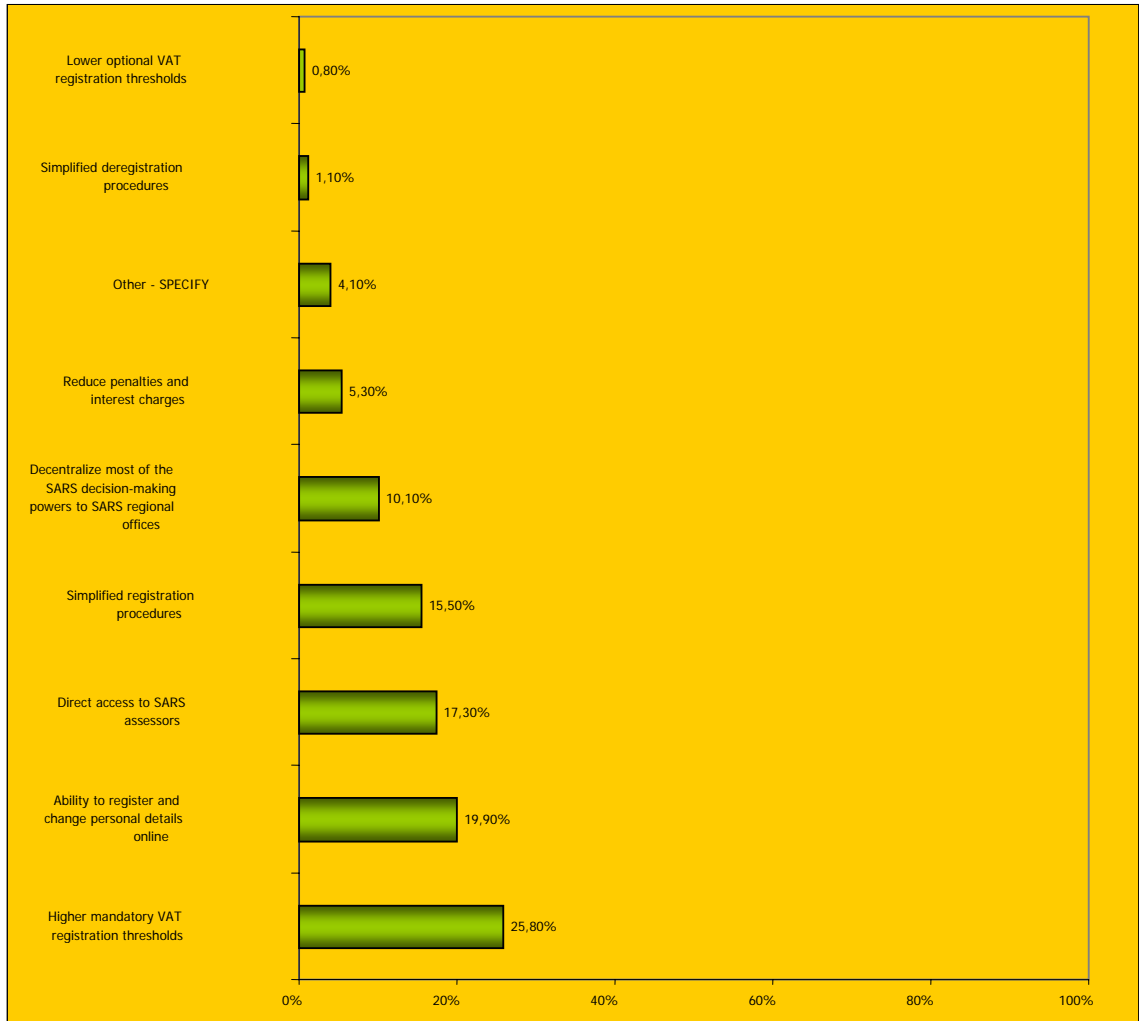
**Figure 29: Single most effective reform to reduce the provisional tax compliance burden**



### **2.5.3.3 VAT**

Higher mandatory VAT registration thresholds are regarded by tax practitioners as being the single most effective reform to reduce the VAT compliance burden. Currently the mandatory VAT registration threshold is R300 000. This appears to be too low based on the opinions of the survey respondents. What exactly should be the registration threshold was not asked in the questionnaire and thus further research would need to be conducted in order to establish these specific details.

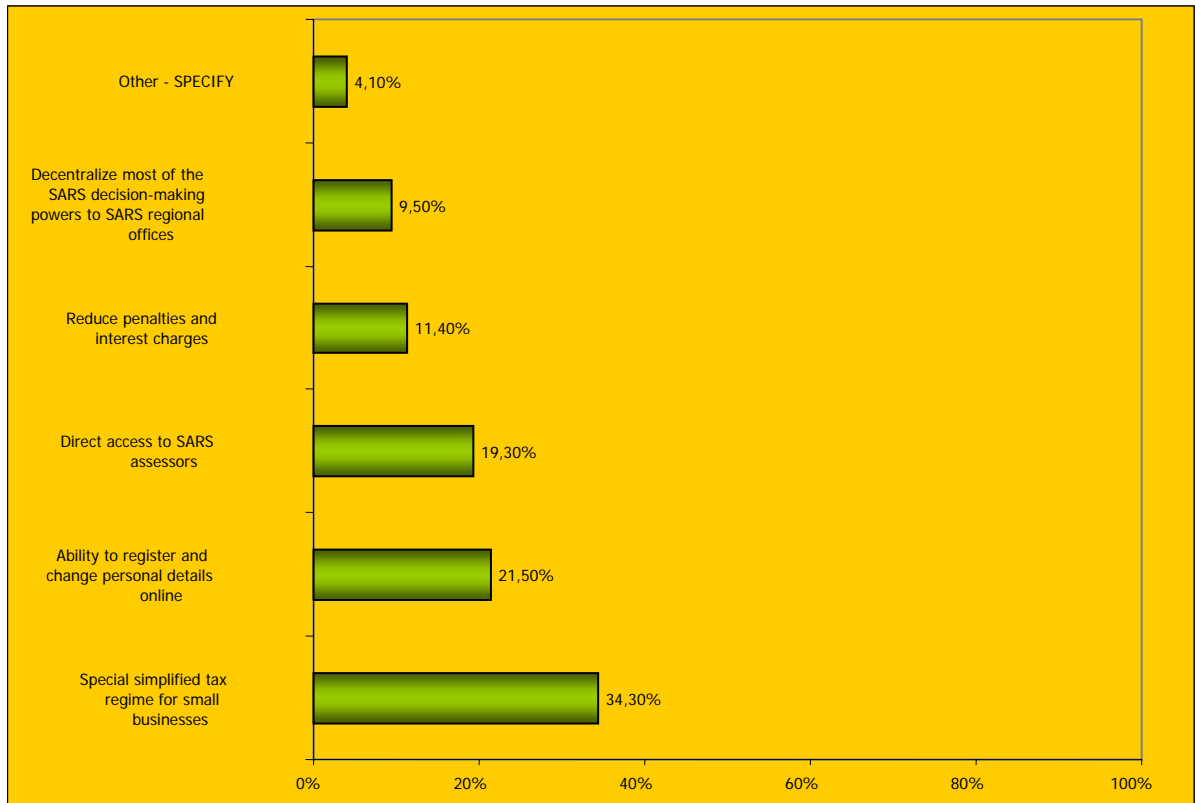
**Figure 30: Single most effective reform to reduce the VAT compliance burden**



### ***2.5.3.4 Employees' Tax***

As for income tax and provisional tax, a special simplified tax regime for small businesses was regarded by tax practitioners as being the single most effective reform to reduce the employees' tax compliance burden.

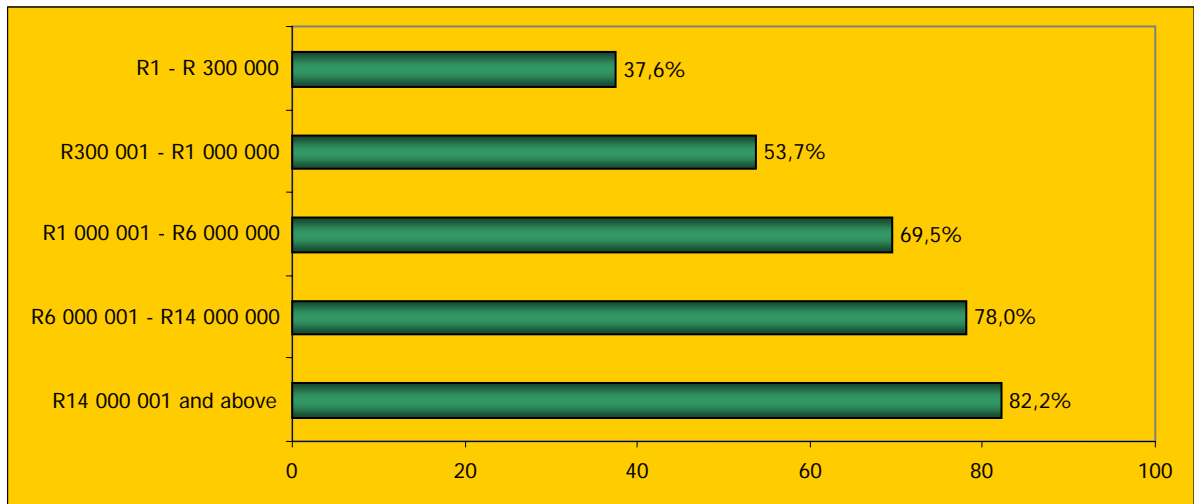
**Figure 31: Single most effective reform to reduce the employees' tax compliance burden**



#### 2.5.4. Use of tax practitioners

Figure 32 below reveals that on average 82,2% of businesses (as estimated by the tax practitioners) with a turnover greater than R14 million, use tax practitioners to assist them with taxation matters. In comparison to this, it is estimated that only 37,6% of business with a turnover of less than R300 000 use tax practitioners for the same function. However, this percentage steadily increases to 78,0% for businesses with a turnover between R6 million and R14 million, which appears to be roughly in line with previous studies done (refer to point 1.5 above). Furthermore, this figure reveals that the higher the turnover of the business, the greater the likelihood that the business will use a tax practitioner to assist it with its tax affairs.

**Figure 32: Estimated use of tax practitioners per turnover category**



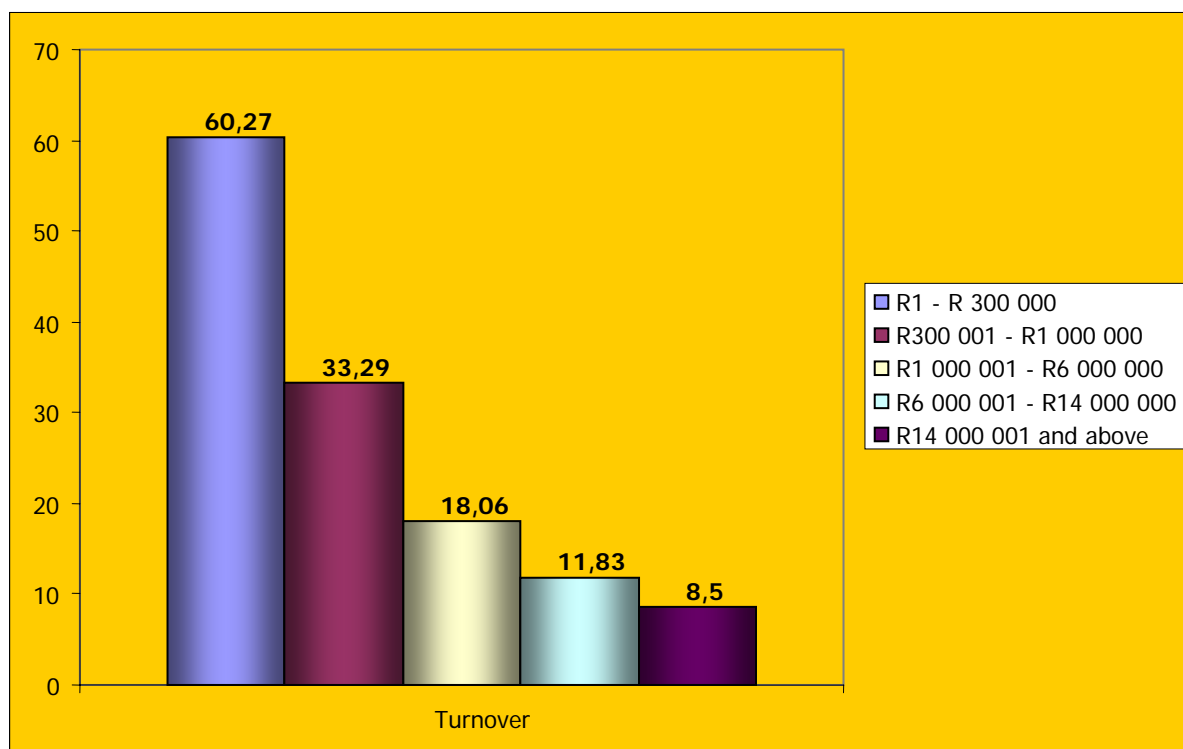
As a matter of interest, tax practitioners were asked what percentage of their efforts related to rework as a result of errors, inadequate information, incomplete disclosures, lack of the correct supporting documentation etc. on the part of taxpayers. They reported that 21,19% of their work related to the above. This lack of knowledge/understanding of the tax compliance requirements is a clear argument for the introduction of taxpayer education and training campaigns – starting from high school level upwards. Regular training sessions (offered at a nominal fee) for small businesses or aspirant small businesses are also important means of combating this lack of knowledge/understanding of the tax compliance requirements.

### **2.5.5 Formal vs. Informal**

In order to try and establish how many businesses curtail their operations and/or reflect incorrect/invalid income or turnover figures etc. in order to remain below the SARS “radar”, the tax practitioners surveyed were asked to estimate what percentage of South

African businesses in each of the turnover bands (reflected in Figure 33 below) decide to stay informal<sup>58</sup>.

**Figure 33: Businesses (%) in various turnover bands that decide to stay informal rather than formalize their business operations**



It is evident from the above that according to the respondents about 60% of businesses with a turnover of R300 000 and less decide to stay informal rather than formalize their business operations. Registration for VAT might also be among the reasons for businesses to keep their turnover levels below R300 000 as this is the VAT threshold at which registration for VAT becomes obligatory.

<sup>58</sup> No definition of “informal” was given in the question, however, it was envisaged that this should include all businesses that are not at all (but should be) registered with SARS. Thus for a business to formalize its business operations, it would register with SARS for all the necessary taxes as required in terms of the various taxation Acts.

## 2.5.6 Message to SARS

Respondents were given the opportunity to send a message to SARS. The survey invited “open responses” to questions about SARS’ service. Certain respondents (approximately 22%) stated that in general SARS is more professional now than in the past and the introduction of e-filing<sup>59</sup> has been a welcome addition to SARS’ services. However, most respondents felt that SARS could still improve – especially with regard to their customer relations. The main areas of concern that were raised by the tax practitioners are as follows:

- SARS call centre is not operating as optimally as it could<sup>60</sup> due to the following reasons:
  - personnel not trained and do not have the required knowledge<sup>61</sup>; and
  - no direct access to assessors<sup>62</sup>/person dealing with the specific query or who has the authority to make decisions.
- Taxpayer has no knowledge of whom to talk to regarding a particular issue/document as the person’s name is not reflected anywhere – this results in the call centre putting the taxpayer through to a person who is unable to respond to their query<sup>63</sup>.

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<sup>59</sup> According to an email received from a SARS official, Mr L. Kirsten (2007:1) commenting on the draft version of this report, it was mentioned that only 4,000 of 18,000 tax practitioners are making use of this service.

<sup>60</sup> Approximately 11% of respondents to this question raised this concern.

<sup>61</sup> This might be due to the fact that the SARS call centre system does not track and trace documentation which makes it difficult for the call centre operators to respond to taxpayers’ and tax practitioners’ queries on the status of their submissions, but this was not mentioned specifically by respondents.

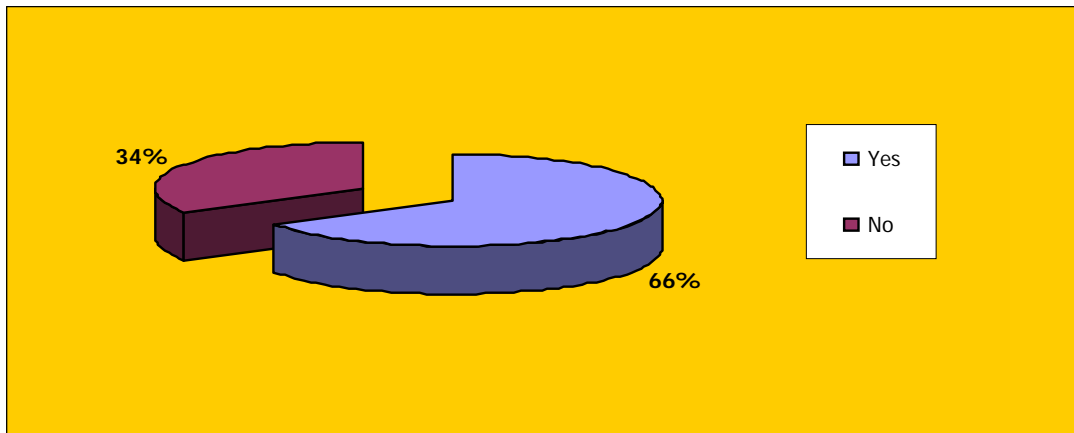
<sup>62</sup> This is a matter of SARS policy, in order to avoid opportunities for collusion or corruption.

<sup>63</sup> According to SARS, this was its deliberate intention so as to discourage any attempts at collusion or corruption. Approximately 8% of respondents to this question raised this concern.

- Some SARS personnel not competent/capable of answering technical<sup>64</sup> questions.
- Registration process is complicated and cumbersome<sup>65</sup>.
- Loss of some documentation by SARS, even if there is proof of receipt, is a problem<sup>66</sup>.
- Penalties are sometimes too high and not consistently applied<sup>67</sup>.

### 2.5.7 Interest in responding to a similar survey

**Figure 34: % of tax practitioners interested in responding to similar survey on a regular basis**



It was decided to establish if tax practitioners that responded to this questionnaire, were interested in becoming part of an expert group that would be asked to respond to similar survey questionnaires on a regular basis. Surprisingly enough, 66% of the respondents stated that they would be interested.

<sup>64</sup> No explanation or definition of “technical” was provided in the respondents responses. Approximately 14% of respondents to this question raised this concern.

<sup>65</sup> Approximately 3% of respondents to this question raised this concern.

<sup>66</sup> Approximately 3% of respondents to this question raised this concern.

<sup>67</sup> Approximately more than 3% of respondents to this question raised this concern.

## **2.6 Conclusion**

This chapter provided an analysis of the research findings obtained from the 2006 Tax Practitioner Survey conducted using the members of SAICA, SAIPA and SAICB situated throughout South Africa. The survey was conducted to identify and measure the tax compliance costs for small businesses in South Africa. Specific areas of SARS service standards were also reviewed to determine the burdensome aspects thereof and to establish what reforms could be introduced to reduce these burdens.

The research results are summarized in the final chapter and recommendations in respect of these results will be provided.

## **3 Conclusions and recommendations**

### **3.1 Introduction**

In order to begin to identify opportunities for intervention by government into small business tax compliance burdens, detailed information about the level and incidence of these burdens needs to be obtained. This survey, the first of its kind in South Africa, set out to try and establish what the cost of complying with certain prominent tax laws and regulations for small businesses is. This was achieved by surveying the members of three professional institutions that regularly assist small businesses in their dealings with SARS. The time and costs involved in dealing with SARS were the main focus of the study. Certain of SARS' service standards were also considered in the survey and compared to the SARS Service Charter where applicable.

The findings of the survey will now be summarized and conclusions offered. Where appropriate, recommendations are provided with the aim of reducing any unnecessary tax compliance costs and encouraging tax registration of small businesses.

### **3.2 Summary of results and recommendations**

#### **3.2.1 Profile of respondents**

The respondents of the survey are fairly distributed in terms of the geographic population distribution of the country and in terms of the selected professional institutions. 88% of the respondents (accountants and bookkeepers) are also registered with SARS as tax practitioners. The majority of the respondents (at least 85%) have more than five years experience in assisting clients with taxation matters. Based on the above, the information obtained from the respondents can be relied upon to provide meaningful insight into the tax compliance issues faced by small businesses.

### **3.2.2. Profile of respondent's clients**

A small business was defined in this study as a business with a turnover of less than R14 million. Small businesses with turnovers in various different turnover bands (all less than R14m), conducting business in various legal forms and in all sectors of the South African economy are represented in the results received, once again ensuring no significant bias towards any particular sized firm. A small business incorporated as a CC, conducting business in the wholesale, retail, trade, hotels and restaurant sector with a turnover of between R300 001 – R1 million, is the type of small business that most of the tax practitioners provide assistance to with regard to their tax affairs.

### **3.2.3 Compliance costs**

The time and costs involved in most of the significant processes in complying with tax laws and regulations were investigated in order to establish what the average compliance costs for a small business are and if there is an undue tax compliance burden on enterprises in the lower turnover bands. The study was limited to questions in relation to the following four major taxes – Income Tax, Provisional Tax, Value Added Tax and Employees' Tax and to the following processes – registration; preparation, completion and submission of tax returns; objections & ADR's and finally audits, inspections & written queries from SARS. The most significant results are presented below.

#### ***3.2.3.1 Registration***

Irrespective of the size of the small business (in terms of turnover), registering for VAT followed by Income Tax will take the longest period of time. VAT, followed by employees' tax appears to be the most costly taxes to register for. Overall, registration for taxes both from a time and cost perspective appears to be relatively uniform across all turnover bands implying that the smaller firms carry a bigger burden than the larger ones.

One of the main areas of concerns raised by tax practitioners was the fact that the registration process is complicated and cumbersome (refer to point 2.5.6 above). A

possible recommendation in this regard is that registration forms and procedures should be simplified. Perhaps registration should not be done per tax, but rather for all taxes at once. We are aware that SARS is in the process of developing a single registration form for all taxes, but no form has as yet been released for public comment or use. As it is one of the major concerns and frustrations raised by taxpayers and due to the fact that this is the first port of call for new entrants into the tax system, it is recommended that SARS makes this one of its priority reforms.

### ***3.2.3.2 Preparation, completion and submission of tax returns***

VAT takes the longest and costs the most out of the four taxes to prepare, complete and submit – this is irrespective of the turnover level of the tax practitioners' clients. One of the possible reasons for this might be due to the fact that the VAT returns require more mechanical calculations to be done before the return can be completed and submitted but are more complex than, for instance, employees' tax calculations that need to be done on a monthly basis. A minimum of R7 030 per annum is the average fee tax practitioners charge their small business clients to ensure that all their tax returns (for the four taxes – excluding the IRP 5 reconciliation) are prepared, completed and submitted as required by SARS. VAT returns, followed by the monthly employees' tax returns, are the most expensive returns for the businesses to obtain assistance with from a tax practitioner. The costs for preparation of the returns rise as the entity's turnover increases with the exception of income tax and employees' tax in which case there is a slight decrease once the turnover of the business reaches R6 million.

In order to ascertain if paying a retainer is more or less beneficial for a small business if compared to paying for a tax service as and when it is performed, the cost of retainers was investigated. R24 158 was established as the total weighted average retainer paid by a small business per annum to a tax practitioner for his/her taxation services. If this is compared to the total weighted average cost of R7 030 for preparing tax returns for four taxes (income tax, provisional tax, VAT and employees' tax) for a whole year, it is evident that retainers are more costly than paying for the tax services as and when the

work is performed by a tax practitioner – however, the limitations on this comparison as described in the previous chapter are quite evident. Furthermore, retainers are only used by 15% of tax practitioners' clients.

In an attempt to ensure that the estimates of costs provided by the tax practitioners were not overstated and to force them to apply their minds and differentiate between tax and accounting costs, tax practitioners were asked to state what percentage of their clients request them to assist with completing/maintaining their accounting and bookkeeping records and to provide the actual cost in this regard. Between a quarter and almost one third of the tax practitioners' clients requested assistance with completing/maintaining their accounting and bookkeeping records. On average an amount of R12 185 is paid by small businesses to tax practitioners for the basic accounting/bookkeeping services resulting in a **total maximum cost of R36 343 per annum** for the basic tax and accounting/bookkeeping services. It was also established that, the greater the turnover of the business, the greater the costs it will have to pay to a tax practitioner to assist it with its tax and accounting/bookkeeping services. The only exception to this appears to be the small businesses with a turnover between R300 001 – R1 million. The reason/s for this would need to be researched further.

Despite the above, when the compliance costs as a percentage of turnover was calculated, it became evident that the smaller the business, the greater the compliance cost burden.

### ***3.2.3.3 Objections and alternative dispute resolutions***

For both income tax and VAT the time to prepare and submit an objection to an assessment is the same (2.2 hours). This time steadily increases as the turnover of the small business increases. This service would cost the taxpayer on average R400.13 (income tax) / R396.16 (VAT). This cost increases as the size of the business increases.

Objecting specifically to penalties and interest raised in respect of income tax, costs more than objecting to penalties and interest raised in respect of any other tax. The same forms

and procedures need to be followed for all four taxes, thus complexity might be one of the reasons why income tax costs more than any other tax, however, further research into this matter is needed.

#### ***3.2.3.4 Audits, inspections and written queries from SARS***

Only 2,2% of tax practitioners' clients have been subject to a SARS audit/inspection and only 3,38% have received written queries from SARS (in respect of income tax, VAT and employees' tax) since 1 January 2006. This could possibly be due to the "Small Business Tax Amnesty" that was made available from 1 August 2006. It therefore appears that this is not a priority focus area for SARS at this stage, but small businesses should be cautioned that once the "Small Business Tax Amnesty" comes to an end (31 May 2007), any default by the small business discovered by SARS during an audit/inspection or any written queries received by a small business in this regard, will be binding and can lead to penalties and interest charges being levied.

Should an audit/inspection have taken place, the small business would, on average, be required to pay R1 048 for the tax practitioner's time in this regard. If the tax practitioner were to prepare a response to written queries received from SARS, R435.22 would be the amount payable by the small business. For both audits/inspections and written queries, it appears that the time spent by tax practitioners and the costs incurred by small businesses increase as the turnover of the business increases.

#### ***3.2.3.5 Conclusion***

Should the costs mentioned above be combined, it is evident that the once-off burdens such as registration, objections, audit inspections and dealing with written queries from SARS are not the greatest contributors to the total tax compliance costs. Rather, it is the recurring burdens, namely preparation of the tax returns, that make the greatest contribution to the total tax compliance cost. Furthermore, it is clear (with only a few exceptions) that compliance costs are regressive in that they place a larger burden on businesses with a small turnover.

### **3.2.4 SARS Service Standards**

In order for a business to become and remain tax compliant it needs to interact with SARS. This interaction takes time and can result in loss of billable income or additional/avoidable costs being incurred by the small businesses should SARS' service standards not be up to scratch.

Questions dealing with the services offered by SARS used by most small businesses were posed to the tax practitioners to establish if SARS is meeting the criteria set out in its Service Charter. The results were analyzed according to each such service.

#### ***3.2.4.1 Receive a registration number***

When it comes to providing taxpayers with a tax registration number (for income tax, VAT and employees' tax – no separate registration number is needed for provisional tax) SARS does not yet meet the criteria it set out in its Service Charter. Receipt of an income tax and VAT registration number by a small business takes the longest (25 working days compared to the 10 stated in the SARS Service Charter). As registration is the first step taken by a taxpayer to become tax compliant, it is critical that this process is streamlined, efficient and most of all simple and quick. SARS is currently falling short of these criteria as can be seen from the time it takes to receive a registration number (refer also to point 3.3.2 below). Many taxpayers are willing to pay the taxes due by them, but find registration a complex, time consuming and cumbersome process (refer to point 2.5.6 above). This is therefore one of the priority areas that SARS needs to focus on in order to ensure that those taxpayers willing to pay their taxes do so and in so doing broaden the tax base. Registration for tax (all taxes) should be simple and quick – simple, short and easy to read forms plus immediate processing of information and receipt of a registration number.

#### ***3.2.4.2 Process a return***

SARS appears to be well within its guidelines laid down in its Service Charter in respect of processing tax returns. One exception to this might be in respect of returns submitted during off-peak periods. SARS should be highly commended on its efforts in this regard. One note of caution though, SARS should not sacrifice quality with quantity, that is, SARS should not assess returns as quickly as possible without considering all the issues at hand. Various taxpayers mention incorrect assessments (and subsequently incorrect penalties and interest) being raised as one of the areas of concern to them. Another area of concern raised by the tax practitioners and potentially linked to the above concern is the lack of technical knowledge possessed by some of the SARS personnel. Correcting and resolving these areas of concern can result in a large amount of time and money being spent by small businesses. It is recommended that suitably qualified assessors be appointed and a peer review process be instituted by SARS to ensure the continued timely and, most importantly, accurate processing of tax returns.

#### ***3.2.4.3 Respond to an objection***

SARS appears to comply with the requirements of the various taxation Acts setting out the time limit within which SARS has to respond to objections made by taxpayers to any income tax, VAT and employees' tax assessments. Despite this, the lack of acknowledgement of receipt of the objection by SARS and the time taken by SARS to respond to an objection are aspects of the objection process that are regarded as burdensome to taxpayers.

Similarly, the following aspects in respect of the ADR process were considered as burdensome by taxpayers:

- Time taken by SARS to respond to the ADR process;
- Total time taken to finalize the ADR process; and
- Time spent on ADR.

These areas therefore would be the ones that SARS would need to revisit as they appear to be causing some frustration for the taxpayers. It is recommended that an electronic system be put in place whereby an acknowledgement of receipt is automatically generated as soon as an objection is received. Furthermore, the time limits in which SARS has to respond to objections and ADR's should be reviewed, as this period appears to be too short for SARS but too long for small business taxpayers.

#### ***3.2.4.4 Payout of a refund***

Both in respect of income tax and VAT, SARS still falls short of its time commitments in terms of its Service Charter to pay refunds into the taxpayer's bank account. As cash flow is an area that small businesses struggle with, this shortcoming of SARS can be detrimental to the small business taxpayer. This is, therefore, one of the priority areas for urgent reform.

#### ***3.2.4.5 Respond to written correspondence***

SARS' commitment to respond to all correspondence (physical and electronic) as set out in the Service Charter is not yet met. It still needs to be determined whether the taxpayer is actually informed (as mentioned in the SARS Service Charter) why the above is not possible and when he/she can expect a full reply in instances where a resolution is not possible within a reasonable period of time.

As telephonic communication via the call centre is the major concern raised by tax practitioners (see point 2.5.6 above), written communication becomes an even more important and critical element to ensuring that small businesses become and remain tax compliant. Large time delays and continuously having to make follow up enquiries with SARS can result in additional time and costs having to be incurred by the small business. These are things that the small business can ill afford. It is therefore recommended that SARS improve on its current service levels to meet its promise in terms of its Service Charter. This is an area that is critical to improving tax compliance amongst all, and particularly, small businesses. More extensive use of the e-filing facility has the potential

to reduce the compliance costs of businesses substantially and based on the positive feedback from various tax practitioners on this service, more extensive use and applicability of this service should be focused on by SARS.

#### ***3.2.4.6 Answer telephone calls, personal assistance, address enquiries sufficiently***

SARS once again does not yet meet its commitment in terms of the Service Charter in respect of the following:

- Time waited at SARS prior to being attended to (with no appointment);
- Time "on hold" before SARS answers telephone call; and
- Average number of calls prior to enquiry being addressed sufficiently.

Should the time spent on the above aspects by the owner/employee of a small business or a tax practitioner, representing a small business, be high or excessive, this could result in loss of revenue or additional costs being incurred by the small business. Merely attending to taxpayers or answering telephone calls in the time period set by the Service Charter is not sufficient, if the personnel are not able to adequately assist the small business in resolving the matter at hand. SARS therefore has two areas in which improvements need to be made – firstly, meeting the time frames for the above as set out in the Service Charter, and secondly, assuming that the time frames are met, ensuring that the enquiries are adequately addressed. The second area of improvement is clearly a huge problem for small businesses (see point 2.5.6 above). It is recommended that adequately trained personnel be employed or trained by SARS. Thought should be given to the creation and efficient functioning of a Small Business Centre and Small Business help desks. Although the implementation of small business help desks with dedicated facilities and extended hours were mentioned in the 2005 budget speech, concrete progress has not been made in this regard at some SARS regional offices. SARS should strive to communicate with taxpayers not only when things go wrong in the tax process, but rather before it gets to this stage. This communication should be done in a positive constructive manner which will lead to a healthy relationship of trust between the taxpayer and SARS.

### 3.3 Additional findings

#### 3.3.1 Most burdensome tax

Provisional tax is regarded by tax practitioners who deal with small businesses to be the most burdensome tax. The fact that the provisional payments are not aligned with the cash flows of small business may be a reason for the above finding. Another possible reason could be due to the recent spait of interest and penalties raised incorrectly by SARS on provisional tax payments allegedly being late. This appears to be confirmed by point 3.3.2 below.

#### 3.3.2 Most burdensome aspect of each tax

Table 8 summarizes what is perceived by tax practitioners assisting small businesses as being the most burdensome aspect of each tax for a small business.

**Table 8: Most burdensome aspect of the various taxes**

<b>TAX</b>	<b>MOST BURDENSOME ASPECT OF TAX</b>
Income Tax	Capturing and processing errors made by SARS and the time taken to correct these errors.
Provisional Tax	Penalties and interest incorrectly raised by SARS.
VAT	Period taken to register as a VAT vendor and the time taken to be notified of such registration.
Employees' Tax	Capturing and processing errors by SARS and the time taken to correct these errors in respect of employees' tax.

As mentioned earlier, despite the fact that tax returns are processed within the time limits set by SARS in its Service Charter, if these returns are not accurately processed, additional time and costs need to be spent by small businesses in order to correct these errors. This is highlighted as a major problem from an income tax as well as an employees' tax perspective.

Capturing and processing errors not only result in the incorrect amount of tax due by the small business, but also potentially in penalties and interest being imposed by SARS' computer system – resulting in no human intervention to determine if the penalties and interest are correctly imposed or not. This is regarded as the biggest problem from a provisional tax perspective. In some cases, these amounts can be high, and with SARS' "pay now, argue later" principle, this could result in a cash flow problem for the small business as the objection rules need to be abided by first. Thus the imposition and calculation of penalties and interest in respect of provisional tax and the administration thereof is sometimes flawed and it is recommended they be reviewed and where necessary reformed.

From a VAT perspective, the period taken to register as a VAT vendor and the time taken to be notified of such registration is regarded as the most burdensome aspect of this tax. This fact was also very recently highlighted in the press (refer to point 2.5.2.3) where a taxpayer applied for registration but due to the fact that SARS failed to provide it with timely notification of its registration and its tax return, the taxpayer had to pay penalties and interest. This issue is one of the priority areas that SARS should be focusing its attention on as this is a major stumbling block to getting taxpayers to become compliant.

### **3.3.3 Reforms to reduce tax compliance burden**

The single most effective reform, as perceived by the tax practitioners, to reduce the compliance burden for each of the four taxes under review are provided in Table 9 below.

**Table 9: Reforms to reduce the tax compliance burden**

<b>TAX</b>	<b>REFORM TO REDUCE TAX COMPLIANCE BURDEN</b>
Income Tax	A special simplified income tax regime for small businesses.
Provisional Tax	A special simplified income tax regime for small businesses.
VAT	Higher mandatory VAT registration thresholds.
Employees' Tax	A special simplified tax regime for small businesses.

A special simplified tax regime for small businesses is regarded as the single most effective reform for income tax, provisional tax and employees' tax. This seems to imply that tax practitioners regard the current tax legislation to be too complex for the majority of taxpayers to understand. Small businesses can naturally hire accountants to do the complicated calculations and complete the returns. But for a small business that is already struggling to make a profit, the added cost of hiring a tax professional will significantly add to its difficulties. There is therefore an urgent need for simplification of tax laws and language used on the various taxation forms. Simplification of the accounting standards and auditing procedures for small businesses are currently being considered in South Africa. Thus, the simplification of taxation laws for small businesses also appears to be inevitable, however, extensive research into this matter is still needed before the extent and exact nature of this simplification can be determined. The simplicity of the tax system should not disregard the other characteristics of a good tax system – that is: certainty, neutrality and a low cost of administration and collection.

From a VAT perspective, a higher mandatory registration threshold is regarded as the single most effective reform to reduce the tax compliance burden for small businesses. Currently businesses that have taxable supplies in excess of R300 000 are obliged to register for VAT. Only two adjustments have been made to this threshold limit since VAT was established in 1991. Each year, in real terms, this implies that smaller and smaller firms are being required to register for VAT imposing an unwarranted administrative burden on businesses. Increasing the threshold every year as inflation increases might not be a very practical recommendation, but it must be ensured that inflation does not erode the threshold over time and to ensure that firms that are

inappropriately small for VAT aren't forced over the threshold just because of inflation. Increasing this limit will result in SARS only losing VAT on the value added but the costs of collecting the VAT from the small businesses will no longer be incurred. This holds true as can be seen from the fact that the majority of the respondent's have clients that operate in the retail, trade, hotels and restaurant sector in which the only additional VAT would be on the actual gross profit less the operating expenses, whereas for the professional services, the amount of additional VAT might be much more. It is recommended that research be performed to establish what would be regarded as an appropriate registration threshold and what the fiscal implications thereof would be. Furthermore, if the legislation is to remain equitable, this threshold should be automatically adjusted annually. It is, however, interesting to note that the compulsory VAT registration threshold in many other countries is lower than in South Africa. The question can therefore be posed as to whether the registration threshold is truly the problem or merely a symptom of other problems. International experience and local investigations into this matter would need to be drawn upon to clearly understand the true issues causing the frustration and compliance burden for taxpayers.

Other ways that can be considered to simplify the tax system are as follows:

- Tax returns reduced to one page with a two-page explanation brochure;
- Establish a reasonable tax threshold below which no tax return (PAYE, VAT, Income Tax, SDL, UIF, etc. or all of the above) needs to be submitted and where no tax is payable;
- Exempt first time non-serious offenders from penalties and interest and provide them with insight into their mistakes made;
- Provide workshops and courses to taxpayers at accessible venues.

Huge savings in administrative costs, professional fees and other compliance costs would result from simplified tax laws which are accompanied by simple procedures and requirements. SARS too would be relieved from a considerable part of its administrative burden.

### **3.3.4 Use of tax practitioners**

37,6% of businesses with a turnover in the lowest turnover category (less than R300 000) use tax practitioners. This percentage increases to 78% for businesses with a turnover of between R6 million and R14 million. It therefore appears that the higher the turnover of the business, the greater the likelihood that the business will use a tax practitioner to assist it with its tax affairs. This does, however, not prove that the small businesses do not need the services of a tax practitioner – it may just be an indication that the smaller businesses merely cannot afford their services. In cases where the small business cannot handle the tax matter itself nor afford to hire a tax practitioner, it may have no choice but to operate in the so-called informal sector. The confinement to the informal sector could prevent future growth, visibility and security – not what the country needs. The incidence of this occurring is not known yet but will be questioned in the informal survey that is currently being conducted. What is certain though is that tax practitioners play a vital role in providing researchers with valuable insight into the taxation needs and requirements of small businesses.

### **3.3.5 Formal vs. Informal**

Increasing evidence exists that some businesses purposefully stay sole traders as they do not want to take on the additional regulatory burden implied by, for example, appointing additional employees<sup>68</sup>. According to the tax practitioners surveyed, about 60% of businesses with a turnover of R300 000 and less decide to stay informal rather than formalize their business operations. This percentage decreases as the turnover of the business increases. High tax compliance costs could arguably disincentivise small business entrepreneurs from growing their businesses beyond a certain level. Many taxpayers are thus staying outside the tax net due to the fear and apathy regarding SARS and SARS' processes. This is, therefore, another incentive for SARS to ensure that it makes the tax compliance process, starting with registration, simple, quick and cheap. In addition to this SARS should intensify its efforts to educate taxpayers about their duty to

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<sup>68</sup> Palmade and Anayiotos (2005), Djankov, Lieberman, Mukherjee and Nenova (2002).

pay tax and inform them of the benefits of doing so. It could consider offering assistance to newly formed small businesses by means of free training and mentorship programmes creating a supportive rather than ‘watch-dog’ environment. This training could also be implemented at all the South African high schools.

### **3.3.6 Additional areas of concern**

When given the opportunity to send a message to SARS, there were those tax practitioners that congratulated SARS on its progress over the last few years and highly commended the implementation of e-filing. The remaining tax practitioners used the opportunity to express their concerns. The major concerns, not already addressed above, are as follows:

- SARS call centre is not operating as optimally as it could<sup>69</sup> due to the following reasons:
  - personnel not trained and do not have the required knowledge<sup>70</sup>; and
  - no direct access to assessors<sup>71</sup>/person dealing with the specific query or who has the authority to make decisions.
- Taxpayer has no knowledge of whom to talk to regarding a particular issue/document as the person’s name is not reflected anywhere – this results in the call centre putting the taxpayer through to a person who is unable to respond to their query<sup>72</sup>.

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<sup>69</sup> Approximately 11% of respondents to this question raised this concern.

<sup>70</sup> This might be due to the fact that the SARS call centre system does not track and trace documentation which makes it difficult for the call centre operators to respond to taxpayers’ and tax practitioners’ queries on the status of their submissions, but this was not mentioned specifically by respondents.

<sup>71</sup> This is a matter of SARS policy, in order to avoid opportunities for collusion or corruption.

<sup>72</sup> According to SARS, this was its deliberate intention so as to discourage any attempts at collusion or corruption. Approximately 8% of respondents to this question raised this concern.

- Some SARS personnel not competent/capable of answering technical<sup>73</sup> questions.
- Registration process is complicated and cumbersome<sup>74</sup>.
- Loss of some documentation by SARS, even if there is proof of receipt, is a problem<sup>75</sup>.
- Penalties are sometimes too high and not consistently applied<sup>76</sup>.

Regarding the personnel at SARS, it is clear that its top levels of staff have proved to house excellent and knowledgeable officials, who have initiated excellent tax reforms and refinement of tax compliance and tax structures. The low levels of technical competence of some SARS staff make it difficult for tax practitioners to minimize their client's compliance costs. It is recommended that internal and external training courses be compulsory for all SARS personnel and that promotions be based on their individual performance and achievements in these courses.

However, it is not only the SARS personnel that are at fault – taxpayers (especially small businesses) are also ignorant of all the legislation that is applicable to them. It is suggested, therefore, that more be done to assist taxpayers understand their responsibility and the consequences of non-compliance. For instance a first offender (due to ignorance) could be required to attend courses (on the weekends if need be – at SARS' existing staff training centres) instead of raising a harsh penalty. Perhaps smaller fines than currently exist will stop total abuse of this idea. It has also been suggested that tax education should be made a compulsory part of the high school curriculum in which the element of pride in paying taxes and being tax compliant should be demonstrated.

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<sup>73</sup> No explanation or definition of “technical” was provided in the respondents responses. Approximately 14% of respondents to this question raised this concern.

<sup>74</sup> Approximately 3% of respondents to this question raised this concern.

<sup>75</sup> Approximately 3% of respondents to this question raised this concern.

<sup>76</sup> Approximately more than 3% of respondents to this question raised this concern.

Cognizance should also be taken of the fact that tax practitioners have the skills and knowledge (and willingness) to assist SARS getting taxpayers knowledgeable and tax compliant. They should therefore be provided with access to the SARS system to make enquiries in respect of their client accounts and details etc. and to request changes through an online facility to take the load off SARS.

### **3.3.7 Interest in responding to a similar survey**

66% of the respondents stated that they would be interested in becoming part of an expert group that would be asked to respond to similar survey questionnaires on a regular basis. One would wonder why tax practitioners would be interested in this, as should the results of the survey show that there is a tax compliance burden for small businesses, and should something be done about it – for instance the simplification of the tax regime for small businesses – then it could perhaps entail the tax practitioner losing some of his/her profitable opportunities. Then why become part of an expert group if you are going to lose clients and money? One possible answer to this question is that at this stage, the tax practitioners are performing taxation services on behalf of their clients for which they are not receiving or recovering their fees. Thus they are spending large amounts of time in assisting clients resolve taxation matters (administrative or technical) with SARS, for which they cannot bill their clients. By responding to similar surveys, there is a possibility that SARS will identify and correct the problem areas as highlighted in the survey, and therefore reduce the non-billable hours that they as tax practitioners are spending on resolving their client's taxation issues. This of course is only speculation, but an interesting debate.

### 3.4 Conclusion

This study is the first ever of its kind to try to estimate the tax compliance costs for *all* small businesses in South Africa. This was achieved by questioning tax practitioners from SAICA, SAIPA and the SAICB who assist small businesses with their tax affairs as they are generally the ones who perform the functions that were reviewed.

Despite the fact that some taxes took longer and cost more than other taxes depending on the tax compliance procedure, the data suggested that VAT costs more per annum than any other tax.<sup>77</sup> Overall it became evident that the compliance costs are regressive – the smaller the business, the heavier the burden. This leaves small firms more vulnerable to the compliance burden and at a significant competitive disadvantage. Another interesting finding is that provisional tax is regarded as being the most burdensome tax for small businesses. A special simplified tax regime for small businesses is the single most recommended reform to address this issue.

SARS' service standards were also considered in the study and it was found that SARS does not achieve its targets set out in its Service Charter with the exception of the time it takes to process tax returns and the time (as laid down in the tax law) it takes to respond to an objection. Despite the fact that it is possible that SARS is not yet obliged to meet all its targets set out in its Service Charter, this study will definitely assist SARS in identifying where it should focus its attention for improvements in order to meet these targets.

Although various areas have been highlighted as possibly meriting SARS and National Treasury intervention, we realize that only so much can be done immediately to alleviate the problems and frustrations experienced by small businesses with regard to tax compliance. These, therefore, need to be prioritized. The following areas are the ones that appear to be of critical importance and that require immediate attention by SARS and

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<sup>77</sup> Assuming 6 returns are filed annually.

National Treasury either as part of initiatives that SARS has already introduced or as new initiatives:

- Registration process – this needs to be simplified and streamlined with prompt and reliable notification to the taxpayers when SARS has completed their registration;
- Technical knowledge of SARS personnel – this needs to be improved ;
- Call centre – the functionality thereof needs to be improved;
- Payment of refunds to taxpayers – this needs to be done in a timely manner to help businesses avoid unnecessary cash flow difficulties;
- Responses to written correspondence, answering of telephone calls, personal assistance and sufficient handling of enquiries – this needs to be done more quickly and with more accuracy.

In the interim, training and mentoring services, funded by the government, should be provided free of charge to small businesses to assist them in becoming and remaining compliant. In providing such a service, SARS will show its willingness to consult with taxpayers in order for it to identify the problems small businesses face.

In the longer term, National Treasury should consider making changes to the tax legislative system. This would firstly involve SARS and National Treasury staff actually spending time with the small businesses in order to gain a greater understanding of their needs and concerns. Secondly, the current “Small Business Unit” at SARS should be dedicated to the above activities and it should assess the potential impact that any recommended changes will have on small businesses by implementing an assessment programme. This unit should be empowered to effect any necessary changes and the final assessment of the change or regulation should be published and made available to all interested parties.

All the above recommendations, if implemented by SARS and National Treasury, will emphasize its commitment to simplifying the tax environment and reducing the compliance cost burden. To ascertain if they have been successful in this quest (i.e. compliance costs have decreased on a year-on-year basis), it is recommended that this study should be used as a baseline measurement of compliance costs. It should be continuously updated and used to inform small businesses and their tax practitioners of the progress made in respect of the reduction of compliance costs.

In order to ascertain if any changes implemented by SARS and National Treasury have indeed been successful, it is recommended that this study should be used as a baseline measurement of tax compliance costs, with the possibility to measure improvement over time as further reforms are enacted. It should also be possible, if SARS and Treasury are interested in “piloting” some reforms, to select some random provinces to host some pilot reform initiatives (“treatment regions”) while the others maintain the status quo for a period of time (“control regions”). Then follow-up surveys could compare “treatment” vs. “control” regions to ascertain whether the piloted reforms are yielding better results than the status quo. If so, then the piloted reforms can be enacted more widely; if not, they can be discarded, all on the basis of a scientific assessment of their effectiveness.

The results of this survey should not be viewed in isolation, but should be considered and compared with the results of the formal and informal small business surveys that are currently being conducted.

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## 5 Appendices

### A Small business and SMME definitions

The terms “small business” and “SMME” appear to be used in various contexts, most of which are very similar. It will be established what the distinctions are (if any) between these two terms by analyzing their definitions both from an economic as well as taxation perspective. The economic and taxation definitions will be compared to establish if there are any similarities. This analysis is necessary, as from an economic as well as taxation perspective, certain grants and benefits are awarded depending on certain qualifying criteria, one of which is the status and size of the enterprise.

#### **“Small business” and “SMME” definitions – an economic perspective**

From an economic perspective, in South African, various distinctions are made between small and large businesses. As this research study is considering the tax compliance burden on small businesses, it is these businesses that will be investigated further by analyzing their definitions as used in an economic sense.

The term “small **enterprise**” is defined as follows in terms of the National Small Business Act<sup>78</sup>:

“a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises, managed by one owner or more predominantly carried on in any sector or sub-sector of the economy mentioned in column 1 of the Schedule and

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<sup>78</sup> RSA, 1996.

classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns 3, 4 and 5 of the Schedule”

Thus, small enterprises can be classified as micro, very small, small or medium enterprises, following a complex set of thresholds. These thresholds are defined per industry in the National Small Business Act<sup>79</sup> - see “Schedule” below.

### Table 10 - Schedule

[Schedule substituted by [s. 7](#) of [Act No. 26 of 2003](#).]

(See definition of “[small enterprise](#)” in [section 1](#))

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>	<b>Column 5</b>
<i>Sector or sub-sector in accordance with the Standard Industrial Classification</i>	<i>Size of class</i>	<i>The total full-time equivalent of paid employees</i>	<i>Total turnover</i>	<i>Total gross asset value (fixed property excluded)</i>
Agriculture	Medium	100	R5m	R5m
	Small	50	R3m	R3m
	Very Small	10	R0.50m	R0.50m
	Micro	5	R0.20m	R0.10m
Mining and Quarrying	Medium	200	R39m	R23m
	Small	50	R10m	R6m
	Very Small	20	R4m	R2m
	Micro	5	R0.20m	R0.10m
Manufacturing	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5m	R2m
	Micro	5	R0.20m	R0.10m
Electricity, Gas and Water	Medium	200	R51m	R19m
	Small	50	R13m	R5m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m

<sup>79</sup> RSA, 1996:13.

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>	<b>Column 5</b>
Construction	Medium	200	R26m	R5m
	Small	50	R6m	R1m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Retail and Motor Trade and Repair Services	Medium	200	R39m	R6m
	Small	50	R19m	R3m
	Very Small	20	R4m	R0.60m
	Micro	5	R0.20m	R0.10m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64m	R10m
	Small	50	R32m	R5m
	Very Small	20	R6m	R0.60m
	Micro	5	R0.20m	R0.10m
Catering, Accommodation and other Trade	Medium	200	R13m	R3m
	Small	50	R6m	R1m
	Very Small	20	R5.10m	R1.90m
	Micro	5	R0.20m	R0.10m

<b>Column 1</b>	<b>Column 2</b>	<b>Column 3</b>	<b>Column 4</b>	<b>Column 5</b>
Transport, Storage and Communication	Medium	200	R26m	R6m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.60m
	Micro	5	R0.20m	R0.10m
Finance and Business Services	Medium	200	R26m	R5m
	Small	50	R13m	R3m
	Very Small	20	R3m	R0.50m
	Micro	5	R0.20m	R0.10m
Community, Social and Personal Services	Medium	200	R13m	R6m
	Small	50	R6m	R3m
	Very Small	20	R1m	R0.60m
	Micro	5	R0.20m	R0.10m

However, various government departments use different definitions of “small business”. For instance, the Black Economic Empowerment (“BEE”) Codes of Good Practice, the DTI<sup>80</sup>, the Small Enterprise Development Agency<sup>81</sup> etc. have varying (if any) definitions for this term.

### **Conclusion – South African economic perspective**

It would appear, that references to the term “small business” include micro and medium-sized businesses and therefore “SMME” equates (to a large extent) to the terms “small business”. However, there does not appear to be one consistent “small business” definition that is used in an economic sense in South Africa. For the rest of this

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<sup>80</sup> 2003:33.

<sup>81</sup> SEDA, 2006:3.

document, the term “small business” will be used and it will be assumed to include small, medium and micro-enterprises.

## **“Small business” definitions – from a taxation perspective**

### **A South African taxation perspective**

Relief measures or special dispensations are granted by SARS to small businesses. As the qualifying criteria to obtain these relief measures or special dispensations differ in respect of each of the individual taxes, each of the taxes will be reviewed individually.

#### **Income Tax**

For income tax purposes a small business will qualify for a tax incentive if it meets the requirements of the “*small business corporation*” definition.

A “*small business corporation*” is defined in section 12E of the Income Tax Act<sup>82</sup> and it contains the following requirements (before the amendments promulgated in 2007) for a business to be classified as such:

- the entity must be a private company registered in terms of the Companies Act or a close corporation (“CC”) – but not an employment company;
- all its shareholders/members are natural persons;
- its entire shareholding/members interest is held at all times during the year of assessment by shareholders/members who are natural persons;
- the shareholders/members do not hold or have any interest in any shares, at any time during the year of assessment of the company/CC, in another company (few exceptions to this rule);

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<sup>82</sup> RSA, 2006.

- the gross income of the company/CC for the year does not exceed *R14m*; and
- the personal service income does *not exceed* 20% of the companies total receipts and accruals and all its capital gains.

The effect of being classified as being a small business corporation for income tax purposes, as set out in section 12E of the Income Tax Act<sup>83</sup>, is as follows:

- no tax is payable on the first R40 000 of taxable income; only 10% tax is payable on the annual taxable income of a small business corporation between R40 000 and R300 000; and the tax rate for taxable income over R300 000 is 29%;
- a 100% write-off of manufacturing assets in the year the asset is brought into use; and
- a 100% write-off over three years (50% in the first year, 30% in the second year, and 20% in the third year) on non-manufacturing assets like computers, tills and delivery vehicles (this is an accelerated allowance compared to the normal income tax rules)<sup>84</sup>.

### **Capital gains tax**

From a capital gains tax perspective, in terms of paragraph 57 of the Eighth Schedule to the Income Tax Act<sup>85</sup>, a small business is defined as a business where the market value of all its assets at the date of disposal date does not exceed R5 million<sup>86</sup>.

Persons who operate small businesses - as defined above - such as sole proprietors, partners or owners of an interest (10% or more) in a company or close corporation are

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<sup>83</sup> RSA, 2006 – before the amendments promulgated in 2007.

<sup>84</sup> RSA, 2006.

<sup>85</sup> RSA, 2006.

<sup>86</sup> SARS, 2005a.

subject to certain conditions and are entitled to exclude R750 000 of the capital gain made on the disposal of active business assets when they attain the age of 55 years or the disposal is in consequence of ill-health, other infirmity, superannuation or death<sup>87</sup>.

The concession, which is available only to a natural person, requires that a person disregard any capital gain made on the disposal of:

- an ‘active business asset’ of a small business owned by him as a sole proprietor; or
- an interest in each of the active business assets of a partnership qualifying as a small business upon his withdrawal from the partnership, to the extent of his interest in the partnership; or
- an entire direct interest, which consists of at least 10% of the equity of a company qualifying as a small business, in as far as that interest relates to assets of that small business qualifying as active business assets<sup>88</sup>.

A further requirement is that if the business is sold on terms, all payments must be received within 24 months of the disposal<sup>89</sup>. For example, if the disposal of the 10% holding in a company is effected over a period, the entire gain must be realized over a period not exceeding 24 months in order for the capital gain to be disregarded<sup>90</sup>.

The lifetime exemption of R750 000, does not apply if the person owns more than one small business, (by way of a sole proprietorship, partnership interest or direct interest of at least 10% in the equity of a company<sup>91</sup>, and the total assets of all his small businesses exceeds R5 million in value<sup>92</sup>.

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<sup>87</sup> RSA, 2006.

<sup>88</sup> Stein, 2006:12.5.

<sup>89</sup> Huxam & Haupt, 2006:720.

<sup>90</sup> Stein, 2006:12.5.

<sup>91</sup> Stein, 2006:12.5.

<sup>92</sup> Huxam & Haupt, 2006:720.

### **Provisional Tax**

No special relief measures are available for small businesses from a provisional tax perspective other than the fact that it is not obliged to make a third provisional payment (it is optional for all taxpayers), but, should the taxable income of the small business (and any other provisional taxpayer trading as a company or CC) be less than or equal to R20 000 as finally determined for any year of assessment (R50 000 in respect of any person other than a company or CC), then no interest will be charged on the outstanding tax due.

### **Value Added Tax**

South African businesses with taxable supplies (similar to turnover) not exceeding R300 000 over a twelve-month period are not required to register for VAT purposes and are therefore spared from having to submit VAT returns. These businesses may apply for voluntary registration, which enables them to benefit from input tax credits on certain expenses, but also then imposes upon them the obligation to lodge VAT returns and levy output VAT. Certain businesses (taxable supplies less than R1,2 million) are permitted to submit VAT returns every four months, instead of the normal monthly or bi-monthly requirement. Submission of an annual VAT return is also available to companies or trusts where the income consists solely of property rentals, management or administration fees charged to connected persons that are entitled to a full deduction of input tax on such fees. This option relates more to the simplicity of the business and not necessarily to the size of the turnover of the business. In addition to the above, certain businesses (for instance sole proprietors) may elect to pay VAT on the cash basis, rather than the accrual basis, if their turnover is less than R2.5 million per year.

### **Employees' Tax**

No special relief measures are available for small businesses from an employees' tax perspective other than the fact that it (or any other employer for that matter) need not

register for employees' tax if the salaries, wages and other remuneration paid by it to any of its employees are below the tax thresholds.

### **Skills Development Levy**

According to Arendse *et al.* (2006:8) to encourage small businesses to hire employees, employers paying annual remuneration not exceeding R500,000 in total are exempt from the payment of the SDL which is a 1% tax based on the remuneration paid to employees (with certain exceptions).

### **Tax Amnesty**

The SARS' tax-base broadening efforts and "walkabouts" in informal business areas indicated that numerous small businesses were not on register or have not made full disclosure to SARS and would like the opportunity for regularization without fear of tax liabilities arising out of past non-compliance. The Small Business Tax Amnesty and Amendment of Taxation Laws Bill<sup>93</sup>, therefore, introduced a tax amnesty for small business. This amnesty applies to the following taxes:

- Income tax;
- Employees' tax;
- VAT;
- Withholding tax on royalties;
- STC;
- UIF; and
- SDL<sup>94</sup>

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<sup>93</sup> RSA, 2006a.

<sup>94</sup> RSA, 2006b.

To qualify for the small business tax amnesty, the entity must be an individual, unlisted company, close corporation, trust, co-operative or insolvent or deceased estate of an individual which meets certain requirements. These requirements are as follows:

- the individual or entity must have carried on a business;
- the gross income (turnover) of the business (or businesses if the individual or entity carried on more than one business) during the 2006 year of assessment was not more than R10 million;
- in the case of a company or close corporation all the shares or members' interests were held directly by individuals throughout the 2006 year of assessment; or
- in the case of a trust all the beneficiaries of that trust throughout the 2006 year of assessment must have been natural persons<sup>95</sup>.

Should you comply with the definition of “small business corporation” from an income tax perspective in terms of section 12E or any other tax for that matter, it does not imply that you qualify for the relief for amnesty purposes. Thus, careful consideration needs to be given to the definition of small business in each situation to ensure that you qualify for the benefits offered by each separate act.

## **Conclusion – South African taxation perspective**

Although tax incentives for “small businesses” in South Africa exist, in order to be eligible for them, compliance with extremely narrow definitions must be adhered to. Each type of South African tax requires a specific and unique set of criteria in order for a business to qualify for its “small business” incentives.

## **Overall conclusion – small business definitions**

From an economic perspective, South Africa uses various definitions of “small business” in order to provide economic benefits to this type of entity. From a taxation perspective, although there are certain similarities between certain of the criteria, SARS does not

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<sup>95</sup> RSA, 2006b.

appear to apply a consistent approach with regards to the taxation of small businesses. It might be argued that using different definitions is a fundamentally valid approach because each of the taxes could have different objectives, but it must be recognized that the use of different definitions complicates compliance considerably.

For the remainder of this research study, the term “small business” will be used and will be deemed to include small, medium and micro-enterprises. As discussed and agreed with SARS and National Treasury, the turnover limit for a business to qualify as a small business in this study, will be a turnover smaller than **R14 million** which coincides with the limit to qualify as a “small business corporation” for income tax purposes.

What constitutes a small business for this study has now been established, but the question now arises - what constitutes “compliance costs”, and more specifically “tax compliance costs” for small businesses. This term is therefore required to be analyzed in more detail in Annexure B.

## **B Compliance costs – what are they and how are they quantified?**

### **Introduction**

Small businesses are subject to numerous regulations. In order to comply with these regulations, small businesses have to incur certain costs. One of these costs is compliance costs. The nature, definitions and quantification of tax compliance costs incurred by businesses will be reviewed to establish if there is a uniform definition and technique/method to quantify these costs.

### **Compliance costs – a taxation perspective**

According to SBP's<sup>96</sup> SME Alert, taxation ranks high as a source of regulatory cost and disincentive for small-scale entrepreneurs. Furthermore, this publication indicates that studies have shown that tax compliance constitutes a large share of the total administrative costs of businesses.

One source of tax compliance costs comes from tax authorities passing on administrative costs to taxpayers while a second comes from the complexity of most tax regulations<sup>97</sup>. Tax compliance costs thus include not only continuing internal compliance such as correctly applying tax law, keeping required records and completing tax documentation, but also time to learn about new laws or law changes, as well as external costs of obtaining professional advice or assistance<sup>98</sup>.

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<sup>96</sup> 2003.

<sup>97</sup> Turner *et al.*, 1998:97.

<sup>98</sup> Arendse *et al.*, 2006:4.

Despite the items mentioned above, there is uncertainty about what should be included in the measurement of taxation compliance costs<sup>99</sup>. Whilst this is an area in which there will always be debate, it is possible to identify a “hard core” of costs that are indisputably part of the costs of complying with taxation requirements. Typically these will include:

- the time taken in compiling receipts and recording data in order to be able to complete a tax return;
- the costs of labour/time consumed in completion of tax activities, for example, the time taken by a business person to make the necessary calculations, fill in the tax returns, acquire appropriate knowledge to deal with tax obligations such as Pay As You Earn (“PAYE”) or VAT; or
- the costs of expertise purchased to assist with completion of tax activities (typically, the fees paid to professional tax advisers); and
- incidental expenses incurred in completion of tax activities, including computer software, postage, travel etc.

Turner *et al.*<sup>100</sup> summarized these into the following categories of compliance costs:

- taxpayer’s and unpaid helper’s time;
- tax agent fees; and
- incidental expenses.

In addition to this generally accepted “hard core” of compliance costs, there are a number of other costs that also need to be considered – either due to their nature or due to the fact that they are intertwined with other non-tax compliance costs but separation between the two is difficult. According to Evans<sup>101</sup>, examples of these are:

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<sup>99</sup> Evans, 2006:3.

<sup>100</sup> 1998:96.

<sup>101</sup> 2006:3.

- psychological costs;
- social costs;
- computational and tax planning costs;
- commencement and recurrent costs; and
- accounting costs.

### *Psychological costs*

There is little doubt that there will always be a measure of **psychological cost** that is induced by the operation of the tax system. Taxpayers suffer stress, anxiety and frustration as a result of attempting to comply with their taxation obligations. Unfortunately, no studies have yet managed to successfully quantify these psychological costs, although research in this area is now taking place<sup>102</sup>.

### *Social costs*

As well as psychological costs, there may be **other social costs** that are difficult to quantify (and which therefore tend to be ignored in the literature). An example of such social costs – which are often on the borderline with efficiency costs – is where a tax change, such as the introduction of a higher rate of VAT on a particular range of goods, causes a trader to cease to stock those goods (in order to keep tax affairs simple), thereby inconveniencing customers who have to travel further to continue to buy those goods and possibly having to pay more because of the reduction in competition<sup>63</sup>.

### *Computational and tax planning costs*

Compliance costs are sometimes divided into **computational** (unavoidable or involuntary) and **tax planning** (avoidable or voluntary) costs. This distinction, has caused a controversy that has not yet been (and possibly will never be) fully resolved in the tax compliance literature. Many tax lawyers and policy makers continue to insist that only computational costs constitute legitimate measures of taxation compliance costs, and

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<sup>102</sup> Evans, 2006:3.

attempts have been made to disentangle the two. However most recent major studies have not distinguished computational and tax planning costs in their estimates of compliance costs – if only for the obvious reason that it is often almost impossible to disentangle the one from the other. Moreover, as noted by Slemrod and Sorum, “both kinds of costs are real resource costs of collecting the taxes”<sup>103</sup>.

#### *Commencement and recurrent costs*

Similar problems of disentanglement account for the inclusion of both “**commencement**” (or once-only) and “**recurrent**” (or regular) costs in most estimates of compliance costs. Commencement costs may arise as a result of both legislative change and changes in the taxpayer population. Recent studies have attempted to distinguish the two, but there are, as yet, no reliable studies which focus entirely on the commencement costs of a major tax. Generally studies tend to note the distinction, recognize that the frequency of legislative and population change makes disentanglement difficult if not impossible, and integrate the two in the measurement of compliance costs<sup>64</sup>.

#### *Accounting costs*

These are another example of the problem of disentanglement. Despite careful attempts in most recent studies to isolate tax compliance costs from the underlying costs of being in business – referred to by Sandford in Evans<sup>104</sup> as “**core accounting costs**” – there is almost certainly some **overlap** between business or **accounting costs and tax compliance costs** – what Allers in Evans<sup>64</sup> refers to as “joint cost problems”. There is uncertainty about the extent of overlap and therefore most estimates of taxation compliance costs can only be indicative at best<sup>64</sup>.

Thus, for small businesses, tax compliance costs, in general, include the cost of collecting, paying and accounting for tax on products or profits of the business, and on the wages and salaries of employees together with the costs of acquiring the knowledge

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<sup>103</sup> Evans, 2006:4.

<sup>104</sup> 2006:4.

to enable this work to be done. Using professional tax advisors is one of the main costs contributing to the cost of complying with taxation legislation. However, various uncertainties in the quantification of compliance costs do, however, arise, when trying to analyze psychological, social, computational, tax planning, commencement and recurrent costs. Another problem with these and other costs such as accounting costs, is their overlapping with tax compliance costs. Being able to distinguish a clear cut off point between these types of costs and tax compliance costs is a task that is very difficult, if not impossible, to achieve.

It has now been established what generally constitutes tax compliance costs - but how are these costs measured?

## **Measurement of compliance costs**

In trying to quantify compliance costs the determination of time devoted to compliance activities is highly influenced by factors affecting a specific firm at any give time. It is evident that quite different results as to the value of time spent can be obtained depending on when estimates are requested. A very rough idea of the average cost of time spent on taxation compliance activities could be obtained by multiplying the average time taken by the average or market cost per hour. However, the resulting figures can often be misleading. Depending on various self-estimates of time and hourly costs, the annual costs for participants could range drastically<sup>105</sup>.

## **Techniques and methods used to measure compliance costs**

Gary Banks, in his address to the Small Business Coalition in Canberra Australia on 20 March 2003, as read in the *Upstart Business Strategies*<sup>106</sup>, stated:

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<sup>105</sup> Turner *et al.*, 1998:95.

<sup>106</sup> 2004:10.

*“In practice, measuring compliance costs is not a simple task. At this point in time, there is no generally agreed methodology, although progress is being made on a number of fronts.”*

#### ***Techniques used to measure compliance costs***

Evans<sup>107</sup> states that there is a far greater emphasis on quantitative rather than qualitative techniques that are used in studies into tax compliance costs. These include surveys (invariably using questionnaires) conducted through commercial polling organizations, or by mail, email and telephone, other interview-based methodologies, diary and case study approaches, and documentary analysis and estimating/simulating techniques. Often the studies employ a combination of these approaches.

The technique used in this study is an electronic questionnaire.

#### ***Methodological approaches used to measure compliance costs***

Methodological approaches for measuring regulatory burdens, thus including compliance costs, are of two types – “top-down” and “bottom-up” approaches. Top-down or “macro” methodologies are aimed at establishing government-wide estimates for regulatory burdens. Bottom-up approaches review sectors or individual estimates of regulations’ burdens, sometimes as part of broader impact assessments. Within these two broad categories, there are several approaches used to measure regulatory impact, see table 11 below<sup>108</sup>.

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<sup>107</sup> 2003:70.

<sup>108</sup> Upstart Business Strategies, 2004:11

**Table 11 - Approaches followed in measuring the impact of legislation / regulation**

Method	Brief description	Some countries where method used
<b>Bottom-up approach*</b>	<p>The method works in three stages:</p> <ul style="list-style-type: none"> <li>• In-depth analysis during which all 'data transfers' between a business and a public authority (e.g. a document, a telephone call, an inspection) are identified</li> <li>• The time involved in each 'data transfer' and the level of the person performing it (relating to professional qualification and hourly wage rate) are then determined</li> <li>• The data are computed to produce cost estimates</li> </ul>	Netherlands, Denmark, Norway, Sweden, Finland
<b>Information collection budgets (ICB)</b>	<ul style="list-style-type: none"> <li>• ICB is used by the Office of Budget and Management (OMB), in consultation with each government agency, to set annual agency goals to reduce information collection burdens.</li> <li>• Each agency calculates its total information collection "budget" by totaling the time required to complete all its information requests. The budgeting exercise is then used to measure progress toward burden reduction goals.</li> </ul>	United States of America
<b>Index-based approach</b>	<ul style="list-style-type: none"> <li>• A scoreboard system is used to record all the variables used in each administrative procedure or formality of any kind. Indicators are used for each procedural step and each indicator is given an index value</li> <li>• The index values for a formality are then added up and the total multiplied by the frequency of the procedure and by the number of persons involved</li> <li>• The result gives the procedure's overall index value</li> <li>• From the burden indexes for individual regulations, the total size of administrative burdens can be determined</li> </ul>	Belgium
<b>User surveys</b>	<ul style="list-style-type: none"> <li>• Surveys have been used to measure compliance costs directly or to measure satisfaction with the forms and/or processes used in administrative procedures</li> </ul>	Australia, Belgium, France, Korea
<b>Regulatory impact analyses (RIA)</b>	<ul style="list-style-type: none"> <li>• RIAs are more broadly-based in their concerns on regulatory impacts</li> <li>• But also constitute a systematic means of ensuring that consideration is given to administrative burden issues during the process of developing regulation</li> <li>• RIA constitutes an ex ante approach to burden measurement – allowing for the re-consideration of burdens before they are imposed</li> <li>• RIA allows burdens to be placed in a broader context by requiring that burdens be weighed against the benefits deriving from the administrative procedure and consideration given to the net impact of the procedure</li> <li>• RIA makes use of stakeholder consultation, enabling the verification of government estimates of the size of the burdens and providing a forum for alternative proposals to be discussed</li> </ul>	Canada, USA, UK, Mexico

\* This approach, called Mistral®, was developed in the Netherlands. The approach, with slight modifications, has since been made available for public use under the name the "Standard Cost Model" and adopted and used by several countries in Europe

The bottom-up approach was used in this study. This approach uses a specific piece of legislation as the starting point, in this case, the taxation legislation (specifically income tax, provisional tax, VAT and employees' tax). Under this approach, the law in question is subjected to a detailed examination entailing the disentanglement and analysis of information transfers and related administrative activities. Through information obtained from accountants and bookkeepers the amount of time taken to carry out each activity is determined. The costs to perform these procedures were also asked in the questionnaire.

## **Overall Conclusion**

One of the regulatory costs that burden small businesses is the cost of compliance with taxation regulations. What exactly the compliance costs of taxation consist of, has been explored and defined, broadly and specifically, in many studies.

Although there is still some controversy regarding what exactly constitutes tax compliance costs, overall, all definitions generally appear to include the following costs:

- the value of time spent by business owners/managers/staff etc. on understanding the rules and applying them;
- record-keeping costs, that is, costs of compiling the necessary receipts and other records and costs incurred in respect of the preparation of tax returns;
- the payments made for the expertise of professional advisors such as consultants, lawyers and accountants; and
- incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities.

There is, to date, no full-proof technique or method that can be utilized to measure the cost of taxation compliance costs incurred by taxpayers. The extent of the tax compliance costs and their burdens to small businesses in South Africa still need to be properly understood and quantified. Once these facts have been obtained, a baseline against which

future progress can be measured has been established. This is what this study aims to provide.

However, to quantify these costs, the necessary information regarding compliance costs is needed. Obtaining this information from a small business can be a difficult task, but their professional advisors may be able to assist with this. The frequency of use of these professional advisors and their impact on the tax compliance costs to small businesses will therefore be briefly reviewed next.

## **C Use of professional tax advisors**

### **Introduction**

Of all the costs of complying with tax legislation, the cost of outsourcing the tax function to professional tax advisors, accountants, bookkeepers or lawyers (collectively referred to as “tax practitioners”) by small businesses, is to a large extent, the one that has been least considered. This is despite the fact that professional advisor costs have been a very significant component of the compliance costs for small businesses. The frequency of use of tax practitioners by small businesses will therefore be considered by reviewing findings on this matter in various studies undertaken in South Africa regarding tax compliance costs. This will help in establishing if they are an important component in assisting researchers in establishing the compliance costs for small businesses.

### **Frequency of use of tax practitioners**

The study undertaken by Upstart Business Strategies CC<sup>109</sup> in 2004 estimated that 60% of the small businesses were hiring tax practitioners.

The SBP<sup>110</sup> study done in 2005 also reported that it found that South African firms make extensive use of external professionals to help them comply with regulations.

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<sup>109</sup> 2004:36.

<sup>110</sup> 2005:49.

The UNISA<sup>111</sup> study of small and medium enterprise manufacturers in Gauteng, revealed that more small and medium manufacturers outsource (78,7%) normal income tax functions than those who handle it internally (28.0%).

SARS conducted extensive consultations with the small business sector to identify compliance burdens that could be eased without too high a cost to the fiscus. During these consultations it was estimated that approximately 95% of small and medium enterprises have to outsource at least some of their compliance issues to tax practitioners, adding significantly to the already-high cost of compliance<sup>112</sup>.

It therefore is quite evident that tax practitioners are frequently used by small businesses in South Africa. The fees paid to these practitioners will therefore form part of the taxation compliance costs for small businesses.

## **Reasons for use**

The accounting complexities of having to calculate one's income from running a business or being self-employed are such that it is very unlikely that it will be cost-effective for such taxpayers to look after all their own tax affairs. These taxpayers tend to work long hours and unless they already have qualifications or experience in accounting or taxation, the incremental time that would be required to understand the field and undertake the additional bookkeeping and calculations is unlikely to be available. Consequently, necessity forces the self-employed tradesman, farmer, shopkeeper or consultant etc. to engage an accountant even though the cost of employing such professionals is often regarded as very onerous. Once things have settled down and the taxpayer is comfortable with his/her new arrangements, the taxpayer may be prepared to resume preparation of

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<sup>111</sup> 2005:114.

<sup>112</sup> Arendse *et al.*, 2006:17.

his/her own return. Alternatively, having once enjoyed the luxury of having the work done by someone else, the taxpayer may be unwilling to once again take on the task<sup>113</sup>.

One reason given by Turner *et al.*<sup>114</sup> to explain this behaviour is that with limited leisure time available to individuals, and increasing disposable incomes, they are prepared to pay tax practitioners to complete their returns because it is quicker and more convenient than trying to learn about the requirements themselves and keep up with changes.

The study undertaken by Upstart Business Strategies CC<sup>115</sup> said the reason why small businesses use tax consultants, is because they want to focus on their business and do not want to deal with administrative activities. Some of them find complying with, for example VAT, too difficult (they do not fully understand the legislation) and therefore use tax practitioners. Nevertheless, many small businesses cannot afford a tax consultant as they are already struggling to finance their business. In these cases the director of the enterprise deals with the information obligations after working hours and during weekends.

The respondents in the UNISA<sup>116</sup> study of SME manufacturers in Gauteng, indicated the following as the main reasons for outsourcing certain tax functions:

- Own staff are unskilled in tax matters (58.7%);
- Lack of time (41.3%); and
- Outsourcing is a cheaper option than doing it internally (8.0%).

It can, therefore, be concluded that the main reasons for small businesses using tax practitioners generally stem from the lack of knowledge and/or time to comply with the

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<sup>113</sup> Turner *et al.*, 1998:98.

<sup>114</sup> 1998:99.

<sup>115</sup> 2004:35.

<sup>116</sup> 2005:118.

taxation regulations. The decision to use a tax practitioner must have an impact on the compliance costs that the taxpayer is going to incur. This impact will be examined next.

## **Impact of tax practitioner fees on compliance costs**

In South Africa, the study undertaken by Upstart Business Strategies CC<sup>117</sup> found that if a small business outsources all its information obligations to a tax practitioner, their administrative burdens are much higher than if they are dealing with it themselves, especially if they use tax software.

SBP<sup>118</sup> in its study of large and small businesses, found that overall, an average of 33% of the cost of complying with regulations is spent on professional assistance. In respect of taxation, 42% of the cost of compliance was due to professional assistance. It was again established that the tax compliance costs were a much larger percentage of total compliance costs for smaller firms.

The UNISA<sup>119</sup> study of small and medium manufacturers in Gauteng, revealed that the average cost of outsourcing their tax functions amounts to R13 445 per annum for small establishments and R21 462 per annum for medium establishments.

The use of tax practitioners by small businesses appear to be necessary for the most part and thus form part of the compliance costs for small businesses. Obtaining information about the compliance costs (including the tax practitioner's fees) can, it appears, in the majority of cases, be obtained from the tax practitioners themselves – or is this the case?

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<sup>117</sup> 2004:35.

<sup>118</sup> 2005:49.

<sup>119</sup> 2005:118.

## **Tax practitioners – why use them as respondents?**

One of the problems with small businesses is that it is not always easy to obtain information about the needs and problems of small businesses. Being obliged to answer questionnaires may give valuable information to government and researchers, but paperwork that is outside the mainstream of business is one aspect of the problem of the small business entrepreneur. For that reason, it is sometimes necessary to have recourse to data collected on small business' problems and to rely on common sense and advice from business organizations and consultative bodies to decide whether it is also applicable to small businesses<sup>120</sup>.

This problem was highlighted in the Upstart Business Strategies CC report<sup>121</sup> in which it was stated that the original plan (to measure the VAT and RSC administrative burdens faced by small businesses) was to interview a total of 40 enterprises and about 8 experts (tax specialists, accountants, and bookkeepers) for each law. However, when the fieldwork for the baseline measurement got underway, it quickly became apparent that the majority of small businesses outsource their tax work rather than performing it in-house. For this reason, the majority of small businesses referred the researchers to their external bookkeeping/tax specialists. Virtually all these external specialist were able to provide data on both the taxes under review.

It is therefore quite evident that tax practitioners are valuable tools that can assist in providing information into the research of the tax compliance costs for small businesses.

## **Conclusion**

It has been established that small businesses generally require the assistance of tax practitioners due to the fact that they neither have the time nor the expertise to perform this function themselves. Tax practitioners are therefore a valuable commodity when it

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<sup>120</sup> Commission of the European Communities, 2002:4.

<sup>121</sup> 2004:23.

comes to obtaining research information into tax compliance costs for small businesses. This is mainly due to the fact that they are employed due to the lack of expertise of their clients, the small business. Thus, approaching the owner of the small business for information regarding tax compliance costs would generally lead you directly to the tax practitioner as he/she is generally the person who has all the necessary information on the small businesses' tax affairs including costs of compliance. It is for this reason, that the tax practitioners of small business were used as respondents in this study. As mentioned previously, the small business owners will, however, still be targeted directly in the second survey that is being conducted by the National Treasury and SARS, in conjunction with USAID, the World Bank and Citizen Survey, and the results compared to the results of this survey.

## **D Research Methodology**

### **Introduction**

In order to estimate the extent of the tax compliance burden for small businesses, research was conducted among accountants and bookkeepers throughout South Africa registered with SAICA, SAIPA and the SAICB. This appendix describes the data collection methodology, the population, the research instrument and design as well as the editing, coding and capturing of the research results obtained from the study.

### **Data collection methodology**

An electronic internet-based questionnaire was selected as the research instrument with which to conduct the research. The reasons for using this medium for the data collection are as followings:

- The cost to perform this type of study was considerably lower than using other methods such as the personal interviewer-questionnaire based method;
- The time constraints for conducting this survey made the internet based questionnaire most feasible as it had the ability to reach most of the population respondents (situated country-wide) within the minimum time and at the lowest possible cost;
- The respondents of this survey are all highly qualified and educated professionals that are familiar with and regularly use the internet;
- The sensitivity of certain of the questions lend itself to an internet based questionnaire as anonymity is perceived to be ensured more than if the tax practitioner is being interviewed;
- The ease with which to prepare, send, collect, analyze and store the data – time, costs and accuracy all improved.

The participants were sent an e-mail explaining the background and purpose of the study and requesting them to kindly participate therein. As encouragement to participate, an incentive was offered. Should the respondent complete the survey, he/she would be entered into the draw to win one of the following in either computer or travel vouchers:

- First prize - R7 000
- Second prize - R3 500 (2 such prizes available)
- Third prize - R1 500 (3 such prizes available)

*(Prizes drawn as a random lottery from the pool of most comprehensively completed questionnaires).*

A web link to the electronic questionnaire was also provided on this email. The web-site not only hosted the questionnaire, but presented the participants with the letters of support for the survey issued by the following bodies/institutions:

- National Treasury/SARS
- SAICA
- SAIPA
- SAICB

The questionnaire was prepared by a team comprised of the World Bank survey experts and a South African consultant - a senior lecturer in the taxation department at the University of Pretoria. Pre-identified tax experts (from local and international universities) as well as SARS and National Treasury were selected to review the survey questionnaire for relevancy, structure, flow and content. The experts were requested to make detailed comments on each individual question. During interaction with the questionnaire, an electronic commenting process allowed the experts to comment directly about each question/screen. These comments were grouped by question and reviewed and considered by the World Bank team and the necessary changes were made accordingly.

A pilot study was then run from 15 September 2006 – 4 October 2006. Randomly selected participants from the total population (250 from SAICB, 500 from SAICA and 500 from SAIPA) were invited to participate in the study. The reason why only 250 members were selected from the SAICB is due to the fact that this organization has a significant smaller membership base than the other two professional institutions. The pilot participants were not aware that they were part of the pilot study as all the correspondence, as was to be used in final study, was presented to them. The pilot study was used to determine the true (real life) situation of how the participants interact with the electronic questionnaire and establish any potential problems that may have arisen. Pilot study duration, progress and outcome reports were compiled and reviewed in order to make the necessary changes required to the final questionnaire<sup>122</sup>. Should these changes have been more than 15%, a follow-up pilot study was planned. As the changes did not exceed the 15% limit, no follow-up pilot study was performed. The questionnaire was updated with the necessary changes obtained from the pilot study.

The final updated questionnaire was sent out to all members of each institution (other than the pilot participants) on 1 November 2006. The invitation e-mail stated that the survey would close on 20 December 2006, but it was decided to leave it open until 5 January 2007 for those respondents that were not on leave over the Christmas period. Reminder e-mails and SMS's were sent out (as set out in Appendix E) to all (with certain exceptions) participants that had not completed the survey. The World Bank team was, however, prohibited by SAICA management from sending any further reminder e-mails to all SAICA members as from 21 November 2006 due to the fact that they had emails from certain members who requested to stop receiving the reminders. Due to this a statement was inserted in all future reminders that should the participant not be a tax practitioner, that they could inform the World Bank team of this fact via e-mail and they would be unsubscribed from the survey. This option nor an unsubscribe option was not provided earlier, as this would have been an easy way out for some valid participants.

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<sup>122</sup> The majority of the changes were the time and cost scales contained in the questions. These were adjusted according to the information received from the pilot participants to ensure that the scales were more realistic and in line with the actual time spent and costs charged by the tax practitioners.

## Population

A database of all the members of SAICA (20 279), SAIPA (5 294) and the SAICB (2 174) was provided to us (27 747 participants in total). No sample was selected and the entire population, which represents many but not all tax practitioners in the country, was used. . However, after the pilot run, it became evident that the SAICA database received included overseas members (6 029) that would not be able to provide the necessary information as required in the questionnaire. Although these participants would have been taken out of the survey in either the first or second question, it was decided not to include them at all as they would not be providing any information needed. These members were therefore excluded from the final population and only local members were used as the population for SAICA.

The population was further reduced with the “unsubscribe option” that was added (refer above). A participant was thus unsubscribed due to one of the following being applicable:

- Being abroad;
- Being of an incorrect audience – retired from practice, not practicing or studying etc;
- Having invalid contact information; or
- Not being interested in the survey.

The total participants that unsubscribed amounted to 5 970 leaving a final population of 21 777.

### *Response rate*



As mentioned above, the entire population of each of the above professional institutions was selected (refer to SAICA exception above). The overall response rate of 15,75% was

calculated based on the number of successful responses (being respondents who completed at least 3 of the required modules in the questionnaire). This was calculated based on a total of 21 777 total participants of which 3 429 were successful respondents. This response rate appears to be in line with the response rates received on web surveys internationally<sup>123</sup>.

The information analyzed in this report is, however, based on a minimum of 1 797 fully completed questionnaires (8,25%). That is, of the 3 429 respondents, 1 797 are actually tax practitioners (the target group of the study) – that is they happened to have clients (other than a direct employer) with a turnover under 14 million Rand per year, do taxes for these clients, and communicate with SARS on behalf of their clients. These respondents completed at least 3 of the survey modules – the generic module, one tax module and the additional information module. The other respondents therefore were not part of the study’s target audience – that is for instance, the tax practitioner does not assist clients with a turnover under R14 million etc.

## Research instrument design

An electronic internet based questionnaire was designed for the research. This was thought to be the most appropriate due to time and financial constraints as well as the possible sensitivity of some of the information required. Questions to meet the objectives of the study were designed by the World Bank team and tax experts (including SARS and National Treasury) as described above. The questions concentrated on the time and costs involved in complying with tax legislation and included the following focus areas:

- Profile of the respondent;  **Module 1 (generic)**
- Profile of the respondent’s clients;  **Module 2 (generic)**

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<sup>123</sup> According to the Super Survey white paper on “Online survey response rates and times – Background and Guidance for Industry” by Michael Braun Hamilton, the average response rate is 13,35%. This document analyses meta-data for 199 surveys conducted using the SuperSurvey™ cluster at <http://www.supersurvey.com>.

- Time and costs involved in respect of the following (for each tax):
    - Registration;
    - Tax returns;
    - Refunds;
    - Assessment, objections and appeals;
    - Penalties and interest;
    - Audit and inspections by SARS;
    - Written queries received from SARS;
    - Keeping abreast of tax changes;
    - Communication with SARS; and
    - Deregistration
  - Record keeping;
  - Retainers;
  - Communication with SARS; and
  - Other information per tax – most burdensome aspects of dealing with SARS and most effective reform to reduce tax compliance burden.
- Modules 3 – 5 (taxes)**
- Module 7  
(additional information)**

By reading the invitation e-mail/letter, the letters of support and all other information provided on the website and then by accessing the survey, the individual provided his/her implied consent to provide this information.

The confidentiality and/or anonymity of the respondents were assured as the respondents were not requested to provide their names or any other information that can be used to identify them in person in the questionnaire, the research report or any other publications based on the study. Each respondent is identified by a respondent number only. The completed questionnaires and any other documents that are used to identify respondents are only handled by the World Bank team involved in the study and the web programmer employed by the World Bank (Blue Tub Design and Production).

From a security perspective, the whole research system had an in-built security system preventing anyone outside the target group from participating in the survey. This system also prevented the same respondent from answering the survey more than once.

Should any of the respondents experience any difficulties before or whilst completing the questionnaire, they were provided with the a support e-mail address, the e-mail address of one of the World Bank team members that assisted in drafting the questionnaire and a support hotline that they could call.

The questionnaire is attached as Appendix F.

## **Data analysis**

The data received was controlled, summarized and documented with a customized web instrument by the web programmer. This information was then exported into SPSS to be analyzed.

## **Conclusion**

The research methodology used to design, collect and capture the data was discussed in this Annexure. The population that was used for the study was also identified.

## E Reminder Schedule

### Week 1

Wednesday

1 November 2006: All Participants: Receives Invitation 27 242

### Week 2

Participants split into groups for reminders

Monday

6 November 2006: Group A: Receives reminder 9 541

Wednesday

8 November 2006: Group B: Receives reminder 8 286

Friday (Mail was send on the Thursday evening)

9 November 2006: Group C: Receives reminder 7281 + 2498

### Week 3

Monday (Mail was send on the Sunday evening)

12 November 2006: Group B: Receives reminder 8 285

Participants merged back into one group due too low response rate

Friday (Mail was send on the Thursday evening)

16 November 2006: All Participants: Receives reminder 23 606  
(Number Reduction due to Un-subscriptions & Completed)

### Week 4

Monday (Mail was send on the Sunday evening)

19 November 2006: All Participants: Receives reminder 22 656  
(Number Reduction due to Un-subscriptions & Completed)

All SAICA members removed from group

Friday (Mail was send on the Thursday evening)

23 November 2006: All Participants: Receives reminder 2 863 + 1 483

### Week 5

Gregory introduces new e-mail with embedded un-subscribe and remind me again components, only 1000 participants mailed as a proofing test

Monday (Mail was send on the Sunday evening)

26 November 2006: All Participants: Receives reminder 1 006

All participants receives new notification e-mail

Wednesday (Mail was send on the Tuesday evening)

28 November 2006: All Participants: Receives reminder 4 026

Friday (Mail was send on the Thursday evening)

30 November 2006: All Participants: Receives reminder 3 894

(Number Reduction due to Un-subscriptions & Completed)

## Week 6

Monday

4 December 2006: All Participants: Receives reminder 3 800

(Number Reduction due to Un-subscriptions & Completed)

Wednesday

6 December 2006: All Participants: Receives reminder 3 616

(Number Reduction due to Un-subscriptions & Completed)

Friday (Mail was send on the Thursday evening)

7 December 2006: All Participants: Receives reminder 3 491

(Number Reduction due to Un-subscriptions & Completed)

## Week 7

Monday

11 December 2006: All Participants: Receives reminder 3 405

(Number Reduction due to Un-subscriptions & Completed)

### First SMS reminders to 1000 participants

Tuesday

12 December 2006: All Participants: Receives reminder 1 032 SMS

(Number Reduction due to Un-subscriptions & Completed)

Wednesday

13 December 2006: All Participants: Receives reminder 499 + 2 781

(Number Reduction due to Un-subscriptions & Completed)

## Week 8

Monday

18 December 2006: All Participants: Receives reminder 3 163

(Number Reduction due to Un-subscriptions & Completed)

Wednesday

20 December 2006: All Participants: Receives reminder 1 + 3 252

(Number Reduction due to Un-subscriptions & Completed)

Last SMS reminder

Wednesday

12 December 2006: All Participants: Receives reminder 1 + 114 + 13 + 2  
619

(Number Reduction due to Un-subscriptions & Completed)

## F Survey Questionnaire

### TAX COMPLIANCE COST SURVEY TAX PRACTITIONERS: SOUTH AFRICA – NOVEMBER 2006

#### Opening screen wording:

The 2006 tax practitioner survey, carried out under the supervision of the World Bank Group at the request of the National Treasury and SARS, aims to establish the tax compliance burden for small and medium sized enterprises (SMEs) in South Africa. This survey (along with two related surveys targeted directly for formal SMEs and informal firms) is being conducted on a nationwide basis. The National Treasury and SARS plan to use the results of this study, in cooperation with the World Bank Group, as a strategic input into policy formulation with regard to the tax compliance cost of SMEs.

Your input is therefore of national importance, as it will provide the necessary data required by SARS and National Treasury for design and enactment of reforms in the area of SME tax administration by the Government and Parliament, as relevant.

In order to do this, you are requested to answer the following questions which will cover areas such as:

- the nature of your business and your experience with taxation matters and SARS
- the time and costs incurred by you when dealing with SARS on behalf of your clients
- your experience with SARS regarding the tax compliance process and how SARS can make this process easier

**PRIZES:** Should you complete this survey, you will be entered into the draw to win *one of the following in either computer or travel vouchers:*

\* **First prize - R7 000**

\* **Second prize - R3 500** (2 such prizes available)

\* **Third prize - R1 500** (3 such prizes available)

## A. PROFILE OF RESPONDENT

1. Are you providing professional services related to taxation matters to individuals or businesses in South Africa, other than the enterprise for which you work?

Yes	
No	

2. Do you interact with SARS while providing these services?

Yes	
No	

3. Are you registered as a tax practitioner with SARS?

Yes	
No	

4. Do any of your clients for whom you are providing services related to taxation matters have a turnover of less than R14 million?

Yes	
No	

5. Please state the number of full-time professional employees, **other than yourself**, in your establishment, that perform the tax compliance function for the clients of your establishment:

0	
1	
2	
3	
4	
5	
6 – 10	
11 - 15	
16 – 20	
21 – 50	
51 – 100	
More than 100 (please specify)	

6. Which province is your establishment **primarily** situated in?

Gauteng	
Mpumalanga	
Limpopo	

Free State	
North West	
Kwazulu Natal	
Eastern Cape	
Northern Cape	
Western Cape	

7. Which city of <<>>is your establishment's main office located in?

<b>Gauteng</b>
Alberton
Benoni
Boksburg
Brakpan
Germiston
Johannesburg
Krugersdorp
Nigel
Pretoria
Randburg
Randfontein
Roodepoort
Springs
Vereeniging
Other (don't specify)
<b>Mpumalanga</b>
Nelspruit
Standerton
Witbank
Other (don't specify)
<b>Limpopo</b>
Giyani
Lebowogomo
Polokwane
Sibasa
Other (don't specify)
<b>Free State</b>
Bloemfontein
Kroonstad
Welkom
Other (don't specify)
<b>North West</b>
Klerksdorp
Mmabatho
Rustenburg
Other (don't specify)
<b>Kwazulu Natal</b>

Durban
Mount Edgecomb
Pietermaritzburg
Umlazi
Other (don't specify)
<b>Eastern Cape</b>
East London
Port Elizabeth
Uitenhage
Umtata
Worcester
Other (don't specify)
<b>Northern Cape</b>
Kimberley
Other (don't specify)
<b>Western Cape</b>
Beaufort West
Belville
Cape Town
George
Oudshoorn
Other (don't specify)

8. Would you consider your office to be situated in an:

Urban area	
Rural area	

9. How many years of professional experience do you personally have in assisting clients with taxation matters?

Less than 2 years	
2 - 5 years	
6 - 10 years	
11 - 20 years	
More than 20 years	

## B. CLIENT INFORMATION

### Establishments details

10. Please state the approximate total number of **clients** that **the establishment** for whom you work has:

1 – 10	
11 – 50	
51 – 100	
101 – 500	
501 – 1 000	
More than 1 000 (please specify)	

### Respondents details

11. Please state the approximate total number of the clients that **you personally** worked with **since 1 January 2006**:

1 – 10	
11 – 20	
21 – 30	
31 – 40	
41 – 50	
51 – 100	
More than 100 (please specify)	

12. With what types of clients, according to their turnover, do **you personally** work with (please tick **all** the applicable blocks):

R1 - R 300 000	
R300 001 - R 1 000 000	
R1 000 001 - R 6 000 000	
R6 000 001 - R14 000 000	
R14 000 000 and above	

13. Of your personal clients, with a turnover of <<...<sup>124</sup>>>, what is the legal form in which these clients conduct their business (please tick **all** the applicable blocks)?

Individuals/sole proprietorships	
Companies	
Close corporations	
Trusts	
Partnerships	
Non-profit organization	
Other (please specify)	

14. Of your personal clients, with a turnover of <<...>> and who trade as <<...>>, what are the activities in which these clients conduct their business (please tick **all** the applicable blocks)?

Agriculture, forestry & fishing	
Mining and quarrying	
Manufacturing	
Construction	
Wholesale and retail trade, hotels and restaurants	
Transport, storage and communication	
Finance, real estate and business services	
Personal services	
Other (please specify)	

15. a) Based on your answers, you have at least one client who has a turnover of <<>>, who trades as <<>> and has <<>> as its primary activity. Is this correct?

Yes	
No	

- 15 b) Focusing on your personal clients with a turnover of <<>>, who trade as <<>> and have <<>> as its primary activity, do you assist them with the following taxes (please tick **all** the applicable blocks)?

Income tax <sup>125</sup>	
Provisional tax	
Employees' tax	
Value added tax	
None of the above	

<sup>124</sup> System to randomly select this category as mentioned above

<sup>125</sup> System to randomly select a tax that was selected and go to randomly selected tax module

15c) Do you assist **ANY** of your personal clients, with either income tax, provisional tax, employees' tax or value added tax?

Yes	
No	

15d) Please select the type of client, from the lists provided below, which you have the most experience with from an income tax, provisional tax, employees' tax and/or value added tax perspective.

**Turnover**

R1	- R 300 000	
R300 001	- R 1 000 000	
R1 000 001	- R 6 000 000	
R6 000 001	- R14 000 000	

**Legal entity**

Individuals/sole proprietors	
Companies	
Close corporations	
Trusts	
Partnerships	
Other (specify)	

**Activity**

Agriculture, forestry & fishing	
Mining and quarrying	
Manufacturing	
Construction	
Wholesale and retail trade, hotels and restaurants	
Transport, storage and communication	
Finance, real estate and business services	
Personal services	

## C. INCOME TAX

### Registration

16. How long does it take you to complete the necessary procedures, prepare and submit all the necessary forms in order to register your FOCUS client for income tax? (This includes all staff time spent on this activity)

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	

The following should be taken into consideration before answering this question:

- Time taken to collect/retrieve the IT 77 for registration
- Time taken to judge the relevance of all the sections of the IT 77
- Time taken to complete and submit the IT 77 for the first time assuming that everything is correct
- Time taken to copy/record the IT 77
- Time taken to provide additional information or to repeat the submission if the first submission was rejected is **excluded** from this time period

17. How long does it take you to receive an income tax registration number from SARS for your FOCUS client once all of the necessary documentation has been submitted and the necessary procedures have been completed correctly?<sup>126</sup>

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	

<sup>126</sup> Time taken to provide additional information or to repeat the submission if the first submission was rejected is **excluded** from this time period.

18. How much do you charge your FOCUS client to register for income tax?<sup>127</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

**Tax return**

19. How long does it take you to prepare, complete and submit the income tax return (IT 12 SS/ IT 12 S/ IT SB/ IT 12 BU/ IT 12 EI/ IT 12 TR (collectively referred to as (“IT 12”)) and IT14 for your FOCUS client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:	
<ul style="list-style-type: none"> <li>• Time taken to collect/retrieve the IT 12 or IT 14</li> <li>• Time taken to judge the relevance of all the sections of the IT 12 or IT 14 and be familiar with the form if changed</li> <li>• Time taken to collect the information to fill in the IT 12 or IT 14 assuming that the client already has all the information needed ready</li> <li>• Time taken to prepare and complete the IT 12 or IT 14 &amp; supporting schedules</li> <li>• Time taken to submit the IT 12 or IT 14</li> <li>• Time taken to copy/record the IT 12 or IT 14</li> <li>• This <b>excludes</b> the time taken to familiarize yourself with the obligation</li> </ul>	

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	
I do not perform this service	

<sup>127</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

20. How much do you charge your FOCUS client to <sup>128</sup>prepare, complete and submit their income tax return?<sup>129</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

21. How long does it take SARS to process a tax return for your FOCUS client assuming the form is completed correctly and submitted on time?

Less than 2 weeks	
2 weeks – 1 month	
1.01 months – 2 months	
2.01 months - 3 months	
3.01 months - 6 months	
6.01 months - 12 months	
More than 12 months (please specify)	

**Thank you for providing information about your FOCUS client, now we would like to concentrate on ALL your clients you assist with income tax matters.**

### Refunds

22. How long on average does it take your client to receive an income tax refund in his bank account?<sup>130</sup>

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	
I have no experience with this	

<sup>128</sup> This includes only charges for professional services you provide to your clients, and not eventual other costs.

<sup>129</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

<sup>130</sup> The time starts running from the day that the assessment is received from SARS

**Assessment /Objection and appeals**

23. How long on average does it take you to prepare and submit an objection to an assessment on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:	
<ul style="list-style-type: none"> <li>• Time taken to compare/reconcile the assessment to the return</li> <li>• Time taken to request reasons for the assessment should it differ from the return</li> <li>• Time taken to collect the information to fill in the ADR 1</li> <li>• Time taken to complete the ADR 1 &amp; supporting schedules</li> <li>• Time taken to submit the ADR 1</li> <li>• Time taken to copy/record the ADR 1</li> </ul>	
1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	
I do not perform this service	

24. How much on average do you charge your client to prepare and submit an objection to an assessment?<sup>131</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

<sup>131</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

25. How long on average does it take SARS to respond to the objection prepared by yourself on behalf of your client?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	

26. Please rate the following aspects of the of the **objection** process (please tick one answer in **each** row):

	Not burdensome	Burdensome	N/A
Time available to object to the assessment			
Lack of acknowledgement of receipt of objection by SARS			
Time taken by SARS to respond to objection			

Besides the aspects mentioned above, would you say that there are other burdensome aspects in the objection process?

Yes	
No	

27. Please rate the following aspects of the **alternative dispute resolution (ADR)** process (please tick one answer in **each** row):

	Not burdensome	Burdensome	N/A
Time available to <b>prepare</b> for the ADR process			
Time spent on the ADR process			
Time taken to <b>finalize</b> the ADR process			
Time taken by SARS to <b>respond</b> to the ADR process			

Besides the aspects mentioned above, would you say that there are other burdensome aspects in the ADR process?

Yes	
No	

### Penalties and interest

28. What percentage of **ALL** your clients registered for income tax, and whose turnover is less than R14 000 000, have had to pay penalties and interest on the late submission or payment of their income tax return since 1 January 2006?

0% (nobody was penalized)	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

29. How much on average did you charge your client to object to, or request that the interest and penalties be waived?<sup>132</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

29 b) How often in your opinion are the penalties and interest raised as a result of processing errors made by SARS?

Very often	Often	Sometimes	Rarely	Never
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<sup>132</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

**Audits/Inspections by SARS**

30. What percentage of **ALL** your clients that you have worked with, and whose turnover is less than R14 000 000, have been subject to a SARS audit or inspection regarding income tax since 1 January 2006?<sup>133</sup>

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

31. How long on average did it take you to prepare for an income tax audit/inspection by SARS on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to receive and read audit/inspection notification
- Time taken to collect information for audit/inspection
- Time taken to file/copy/record the responses in a format required by SARS

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	
I have not performed this service	

<sup>133</sup> It is irrelevant if you were involved in the audit/inspection or not”.

31b) How long on average did the audit/ inspection last?

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	

32. How much on average do you charge your clients to prepare and to be present for a SARS audit/inspection on their income tax affairs (this question refers specifically to an audit in respect of the income tax return)?<sup>134</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

33. How long on average did it take your client to receive a response from SARS in respect of the audit/inspection performed by it?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	
Never	

<sup>134</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

**Written Queries received from SARS**

34. What percentage of **ALL** your clients registered for income tax, and whose turnover is less than R14 000 000, have received written queries from SARS in respect of income tax since 1 January 2006?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

35. How long on average did it take you to prepare and submit the response(s) to the written income tax queries received from SARS on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to receive and read the written queries
- Time taken to collect information for the queries
- Time taken to file/copy/record the responses in a format required by SARS

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	
I did not perform this service	

36. How much on average do you charge your clients to prepare the responses in respect of the written income tax queries (that relate specifically to the income tax return) received from SARS?<sup>135</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

### Keeping abreast of tax changes

37. How much time on average does it take you **PER YEAR** to familiarize yourself with all the obligations and changes in the Income Tax laws and regulations?

Less than 1 day	
1 - 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
More than 30 days (please specify)	

### Communication with SARS

38. Please rate the following aspects of SARS' services in respect of income tax: (please select one answer in **each row**).

	Very poor	Poor	Average	Good	Very good	No experience
Personal communication						
Written communication by post						
Written communication by fax						
Telephonic communication						
Email communication						
Technical knowledge of SARS personnel						
Timeliness in communications of changes in regulations						

<sup>135</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

## D. PROVISIONAL TAX

### Registration

39. How long does it take you to complete the necessary procedures, prepare and submit all the necessary forms in order to register your FOCUS client for provisional tax? (This includes all staff time spent on this activity)

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	
I do not perform this service	

The following should be taken into account when answering this question:

- Time taken to write the necessary letter for registration
- Time taken to complete the necessary letter and submit it
- Time taken to copy/record the necessary letter
- Time taken to provide additional information or to repeat the submission if the first submission was rejected is **excluded** from this time period

40. How much do you charge your FOCUS client to register for provisional tax?<sup>136</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

<sup>136</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average

**Tax return**

41. How long does it take you to prepare, complete and submit each of the following for your FOCUS client: (This includes all staff time spent on this activity)

First provisional tax payment	Second provisional tax payment	Third provisional tax payment
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The following should be taken into account when answering this question:

- Time taken to collect/retrieve the IRP 6
- Time taken to judge the relevance of all the sections of the IRP 6 and be familiar with the IRP 6 if changed
- Time taken to collect the information to fill in the IRP 6 assuming that the client already has all the information needed ready
- Time taken to complete the IRP 6 & supporting schedules
- Time taken to submit the IRP 6
- Time taken to copy/record the IRP 6
- This **excludes** the time taken to familiarize yourself with the obligation

	1st	2nd	3rd
1 hour or less			
1.01 hours - 2 hours			
2.01 hours - 3 hours			
3.01 hours - 4 hours			
4.01 hours - 5 hours			
5.01 hours - 6 hours			
6.01 hours - 7 hours			
7.01 hours - 8 hours			
More than 8 hours (please specify)			
I do not perform this service			

42. How much do you charge your FOCUS client to prepare, complete and submit each of the following provisional tax returns?<sup>137</sup>

First provisional tax payment	Second provisional tax payment	Third provisional tax payment
-------------------------------	--------------------------------	-------------------------------

	1st	2nd	3rd
R0 – R100			
R101 – R200			
R201 – R300			
R301 – R500			
R501 – R1 000			
R1 001 – R2 000			
R2 001 – R3 000			
More than R3 000 (please specify)			

**Thank you for providing information about your FOCUS client, we now would like you to concentrate on ALL your clients you assist with provisional tax matters.**

<sup>137</sup> 1) This includes only charges for professional services you provide to your clients, and not eventual other costs.

2) Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

**Penalties and interest**

43. What percentage of **ALL** your clients registered for provisional tax, and whose turnover is less than R14 000 000, have had to pay penalties and interest on the late submission, payment or underestimation of their provisional tax return/s since 1 January 2006?

0% (nobody was penalized)	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

44. How much on average did you charge your client to object to, or request that the interest and penalties be waived?<sup>138</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

44b) How often in your opinion are the penalties and interest raised as a result of processing errors made by SARS?

Very often	Often	Sometimes	Rarely	Never
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**Keeping abreast of tax changes**

45. How much time on average does it take you **PER YEAR** to familiarize yourself with all obligations and changes in the provisional tax laws and regulations?

Less than 1 day	
1 - 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
More than 30 days (please specify)	

<sup>138</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average

### Communication with SARS

46. How long on average does it take SARS to update its records if there has been a change in the taxpayer's provisional tax status – that is if you are or are not required to be registered as a provisional taxpayer?

1 – 2 days
3 - 5 days
6 - 10 days
11 - 20 days
21 – 30 days
31 – 60 days
More than 60 days (please specify)
No experience with this matter

47. Please rate the following aspects of SARS' services in respect of provisional tax: (please select one option in **each row**).

	Very poor	Poor	Average	Good	Very good	No experience
Personal communication						
Written communication by post						
Written communication by fax						
Telephonic communication						
Email communication						
Technical knowledge of SARS personnel						
Timeliness in communications of changes in regulations						

**Deregistration for provisional tax**

48. How long on average does it take you to assist your client to deregister for provisional tax? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to draft the de-registration letter to SARS
- Time taken to collect the information to complete the letter
- Time taken to complete and submit the letter
- Time taken to copy/record the letter
- Time taken to follow up with SARS the status of the deregistration application
- This **excludes** the time taken to familiarize yourself with the obligation

1 – 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
31 – 60 days	
More than 60 days (please specify)	
No experience with this matter	

**E. VALUE ADDED TAX  
Registration**

49. How long does it take you to complete the necessary procedures, prepare and submit all the necessary forms in order to register your FOCUS client for value added tax? (This includes all staff time spent on this activity)

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 48 hours	
48.01 hours - 72 hours	
More than 72 hours (please specify)	
I do not perform this service	

The following should be taken into account when answering this question:<sup>139</sup>

- Time taken to collect/retrieve the VAT 101 for registration
- Time taken to judge the relevance of all the sections of the VAT 101
- Time taken to complete and submit the VAT 101
- Time taken to copy/record the VAT 101
- Time taken to provide additional information or to repeat the submission if the first submission was rejected is **excluded** from this time period

<sup>139</sup> This information should be provided in the form either here, or in a drop down box etc, if not left in here specifically, as some of these costs may be overlooked by practitioners.

50. How long does it take you to receive a VAT registration number from SARS for your FOCUS client once all of the necessary documentation has been submitted and all the necessary procedures have been completed correctly?<sup>140</sup>

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	

51. How much do you charge your FOCUS client to register for value added tax?<sup>141</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

52. How much do you charge your FOCUS clients to notify SARS of any changes in your clients VAT registration period?<sup>142</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

<sup>140</sup> Time taken to provide additional information or to repeat the submission if the first submission was rejected is excluded from this time period.

<sup>141</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

<sup>142</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

### Tax return

53. How long does it take you to prepare, complete and submit the value added tax return (VAT 201) for your FOCUS client per VAT period? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to collect/retrieve the form
- Time taken to judge the relevance of all the sections of the form and be familiar with the form if changed
- Time taken to collect the information to fill in the form assuming that the client already has all the information needed ready
- Time taken to complete the form & supporting schedules
- Time taken to submit the form
- Time taken to copy/record the form
- This **excludes** the time taken to familiarize yourself with the obligation

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
More than 16 hours (please specify)	
I do not perform this service	

54. How much do you charge your FOCUS client to prepare, complete and submit one value added tax period's return?<sup>143</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

<sup>143</sup> 1) This includes only charges for professional services you provide to your clients, and not eventual other costs.

2) Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

55. How long does it take SARS to process a VAT return for your FOCUS client assuming the form is completed correctly and submitted on time?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	

**Thank you for providing information about your FOCUS client, now we would like to concentrate on ALL of your clients you assist with value added tax matters.**

### Refunds

56. Among **ALL**<sup>144</sup> your VAT registered clients what percentage have had a VAT refund due to them as calculated on their VAT returns, since 1 January 2006?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

57. How long on average does it take your client to receive a VAT refund in his bank account should your client legally be entitled to a refund?

1 – less than 2 weeks	
2 – less than 3 weeks	
3 - less than 4 weeks (1 month)	
1 month to less than 2 months	
2 months to less than 3 months	
3 months to less than 6 months	
6 months to less than 1 year	
1 year to less than 2 years	
2 years or more (please specify)	
I have no experience with this	

<sup>144</sup> This includes all your clients that have a VAT refund due to them irrespective of whether or not they have actually received it OR if you were involved in the VAT refund procedure.

58. How much on average do you charge your clients to assist in following up a VAT refund that is due to them?<sup>145</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I have no experience with this	

**Assessment /Objection and appeals**

59. How long on average does it take you to prepare and submit an objection to an assessment on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to compare/reconcile the assessment to the return
- Time taken to request reasons for the assessment should it differ from the return
- Time taken to collect the information to fill in the ADR 1 form
- Time taken to complete the ADR 1 & supporting schedules
- Time taken to submit the ADR 1
- Time taken to copy/record the ADR 1

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours or more (please specify)	
I do not perform this service	

<sup>145</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

60. How much on average do you charge your client to prepare and submit an objection to an assessment?<sup>146</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

61. How long on average does it take SARS to respond to the objection prepared by yourself on behalf of your client?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	

62. Please rate the following aspects of the **objection** process (please tick one option in **each row**):

	Not burdensome	Burdensome	N/A
Time available to object to the assessment			
Lack of acknowledgement of receipt of objection by SARS			
Time taken by SARS to respond to objection			

Besides the aspects mentioned above, would you say that there are other burdensome aspects in the objection process?

Yes	
No	

<sup>146</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

63. Please rate the following aspects of the **alternative dispute resolution (ADR)** process (please tick one option in **each row**):

	Not burdensome	Burdensome	N/A
Time available to <b>prepare</b> for the ADR process			
Time available to <b>attend</b> the ADR process			
Time taken to <b>finalize</b> the ADR process			
Time taken by SARS to <b>respond</b> to the ADR process			

Besides the aspects mentioned above, would you say that there are other burdensome aspects in the appeal process?

Yes	
No	

#### **Penalties and interest**

64. What percentage of ALL your VAT registered clients that you have personally worked with, and whose turnover is less than R14 000 000, have had to pay penalties and interest on the late submission or payment of their value added tax return since 1 January 2006?

0% (nobody was penalized)	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

65. How much on average did you charge your client to object to, or request that the interest and penalties be waived?<sup>147</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

65b) How often, in your opinion, are the penalties and interest raised as a result of processing errors made by SARS?

Very often	Often	Sometimes	Rarely	Never
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#### **Audits/Inspections by SARS**

66. What percentage of **ALL** your VAT registered clients, and whose turnover is less than R14 000 000, have been subject to a SARS audit or inspection regarding VAT since 1 January 2006?<sup>148</sup>

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

<sup>147</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

<sup>148</sup> “It is irrelevant if you were involved in the audit/inspection or not”.

67. How long on average did it take you to prepare for a VAT audit/inspection by SARS on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to be receive and read audit/inspection notification
- Time taken to collect information for audit/inspection
- Time taken to file/copy/record the responses in a format required by SARS

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	
I do not perform this function	

67 b) How long on average did the inspection/audit last?

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	

68. How much on average do you charge your clients to prepare and be present for a SARS audit/inspection on their value added tax affairs (specifically value added tax return)?<sup>149</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

69. How long on average did it take you to receive a response from SARS in respect of the audit/inspection performed by it?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	
Not applicable	

#### Written Queries received from SARS

70. What percentage of ALL your VAT registered clients, and whose turnover is less than R14 000 000, have received written queries from SARS in respect of VAT since 1 January 2006?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

<sup>149</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

71. How long on average did it take you to prepare the response/s to the written VAT queries received from SARS on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to receive and read the written queries
- Time taken to collect information for the queries
- Time taken to file/copy/record the responses in a format required by SARS

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	
I did not perform this service	

72. How much on average do you charge your clients to prepare a response to the written queries on their value added tax affairs (specifically value added tax return)?<sup>150</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

### Keeping abreast of tax changes

73. How much time on average does it take you PER YEAR to familiarize yourself with all the obligations and changes in the VAT laws and regulations?

Less than 1 day	
1 - 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
More than 30 days (please specify)	

<sup>150</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

### Communication with SARS

74. Please rate the following aspects of SARS' services in respect of VAT: (please select **one** option in **each row**).

	Very poor	Poor	Average	Good	Very good	No experience
Personal communication						
Written communication by post						
Written communication by fax						
Telephonic communication						
Email communication						
Technical knowledge of SARS personnel						
Timeliness in communications of changes in regulations						

### Deregistration for value added tax

75. What percentage of **ALL** your VAT registered clients that you have personally worked with have deregistered for VAT since 1 January 2006?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

76. How long on average does it take you to assist your client to deregister for value added tax? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to collect/retrieve the de-registration form (VAT 123) from SARS
- Time taken to collect the information to fill in the form
- Time taken to complete and submit the form
- Time taken to copy/record the form
- Time taken to follow up on the status of the deregistration with SARS
- This **excludes** the time taken to familiarize yourself with the obligation

1 – 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
31 – 60 days	
More than 60 days (please specify)	
I do not perform this service	

## F. EMPLOYEES' TAX

### Registration

77. How long does it take you to complete the necessary procedures, prepare and submit all the necessary forms, in order to register your FOCUS client for employees' tax? (This includes all staff time spent on this activity)

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	

The following should be taken into account when answering this question:

- Time taken to collect/retrieve the EMP 101 form for registration
- Time taken to complete and submit the EMP 101
- Time taken to copy/record the EMP 101

78. How long does it take you to receive a registration number for employees' tax from SARS for your FOCUS client once all of the necessary documentation has been submitted and the necessary procedures have been completed correctly?<sup>151</sup>

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	

<sup>151</sup> Time taken to provide additional information or to repeat the submission if the first submission was rejected is **excluded** from this time period.

79. How much do you charge your FOCUS client to register for employees' tax?<sup>152</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

**Tax return (EMP 201)**

80. How long does it take you to prepare, complete and submit the monthly employees' tax return for your FOCUS client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to collect/retrieve the EMP 201
- Time taken to judge the relevance of all the sections of the EMP 201 and be familiar with it if changed
- Time taken to collect the information to fill in the EMP 201
- Time taken to complete the EMP 201 & supporting schedules assuming that the client already has all the information needed ready
- Time taken to submit the EMP 201
- Time taken to copy/record the EMP 201
- This **excludes** the time taken to familiarize yourself with the obligation

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	
I do not perform this service	

<sup>152</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

81. How much do you charge your FOCUS client to prepare, complete and submit their monthly employees' tax return?<sup>153</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

82. How long does it take you to prepare, complete and submit your FOCUS client's employees' tax reconciliation at the end of February each year? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to collect/retrieve the form
- Time taken to judge the relevance of all the sections of the form
- Time taken to collect the information to fill in the form
- Time taken to prepare and complete the form & supporting schedules assuming that the client has all the information needed ready for you
- Time taken to submit the form
- Time taken to copy/record the form

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
More than 8 hours (please specify)	
I do not perform this service	

<sup>153</sup> 1) This includes only charges for professional services you provide to your clients, and not eventual other costs.

2) Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

83. How much do you charge your FOCUS client to prepare, complete and submit their annual employees' tax reconciliation?<sup>154</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

**Thank you for providing information about your FOCUS client, now we would like you to concentrate on ALL your clients you assist with employees' tax matters.**

**Penalties and interest**

84. What percentage of **ALL** your clients registered for employees' tax, and whose turnover is less than R14 000 000, have had to pay penalties and interest on the late submission or payment of their employees' tax return since 1 January 2006?

0% (nobody was penalized)	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

85. How often, in your opinion, are the penalties and interest raised as a result of processing errors made by SARS?

Very often	Often	Sometimes	Rarely	Never
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<sup>154</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average

86. How much on average did you charge your client to object to, or request that the interest and penalties be waived?<sup>155</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

### Audits/Inspections by SARS

87. What percentage of **ALL** your clients registered for employees' tax, and whose turnover is less than R14 000 000, have been subject to a SARS audit or inspection regarding employees' tax since 1 January 2006?<sup>156</sup>

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

88. How long on average did it take you to prepare for an employees' tax audit/inspection by SARS on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:

- Time taken to be receive and read audit/inspection notification
- Time taken to collect information for audit/inspection
- Time taken to file/copy/record the responses in a format required by SARS

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	

<sup>155</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

<sup>156</sup> "It is irrelevant if you were involved in the audit/inspection or not".

8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 48 hours	
48.01 hours or more (please specify)	
I do not perform this service	

88b) How long on average did the inspection/audit last?

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	

89. How much on average do you charge your clients to prepare and be present for a SARS audit/inspection on their employees' tax affairs (specifically in respect of the employees' tax return)?<sup>157</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	
I do not perform this service	

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<sup>157</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

90. How long on average did it take you to receive a response from SARS in respect of the audit/inspection performed by it?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	
Never	

**Written Queries received from SARS**

91. What percentage of **ALL** your clients registered for employees’ tax that you have worked with, and whose turnover is less than R14 000 000, have received written queries from SARS in respect of employees’ tax since 1 January 2006?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

92. How long on average did it take you to prepare the response/s to the written employees’ tax queries received from SARS on behalf of your client? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:	
<ul style="list-style-type: none"> <li>• Time taken to receive and read the written queries</li> <li>• Time taken to collect information for the queries</li> <li>• Time taken to file/copy/record the responses in a format required by SARS</li> </ul>	

1 hour or less	
1.01 hours - 2 hours	
2.01 hours - 3 hours	
3.01 hours - 4 hours	
4.01 hours - 5 hours	
5.01 hours - 6 hours	
6.01 hours - 7 hours	
7.01 hours - 8 hours	
8.01 hours – 16 hours	
16.01 hours – 24 hours	
24.01 hours – 36 hours	
36.01 hours – 48 hours	
48.01 hours or more (please specify)	
I did not perform this service	

93. How much on average do you charge your clients to prepare the responses in respect of the written employees' tax queries (specifically EMP 201) received from SARS?<sup>158</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

#### Keeping abreast of tax changes

94. How much time on average does it take you **PER YEAR** to familiarize yourself with all the obligations and changes in the employees' tax laws and regulations?

Less than 1 day	
1 - 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
More than 30 days (please specify)	

#### Communication with SARS

95. Please rate the following aspects of SARS' services in respect of employees' tax: (please select **one** option in **each row**).

	Very poor	Poor	Average	Good	Very good	No experience
Personal communication						
Written communication by post						
Written communication by fax						
Telephonic communication						
Email communication						
Technical knowledge of SARS personnel						

<sup>158</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

Timeliness in communications of changes in regulations						
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**Deregistration for employees' tax**

96. What percentage of ALL your clients that you have personally worked with, have deregistered for employees' tax as from 1 January 2006?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
More than 30% (please specify)	

97. How long on average does it take you to assist your client to deregister for employees' tax? (This includes all staff time spent on this activity)

The following should be taken into account when answering this question:	
<ul style="list-style-type: none"> <li>• Time taken to collect/retrieve the de-registration form (EMP 123/T) from SARS</li> <li>• Time taken to collect the information to fill in the form</li> <li>• Time taken to complete and submit the form</li> <li>• Time taken to copy/record the form</li> <li>• Time taken to follow up on the status of the deregistration with SARS</li> </ul>	
Less than 1 day	
1 - 2 days	
3 - 5 days	
6 - 10 days	
11 - 20 days	
21 – 30 days	
More than 30 days (please specify)	
I do not perform this service	

## G. ADDITIONAL INFORMATION

### Record keeping

98. What percentage of your FOCUS clients have requested you to assist them with completing/maintaining their accounting and bookkeeping records

0	
0.01% – 10%	
10.01% – 30%	
30.01% – 50%	
50.01% - 70%	
70.01% - 90%	
More than 90% (please specify)	

99. How much on average did you charge your FOCUS client PER MONTH for assisting it to complete/maintain its accounting and bookkeeping records?<sup>159</sup>

R0 – R100	
R101 – R200	
R201 – R300	
R301 – R500	
R501 – R1 000	
R1 001 – R2 000	
R2 001 – R3 000	
More than R3 000 (please specify)	

### Retainer

100. Do any of your FOCUS clients pay you in the form of a retainer for all taxation services?

Yes	
No	

101. How much on average is the retainer per month received from your FOCUS client?

Less than R500	
R500 – R1 000	
R1 001 – R1 500	
R1501 – R2 000	
R2 001 – R3 000	
R3 001 – R4 000	
R4 001 – R5 000	
R5 001 – R10 000	
R10 001 – R20 000	
R20 001 – R30 000	

<sup>159</sup> Even if your charge is time based and dependent upon each specific situation, please try to estimate what you charge your clients on average.

R30 001 – R40 000	
R40 001 – R50 000	
Above R50 000	

**We now would like you to provide us with your perceptions of SARS in respect of your general day to day operations with them**

**Communication with SARS**

102. How long on average does it take SARS to update its records after notification of a change in the taxpayers' address has been submitted?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	
No experience	

103. What is the average time you are “on hold” before a SARS representative answers your telephone calls?

Never put on hold	
Less than 5 minutes	
5 - 10 minutes	
11 - 15 minutes	
16 - 20 minutes	
21 - 30 minutes	
31 minutes or more	
I never call SARS	

104. What is the average number of calls to SARS prior to an enquiry being addressed sufficiently?

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
More than 10	

105. What is the average time waited at SARS' premises prior to being attended to by a SARS official without an appointment?

I never go to SARS	
Less than 5 minutes	
5 - 10 minutes	
11 - 15 minutes	
16 - 20 minutes	
21 - 30 minutes	
31 - 60 minutes (1 hour)	
More than 60 minutes (1 hour) (please specify)	
N/A – I always make appointments	

106. How long on average does it take SARS to respond to written correspondence?

Less than 1 week	
1 week – less than 2 weeks	
2 weeks – less than 3 weeks	
3 weeks – less than 4 weeks (1 month)	
1 month – less than 2 months	
2 months – less than 3 months	
3 months – less than 6 months	
6 months or more (please specify)	
No experience	

### Other information

107. a) What do you think would be the **single** most effective **reform** to reduce the **VAT** compliance burden?

Reform	VAT
No experience with this tax	
Reduce penalties and interest charges	
Simplified registration procedures	
Simplified deregistration procedures	
Ability to register and change personal details online	
Direct access to SARS assessors	
Higher mandatory VAT registration thresholds	
Lower optional VAT registration thresholds	
Decentralize most of the SARS decision-making powers to SARS regional offices	
Other (specify)	

107. b) What do you think would be the **single** most effective **reform** to reduce the **Income Tax** compliance burden?

<b>Reform</b>	<b>Income Tax</b>
No experience with this tax	
Reduce penalties and interest charges	
Ability to register and change personal details online	
Direct access to SARS assessors	
Special simplified income tax regime for small businesses	
Decentralize most of the SARS decision-making powers to SARS regional offices	
Other (specify)	

107. c) What do you think would be the **single** most effective **reform** to reduce the **Provisional Tax** compliance burden?

<b>Reform</b>	<b>Provisional tax</b>
No experience with this tax	
Reduce penalties and interest charges	
Ability to register and change personal details online	
Direct access to SARS assessors	
Special simplified tax regime for small businesses	
Decentralize most of the SARS decision-making powers to SARS regional offices	
Other (specify)	

107. d) What do you think would be the **single** most effective **reform** to reduce the **Employees' Tax** compliance burden?

<b>Reform</b>	<b>Employees' Tax</b>
No experience with this tax	
Reduce penalties and interest charges	
Ability to register and change personal details online	
Direct access to SARS assessors	
Special simplified tax regime for small businesses	
Decentralize most of the SARS decision-making powers to SARS regional offices	
Other (specify)	

108. What tax do you think would be the most burdensome to comply with for taxpayers with a turnover **under** R14,000,000?<sup>160</sup>

Income Tax	
Value Added Tax	
Provisional Tax	
Employees' Tax	
Other (specify)	

109. What do you think would be the single most effective reform to reduce the **total tax compliance burden** for small businesses?

[Open ended question in a big box]	
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110. Select the single most burdensome aspect of dealing with SARS on behalf of any one of your clients in respect of .....

- Income tax

No experience in dealing with this tax	
Cannot register if the person does not have a bank account	
Call centre inefficiencies and lack of knowledge by call centre personnel	
Capturing and processing errors by SARS and time taken to correct these errors	
Loss of documentation by SARS when proof of receipt has been obtained by taxpayer	
Penalties and interest incorrectly raised by SARS	
Waiting period for assessments and refunds from SARS	
Reconciling the assessment to the tax return	
Other (specify)	

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<sup>160</sup> Compliance involves the following:

- the value of time spent by business managers and staff on understanding the tax rules and applying them;
- interacting with the SARS to clarify matters arising; and
- the payments made for the expertise of professional advisers.

- Provisional tax

No experience in dealing with this tax	
Deregistration process – time taken to deregister and/or deregistering by SARS without notification thereof to the taxpayer	
Call centre inefficiencies and lack of knowledge by call centre personnel	
Capturing and processing errors by SARS and time taken to correct these errors	
Loss of documentation by SARS when proof of receipt has been obtained by taxpayer	
Penalties and interest incorrectly raised by SARS	
No confirmation received from SARS when estimates used the taxpayer are changed by SARS	
Reconciling the assessment to the tax return	
Other (specify)	

- VAT

No experience in dealing with this tax	
Deregistration process – time taken to deregister	
Period taken to register as a VAT vendor and time taken to be notified of such registration	
Call centre inefficiencies and lack of knowledge by call centre personnel	
Capturing and processing errors by SARS and time taken to correct these errors	
Loss of documentation by SARS when proof of receipt has been obtained by taxpayer	
Waiting period for assessments and refunds from SARS	
Reconciling the assessment to the tax return	
Other (specify)	

- Employees' tax

No experience in dealing with this tax	
Time taken to receive IRP 5 and IT3(a) books from SARS	
Call centre inefficiencies and lack of knowledge by call centre personnel	
Capturing and processing errors by SARS and time taken to correct these errors	
Loss of documentation by SARS when proof of receipt has been obtained by taxpayer	
Penalties and interest incorrectly raised by SARS	
SARS contacts your client directly regarding "missing" returns	
Reconciling the assessment to the tax return	
Other (specify)	

111. In practically all countries around the world, some businesses prefer to stay informal, that is, to avoid registering for and paying taxes. Please try and estimate what percentage of South Africa businesses in each of the following turnover categories decide to stay informal?

Turnover	%
R1 - R 300 000	
R300 001 - R 1 000 000	
R1 000 001 - R 6 000 000	
R6 000 001 - R14 000 000	
R14 000 001 and above	

112. Could you please estimate what percentage of South African businesses (firms and sole proprietors who are registered with SARS) in the following turnover categories use tax practitioners to assist them with taxation matters?

	%
R72 000 - R 300 000	
R300 001 - R 1 000 000	
R1 000 001 - R 6 000 000	
R6 000 001 - R14 000 000	
R14 000 001 and above	

113. Why do you think those that opt not to use tax practitioners do so?

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114. What % of your efforts generally relate to re-work as a result of errors, inadequate information, incomplete disclosures, lack of the correct supporting documentation etc on the part of taxpayers?

0%	
0.01 – 2%	
2.01 – 5%	
5.01 – 10%	
10.01 – 20%	
20.01 – 30%	
30.01% - 40%	
40.01% - 50%	
60.01% - 70%	
70.01% - 80%	
80.01% - 90%	
More than 90% (please specify)	

**Overall comments**

115. Do you want to send a message to SARS?

Yes	
No	

116. Do you want to send a message to the authors of this survey?

Yes	
No	

117. We would like to have your opinion about the length of this survey. Would you say this survey is:

Not too long	
Somewhat long but manageable	
A little too long	
Too long	
Extremely long	

118. Would you be interested to become a part of a group of experts who will be asked to respond to similar survey questionnaires on a regular basis (approximately once a year)?

Yes	
No	

**Thank you for completing the tax practitioner survey 2006. Your name and details have been entered into the lucky draw. If you are willing to provide us with your valuable answers concerning another tax type, please click on one of the options below:**

<b>Income Tax</b>	
<b>Provisional Tax</b>	
<b>Employees' Tax</b>	
<b>Value Added Tax</b>	

## **G Limitations to the study**

The first limitation to this particular survey report is that the small businesses themselves were not approached. This could result in a bias against those small businesses that chose to perform the tax compliance functions themselves without the assistance from tax practitioners (according to anecdotal evidences, about one third of small business do not hire tax practitioners). However, reasons for using tax practitioners is documented in chapter one and Appendix C and a separate survey is currently in the process of being designed and implemented by the National Treasury, SARS, the World Bank and USAID, and to determine the small businesses' views and estimates on the tax compliance burdens and costs faced by them. Once these results have been obtained, a comparison will be able to be drawn between the two surveys and conclusions and recommendations reached.

The second limitation to the study is the fact that not all the taxes imposed on small businesses were covered in the study. This is mainly due to cost and time constraints. The four key taxes were, however, chosen and investigated. The questions regarding employees' tax could potentially be overstated as certain tax practitioners might have answered the questions on employees' tax taking into account the time and costs in respect of UIF and SDL. This could be the case due to the fact that the registration, processing of the tax return and payment for employees' tax is combined with UIF and SDL in one system. However, should this be the case, it can still be argued that the overstatement is by no means material. It is envisaged that all the other taxes could be estimated based on other analyses, and/or would not have any material effect on the results set out in this document. It is recommended though, should time and budget constraints permit, that a study of this nature be done covering all the taxes to obtain a complete picture of the tax compliance burden for small businesses.

The third limitation could be seen to be the fact that the rural areas are under-represented in the survey results (only 11% of the respondents considered themselves to be from a rural area). Using an electronic based questionnaire, might further have limited the response from these areas. However, as the respondents of this study were tax practitioners and not small businesses, it is possible that the tax practitioners, although they might not be situated in a rural area themselves, could be representing small businesses that are in actual fact situated in rural areas.

The fourth limitation to the study is that respondents were asked not for exact costs but for estimates of the costs – thus the possibility that there is some degree of inflation and deflation of the costs cannot be excluded. The costs provided by the respondents could possibly be inflated as it is assumed that tax practitioners would want to inflate their difficulties and complain about tax regulations in order to get SARS to reduce them. However, a counter-argument against this would be that the tax practitioners would not want to inflate their costs, as this could imply loss of income - should the tax compliance costs be proved to be excessive for small businesses and a simplified tax regime for small businesses, for instance, be imposed, this could result in less assistance required from the tax practitioners by the small businesses and thus less income for them. From the results of this survey, it does, however, appear that there is no major inflation or deflation by the tax practitioners as most of the responses fell within what can be regarded as reasonable intervals.

The fifth limitation could be that some types of businesses are more represented in this survey than others. Respondents in most of the questions were asked to give information about their “focus clients” – a client selected randomly from the pool of all the tax practitioners’ clients. These clients were characterized by turnover, legal form and business activity. Thus the full range of possible answers has potentially not necessarily been obtained from these respondents. However, the situation where all tax practitioners answered the questionnaire based on the information in respect of their clients with

whom they work the majority of the time with and have the most experience with, was avoided by means of this random selection process.