Tax compliance costs

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Define Tomorrow.

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The effect of tax compliance costs on SMMEs/Entrepreneurs

A South African perspective
BACKGROUND

STATISTICS
- Unemployment 26%
- Challenges:
  - Funding
  - Access to markets
  - Labour laws
  - Crime
  - Lack of skills
  - Regulatory compliance burden

INCENTIVES
- Integrated SB Development Strategy:
  - Increase financial support (SEDA, SEFA, NYDA, TIA, NEF)
  - Create a demand for SMME products & services (BBEEE codes)
  - Reduce regulatory constraints
TAX SYSTEM

Tax compliance

Administrative costs (Revenue Authority)

Tax compliance costs (Taxpayers)
TAX SYSTEM

Tax compliance

Administrative costs (Revenue Authority)

- Improve ease & fairness of transacting with Revenue Authority

Tax compliance costs (Taxpayers)

- Taxpayer Bill of Rights
- Constitution
- SARS Service Charter
## Cost of revenue collection

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax revenue collected (R million)</th>
<th>SARS’ internal operating costs (R million)</th>
<th>SARS’ cost of collection (% of tax revenue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13</td>
<td>813 826</td>
<td>8 696</td>
<td>1.07%</td>
</tr>
<tr>
<td>2013/14</td>
<td>900 015</td>
<td>8 702</td>
<td>0.97%</td>
</tr>
<tr>
<td>2014/15</td>
<td>966 295</td>
<td>9 523</td>
<td>0.97%</td>
</tr>
<tr>
<td>2015/16</td>
<td>1 069 983</td>
<td>10 245</td>
<td>0.96%</td>
</tr>
<tr>
<td>2016/17</td>
<td>1 144 081</td>
<td>10 696</td>
<td>0.93%</td>
</tr>
</tbody>
</table>

OPERATING COST OF TAX SYSTEM

ADMINISTRATIVE
(Revenue Authority)

1%

TAX COMPLIANCE
(Taxpayers)

?
Do tax compliance costs matter?

- Diminish business resources without raising income =>
  - waste of economic resources, reduces entrepreneurship
  - passed onto individuals in form of lower salaries, lower returns on investments & higher prices on products

- Assess *efficiency* of tax regime => tax complexity

- Affects *tax compliance behavior* => tax evasion
What are TCCs & how are they calculated?

1. **Internal**: Time spent by owner/staff
   - Various methodologies

2. **External**: Advisors’ time
   - Actual cost

3. **Incidental**: Stationery, training, software etc.
   - Actual cost
Findings

• **Individuals** – preliminary findings (TCCs high)

• **Small businesses** – TCCs high and regressive
  – SB’s unaware of incentives

• **Medium businesses** – ?

• **Large business** – ?

• **Complexity** of law and operational procedures
Recommendations
Recommendations

1. **Operational:**
   Improve education & outreach to SMMEs & Revenue Authority staff

2. **Operational:**
   Make e-filing easier & introduce app with zero data fees

3. **Policy:**
   Perform regular TCC surveys: measure effect of reforms on TCCs

4. **Policy:**
   Do RIA’s on all new legislation
FUTURE RESEARCH

- Continual TCC studies
- Determine best education & outreach practices
- Review effectiveness of small business tax concessions
- Simplify operational procedures
Legislative complexity

Considerations:
1. Layout and length of legislation
2. Readability

Gunning Fog Index:
Estimates the years of **formal education** a person needs **to understand** the text on the *first reading*.

**General rule:**
- Wide audience text: need a fog index less than 12.
- Near-universal understanding text: need an index < 8.

**Example:**
- Fog index = 12
- This requires the reading level of a United States high school senior (around 18 years old).
EXAMPLE:

MEDICAL TAX CREDITS (s6A and s6B)

Words = 1324
Punctuation marks = 33
Words with > 3 syllables = 186

Gunning Fog Index = 21.67

17 = reading level of college graduate student
FUTURE RESEARCH

- Continue further TCC studies
- Determine best education & outreach practices
- Review effectiveness of small business tax concessions
- Simplify operational procedures
- Review complexity of legislation
Thank you