

Tax compliance costs

Prof Sharon Smulders



Define Tomorrow.

UNISA





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

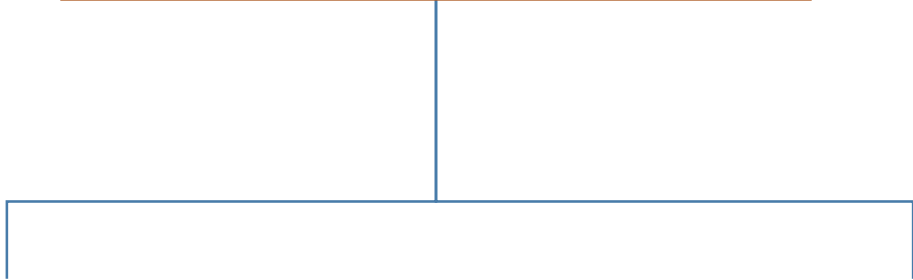




TAX SYSTEM



Tax compliance

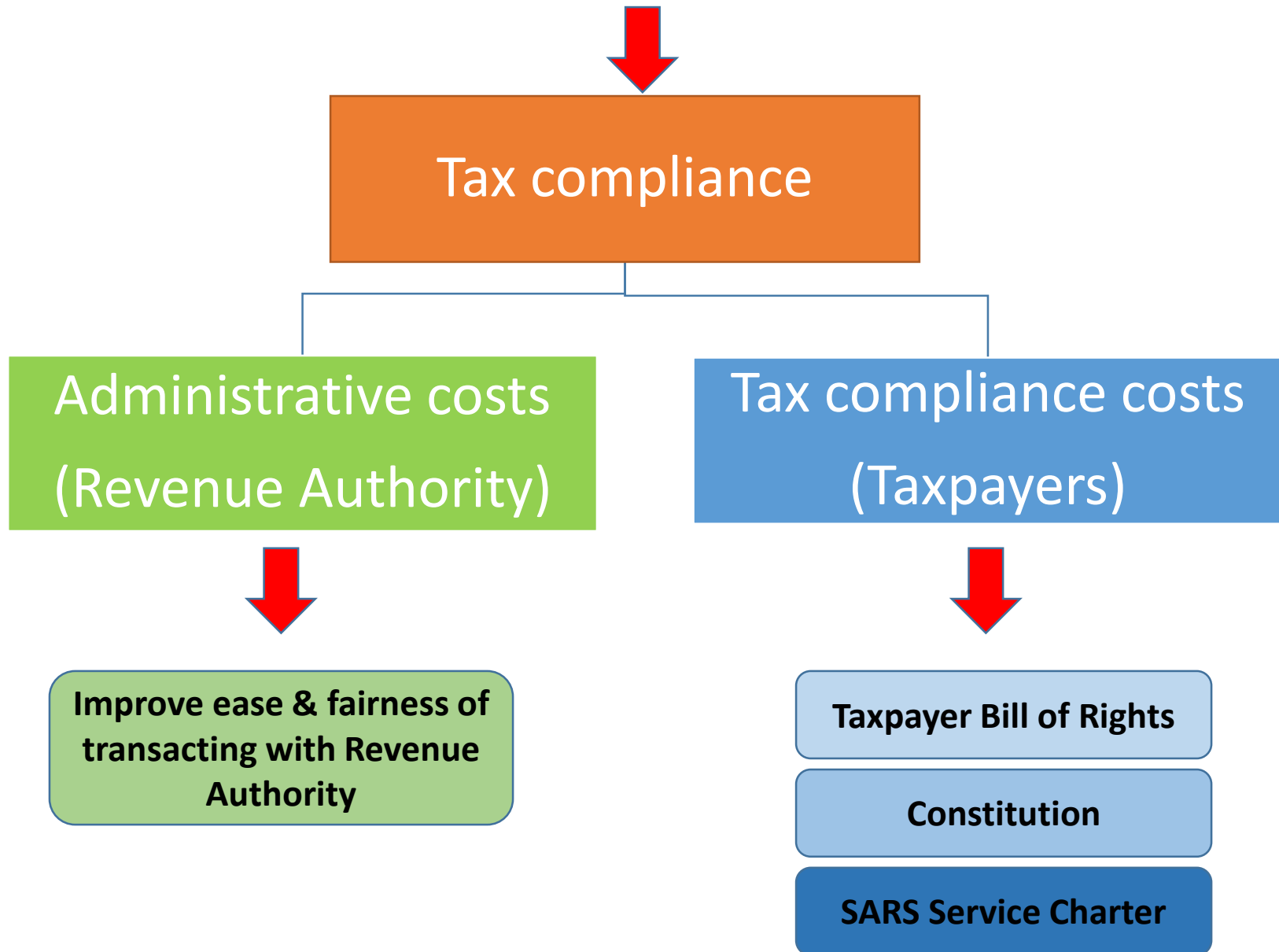


Administrative costs
(Revenue Authority)

Tax compliance costs
(Taxpayers)



TAX SYSTEM



Cost of revenue collection

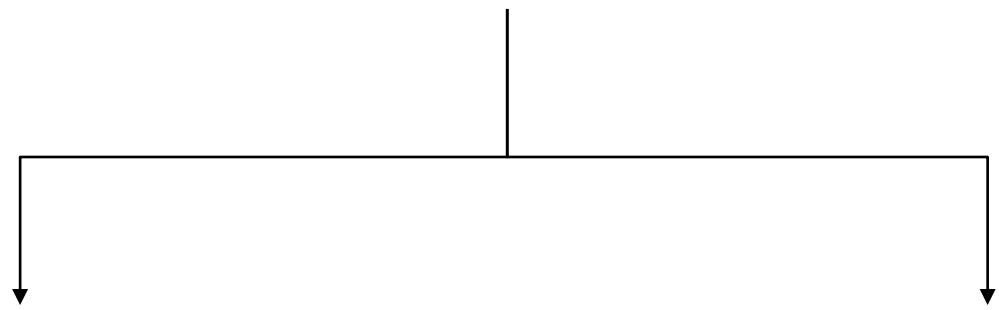


	Tax revenue collected (R million)	SARS' internal operating costs (R million)	SARS' cost of collection (% of tax revenue)	
2012/13	813 826	8 696	1.07%	} 1%
2013/14	900 015	8 702	0.97%	
2014/15	966 295	9 523	0.97%	
2015/16	1 069 983	10 245	0.96%	
2016/17	1 144 081	10 696	0.93%	

Source: National Treasury & SARS (2017:14).



OPERATING COST OF TAX SYSTEM



ADMINISTRATIVE
(Revenue Authority)

TAX COMPLIANCE
(Taxpayers)

1%

?

Do tax compliance costs matter?

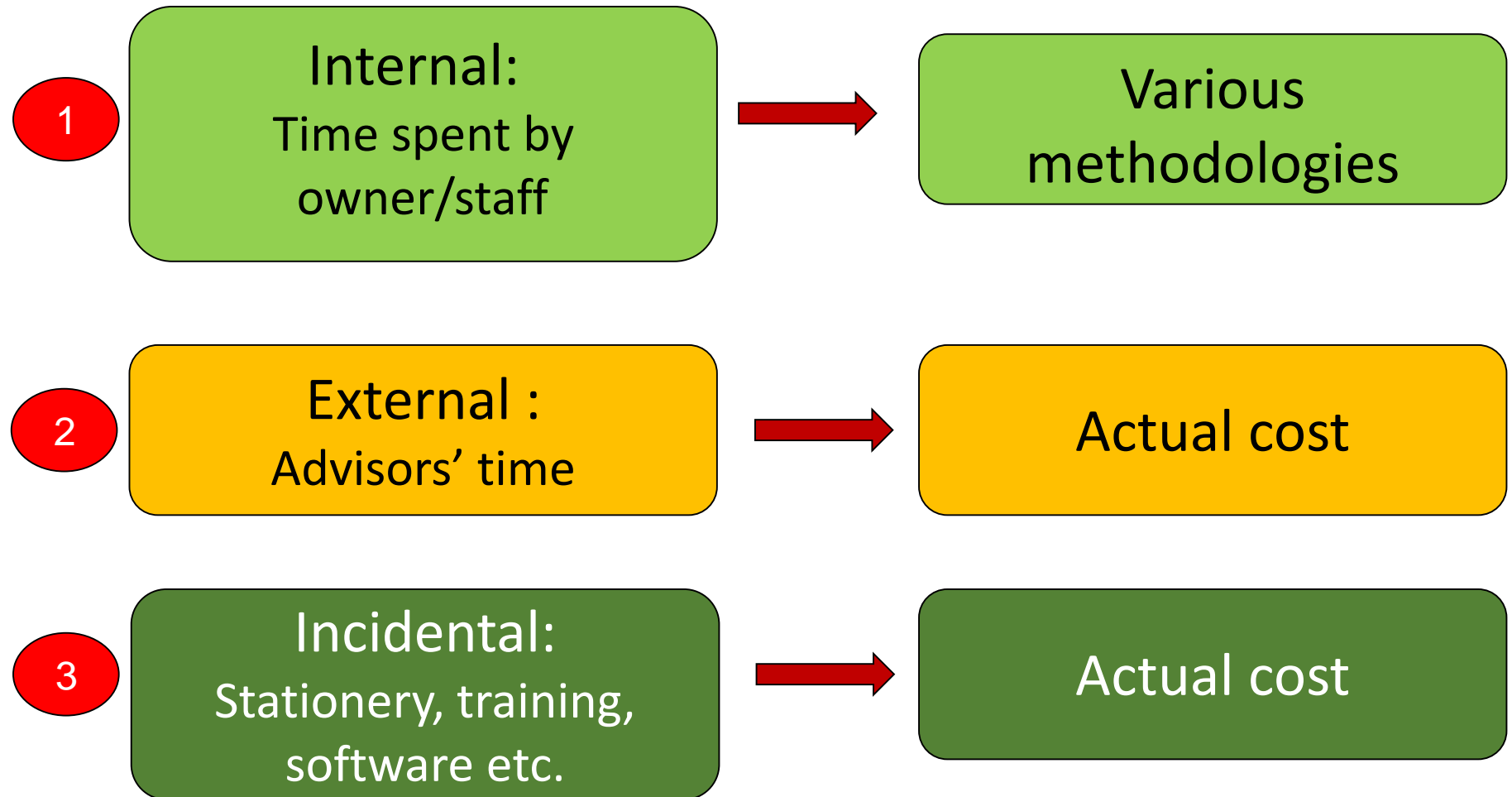
- ❑ Diminish business resources without raising income =>
 - waste of economic resources, reduces entrepreneurship
 - passed onto individuals in form of lower salaries, lower returns on investments & higher prices on products

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

- ❑ Affects *tax compliance behavior* => tax evasion



What are TCCs & how are they calculated?





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



NB!

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).

Legislative complexity

EXAMPLE:

MEDICAL TAX CREDITS
(s6A and s6B)

Words = 1 324

Punctuation marks = 33

Words with > 3 syllables = 186

Gunning Fog Index = 21.67

17 = reading level of college graduate student

COMPLEX



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**

Define Tomorrow.

UNISA



college of
accounting sciences