

PERCEPTIONS OF TAXATION: A COMPARATIVE STUDY OF DIFFERENT POPULATION GROUPS IN SOUTH AFRICA

Prof R. Oberholzer

Department of Taxation

University of Pretoria

South Africa

Telephone: +27 12 420 4983

e-mail: ruanda.oberholzer@up.ac.za

Prof E.M. Stack

Department of Taxation

University of Pretoria

South Africa

e-mail: e.stack@ru.ac.za

HIGHLIGHTS OF THE STUDY

- South Africa is a country of diverse cultures, languages, beliefs and backgrounds.
- A multifaceted approach is needed in order to understand and influence the large number of factors that play a role in individual behaviour.
- Different population groups may have different perceptions towards taxation.
- In order to create a more positive tax culture, government could possibly focus more strongly on educating the various population groups about the importance of paying their taxes.
- In addition, the South African government should evaluate their corporate communication strategies on a regular basis in order to determine the most effective manner in which to communicate tax issues with its citizens.

Abstract

South Africa is a country of diverse cultures, languages, beliefs and backgrounds. It is conceivable that these different population groups may have differing perceptions of taxation resulting from their cultural backgrounds or even their political and social histories. These perceptions may, in turn, influence their attitudes towards tax compliance. It is, therefore, argued that in order to change taxpaying behaviour, perceptions must be first be identified, and then influenced in a positive way towards tax compliance

This study extends prior research by investigating and comparing taxpayers' perceptions amongst the four major South African population groups (that is, Black/African, Indian, Coloured and White).

The data for this study was collected from a sample of 260 South African taxpayers by means of face-to-face interviews, based on a questionnaire, compiled from an extensive literature review. The scope of the study was limited as it focused only on natural taxpayers within the Tshwane metropolitan area (which includes Pretoria, the capital city of South Africa) in Gauteng, as the purpose was not to generalise conclusions to the entire South African population.

It was found that different population groups in South Africa may have different perceptions towards taxation. In order to create a more positive tax culture, government could possibly focus more strongly on educating the various population groups about the importance of paying their taxes. A multifaceted approach is needed in order to understand and influence the large number of factors that play a role in individual behaviour.

Keywords:

South African taxpayers, Population groups, Perceptions of taxation, Tax evasion

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1. Introduction

Taxes have been levied in South Africa since 1914. Every year the Minister of Finance presents the annual budget, in which the total intended government expenditure for the following year is detailed. During this process, the manner of funding the expenditure is also indicated. Government expenditure in South Africa is predominantly funded by means of revenue generated from tax levies (Mohr, Van der Merwe, Botha & Inggs, 1988:79-91; Venter, Hamel & Stiglingh, 2004:4).

A significant tax gap exists in South Africa. The tax gap merely portrays the wedge between economic reality and a purely legal construct called statutory taxes (Franzoni, 1998:3). A figure of R30 billion is often quoted in the press as the extent of the gap (Cokayne, 2002:6; Kemp, 2002; Leuvennink, 2003:1; Mabanga, 2004:11; Temkin, 2002:3;

Temkin, 2003:1). Kemp (2002) is of the opinion that individual taxpayers make up the vast majority of the “tax gap”.

South Africa is a country of diverse cultures, languages, beliefs and backgrounds. It is conceivable that these different population groups may have differing perceptions of taxation resulting from their cultural backgrounds or even their political and social histories. These perceptions may, in turn, influence their attitudes towards tax compliance. This study, therefore, attempted without any pre-conceived ideas or expectations, to assess the perceptions about taxation amongst the different population groups in South Africa.

South African taxpayers, for the purpose of this study, included natural persons from the four major South African population groups who were twenty-one years and older. This study made use of the term *taxpayers* despite the fact that some natural persons might not have been liable for income tax, as their income was below the tax threshold. All natural persons, however, pay tax when purchasing goods and services and, therefore, contribute towards government income.

This study, therefore, aimed to determine whether the perceptions about taxation are different amongst the various population groups in South Africa.

This research makes a contribution to existing research as only limited research on taxpayers’ perceptions has been conducted within a South African context.

2. Literature Review

The reasons for evading taxes have been explored by both economists and psychologists. In order to establish the theoretical basis, an extensive literature review was conducted and prior research on various aspects relating to tax evasion was analysed.

2.1 Why do people evade taxes? – an economist’s viewpoint

Allingham and Sandmo’s (1972:338) classical model of tax evasion assumes that behaviour is influenced by factors such as the tax rate (which determines the benefits of evasion), the penalties for fraud, as well as the probability of detection (which determine the cost). For example, in Great Britain only 400 serious tax fraud investigations take place a year (out of a taxpaying population of 30 million), resulting in only 60 successful prosecutions a year (Accountancy, 2004:103).

Taxpayers contemplating tax fraud may well calculate that the chance of being caught is very remote. Allingham and Sandmo (1972:324) state that given the low probability of being audited in many countries and the comparatively low penalties for those being caught evading, rational and selfish taxpayers would decide to evade or underreport taxable income. The classical model, therefore, predicts that both the probability of

detection as well as the severity of penalties will affect evasion. It would be logical to infer that if detection is likely and penalties severe, then people will be more compliant.

Over the years a number of extensions have been made to the classical model. One of these extensions defined the interactive (game-playing) models (Benjamini & Maital, 1985:245-264; Corchon (1984, in Webley, Robben, Elffers & Hessing, 1991:10)). Further models incorporate the idea of limited rationality (Jackson & Milliron, 1986:125-165; Kahneman & Tversky, 1979:263-291; Kahneman & Tversky, 1984:341-350; Schadewald, 1989:68-84).

The interactive models stem from the recognition that a taxpayer is not taking decisions in isolation and that there are other “players” in the “game”. The revenue authorities can clearly alter the probability of detection and the penalty rate. The behaviour of other taxpayers may also be relevant. A taxpayer’s reputation may suffer if he is caught evading in a population largely comprised of non-evaders. On the other hand, a taxpayers’ reputation may be unaffected or even be enhanced if the majority of people evade taxes (Webley *et al.*, 1991:10).

In the Corchon model (described by Cowell 1990:122), the tax situation is treated as a two-person game involving the taxpayer and the authorities. The taxpayer has two choices - either to comply or not to comply. The authorities also have two choices - they can investigate the taxpayer or not. Clearly there is no simple equilibrium in this model. If the taxpayer is complying, it is best for the authorities not to waste money investigating. On the other hand, if taxpayers are aware that the authorities are not investigating, it is best for the taxpayer not to comply. Equilibrium exists if both parties use mixed strategies. In this situation, the probability of evasion increases with the marginal cost of investigation and decreases with the size of the penalty for evasion.

An extension to the Corchon model takes into account the behaviour of other taxpayers, involving certain social psychological variables such as stigma, reputation and social norms. The details of this model developed by Benjamini and Maital (1985:245-264) are somewhat technical but it is sufficient to say that it has multiple stable equilibria. In a homogeneous population everybody either evades or is completely honest. More realistically, in a heterogeneous population, members of certain groups will generally evade whilst members of other groups will generally be honest. Vogel (1974:512) also confirms that group support appears to be important in the formation of attitudes towards tax evasion. Taking this into account, Cowell (1990:113) suggests that this implies that the decision about evasion is a process where a person first decides whether to be honest or not, and then proceeds to the finer calculations of how much to evade.

Treating decisions as a two-stage process is also found in approaches that hypothesise limitations to rationality. The best known of these approaches is Kahneman and Tversky's (1979:263-291; 1984:341-350) prospect theory. People who observe that the tax rate is lower than their reference tax rate derive utility from this. Kahneman and Tversky (1979:263; 1984:343) argue that people make choices in two stages.

In the first stage, the *problem-editing phase*, the individual reformulates options so that the subsequent choice is simplified. This editing consists of operations that transform the probabilities and outcomes, such as simplification (for example, rounding a probability of 0,49 to 0,50) and segregation (decomposing a choice into a more or less risky option). An important part of this process is the framing of outcomes (prospects) as gains or losses relative to some reference point, rather than as final states of wealth or utility.

In the second phase, the *evaluation phase*, the individual evaluates each of the edited prospects and chooses the prospect with the highest value. In this stage the individual will use a utility function that is convex for losses, concave for gains, and steeper for losses than for gains. This implies that when sure gains are involved individuals will tend to avoid risks, whereas they will be willing to take risks to avoid sure losses. It also implies that individuals will take different decisions depending on how problems are framed.

Tversky and Kahneman (1981:453) provide a common example of prospect theory. In this example subjects are asked to imagine that the United States is threatened with an unusual disease that is expected to kill 600 people. A choice has to be made between two interventions. The first of these gives a certain outcome - 200 people will live and 400 will die. The second is risky - there is a one in three chance that 600 people will live (no people will die) and a two in three chance that no people will live (that is, 600 will die). The option that most people choose depends on how the problem is framed. If the situation is presented as a gain (for example, 200 people will be saved versus a one in three chance of 600 being saved) the majority of respondents chose the certain option. Conversely, if it is presented as a loss (that is, 400 people will die) the risky choice is more popular.

The relevance of this to tax evasion has been noted by a number of researchers (Jackson & Milliron, 1986:152; Schadewald, 1989:69) and is discussed in greater depth by Smith and Kinsey (1987:648). There are several factors that implicate framing in tax decisions. For instance, tax that has to be paid has greater utility than tax that is already withheld. It is also noted that the majority of taxpayers in the United States seem to prefer having more withheld than is strictly necessary. This implies that in a system where tax is withheld by the authorities, individuals who expect a refund and perceive this as a gain would avoid

the risks associated with evasion. On the other hand, those expecting to pay yet more tax (a certain loss) would be more likely to take the risky alternative and evade tax.

2.2 Why do people evade taxes? – a social psychological viewpoint

Two kinds of theories exist to explain why people evade paying tax. The first of the two groups are integrative models of the taxpaying process, based on a wide knowledge of the literature and designed to introduce some new ideas. These are sometimes referred to as theories but are rather regarded as frameworks (and are sometimes so named by their authors) within which data about taxpaying and evasion can be organised. Some of the best examples would include the models of Lewis (1982:160,226), Groenland and Van Veldhoven (1983, in Webley *et al.*, 1991:13) and Smith and Kinsey (1987:651-657).

At best these models give one a feel for the crucial variables involved in evasion and how they might be interrelated. At the very least, these models are reminiscent of the information-processing models of consumer behaviour found in marketing texts, with a multitude of little boxes connected by arrows that are solid and dotted. The second kind is a rather straightforward application of a social psychological theory to tax evasion (Kaplan, Reckers & Reynolds, 1986:461-467).

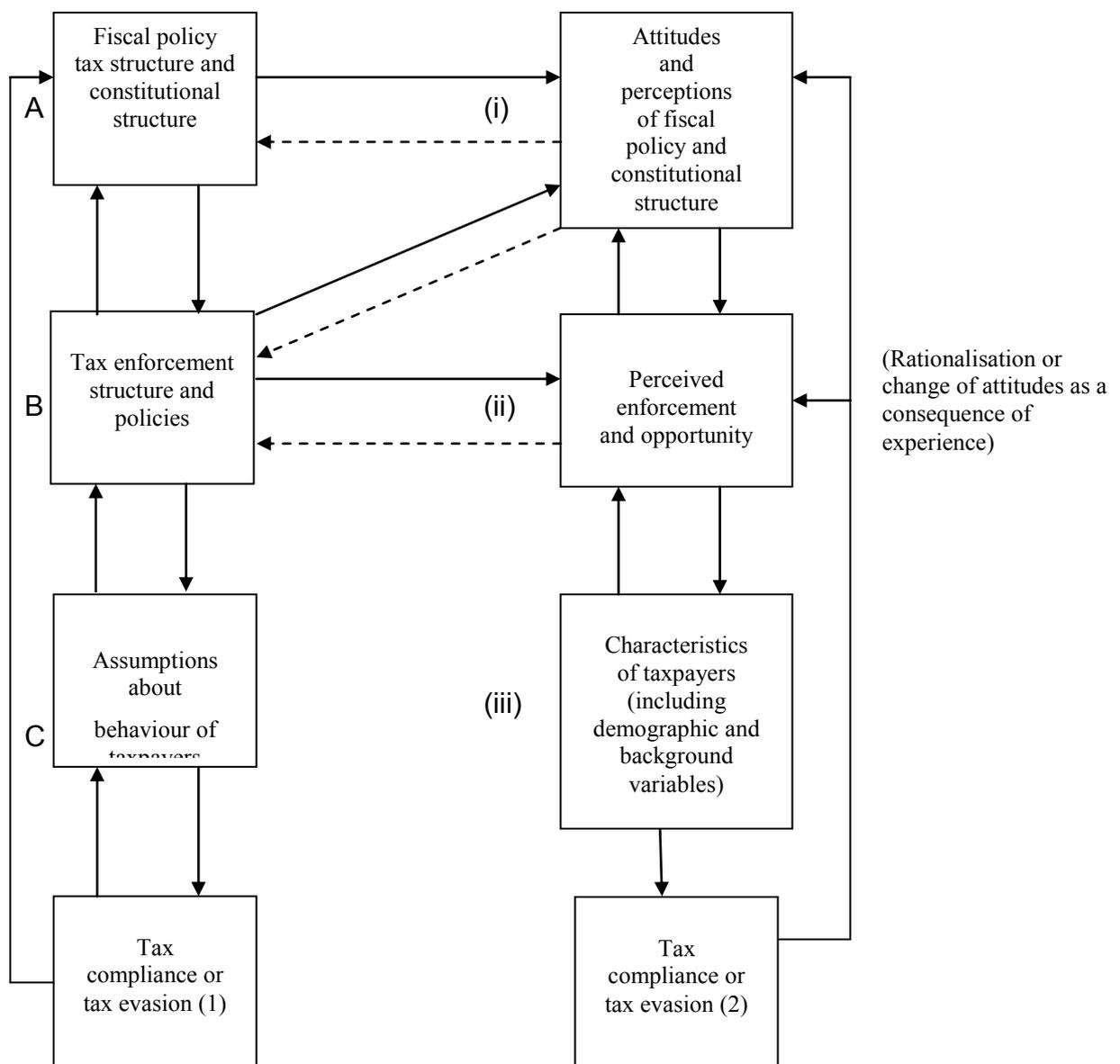
In his book, "The psychology of taxation", Lewis (1982:vii) reviewed the entire scope of research into taxation and drew insights from a variety of disciplines. He was particularly concerned to fuse psychology and economics. Lewis (1982:160,226) suggests two models - one which brings together the concerns of the individual and the concerns of the authorities, and the other which focuses on the relationship between tax attitudes and tax behaviour. Webley *et al.* (1991:14) summarise Lewis's two models, the first as a conceptual map. As far as the authorities are concerned, three factors are regarded as important in this model:

- government's fiscal policy;
- tax enforcement policy; and
- policy makers' assumptions about taxpayers.

The tax enforcement structure partly determines the level of evasion, which itself affects fiscal policy makers' assumptions. On the individual side, another three factors are described. These are *fiscal attitudes and perceptions* (which include the individual's support for government policies, perceptions of the tax system and burden, feelings of alienation and inequity), *perceptions of enforcement and opportunity*, and *characteristics of the taxpayers* (demographics and personality traits). These all interact to affect the decision as to whether to evade tax or not.

The two sides (governmental and individual) also affect each other. Fiscal attitudes and perceptions are partly a result of actual government policy, and actual enforcement structure also affects perceived opportunities for evasion. Conversely, the attitudes and perceptions of taxpayers feed into fiscal and enforcement policy. Tax enforcement structures will, therefore, be linked in some way with people's views as to whether they can evade taxes and get away with it. Vogel (1974:501) mentions that taxpayers' attitudes are no doubt closely connected with perceptions about the degree of distributive justice codified in a particular tax system.

Figure 1: A revised model of tax evasion



Source: Lewis, A. 1982. *The psychology of taxation*. Oxford: Martin Robertson, p. 172.

Lewis's second model, concerning the relationship between tax attitudes and tax behaviour, provides more detail on how decisions (whether governmental or individual) are reached. Lewis (1982:172) suggests that demographic variables, attitudes towards the government and tax inspectors, as well as personality traits, influence a person's attitude to tax behaviour. Lewis does, however, point out the difficulty of actually testing this model as it relates to a behaviour that is private and illegal. Figure 1 below is a diagrammatic representation of Lewis's view on tax evasion.

This diagrammatic representation can be divided down the centre to give two descriptions of tax compliance. The first (1) describes a structure that incorporates elements of the theoretical approaches of economists and political economists, and the second (2), psychological and sociological perspectives.

According to Lewis (1982:172) these two approaches are not completely separate and may indeed be considered to exist in parallel to one another with points of overlap - points that must be strengthened if our understanding of tax compliance is to be improved.

The main thrust of this model is that effective tax policies must take account of the links between the two approaches and be responsive to these tax attitudes and perceptions.

Groenland and Van Veldhoven (1983, in Webley *et al.*, 1991:17) put forward a tentative framework that fused *ad hoc* approaches with attitude-behaviour models. Individual differences and situational characteristics interact to affect attitude towards (and knowledge of) the tax system, which, in turn, affects the disposition to evade. These dispositions and situational characteristics then have direct effects on actual behaviour. Three different kinds of situational characteristics are discussed, namely, *opportunity*, *socio-economic factors* and the *tax system*. These are all seen as having the potential, directly and indirectly, to affect evasion. Thus, the particular configuration of the tax system will provide opportunities for evasion for certain tax groups and influences attitudes towards it.

In outlining their approach Smith and Kinsey (1987:642) make a number of valid points. They argue that it is equally important to understand what factors motivate compliance as well as which factors motivate evasion. Secondly, many analyses of evasion focus on the preferences and intentions of taxpayers and largely ignore the social context. Thirdly and finally, they highlight that all past research has assumed that non-compliance is the result of a conscious and deliberate decision by taxpayers. Their model, therefore, highlights that in many situations non-compliance may simply be the result of inertia and that people probably do not take a single decision to evade. It is more likely that through a series of

actions, such as keeping good records or “guesstimating” expenses, they end up complying (or not complying).

Smith and Kinsey (1987:645) present a flow chart, which shows what factors shift people from their habitual behaviour to consciously taking a decision and forming intentions. In general, aspects of the social context such as tax reform, changes in the economy, and changes in salary will make taxes more salient. People will then move through three stages, namely, *diagnostic* (in which the situation is defined), *action* (in which intentions are formed) and *implementation* (in which they decide how to carry out intentions).

Smith and Kinsey (1987:652) continue by emphasising that people are seen as weighing four clusters of factors in forming intentions: *material consequences*, *normative expectations*, *socio-legal attitudes* and *expressive factors*. This is done in prospect theory terms (that is, decisions are framed in terms of gains and losses from some initial reference point). These authors consider two kinds of opinions - these include opinions about the goals that are dependent on taxes (that is, government spending), and those that concern the tax system itself. They believe that attitudes towards goals have indirect effects that work through attitudes towards the system itself. Expressive factors or “psychic costs” have a direct effect on intentions. These are simply the subjective costs and benefits involved with taxpaying, such as the frustration involved in completing tax forms.

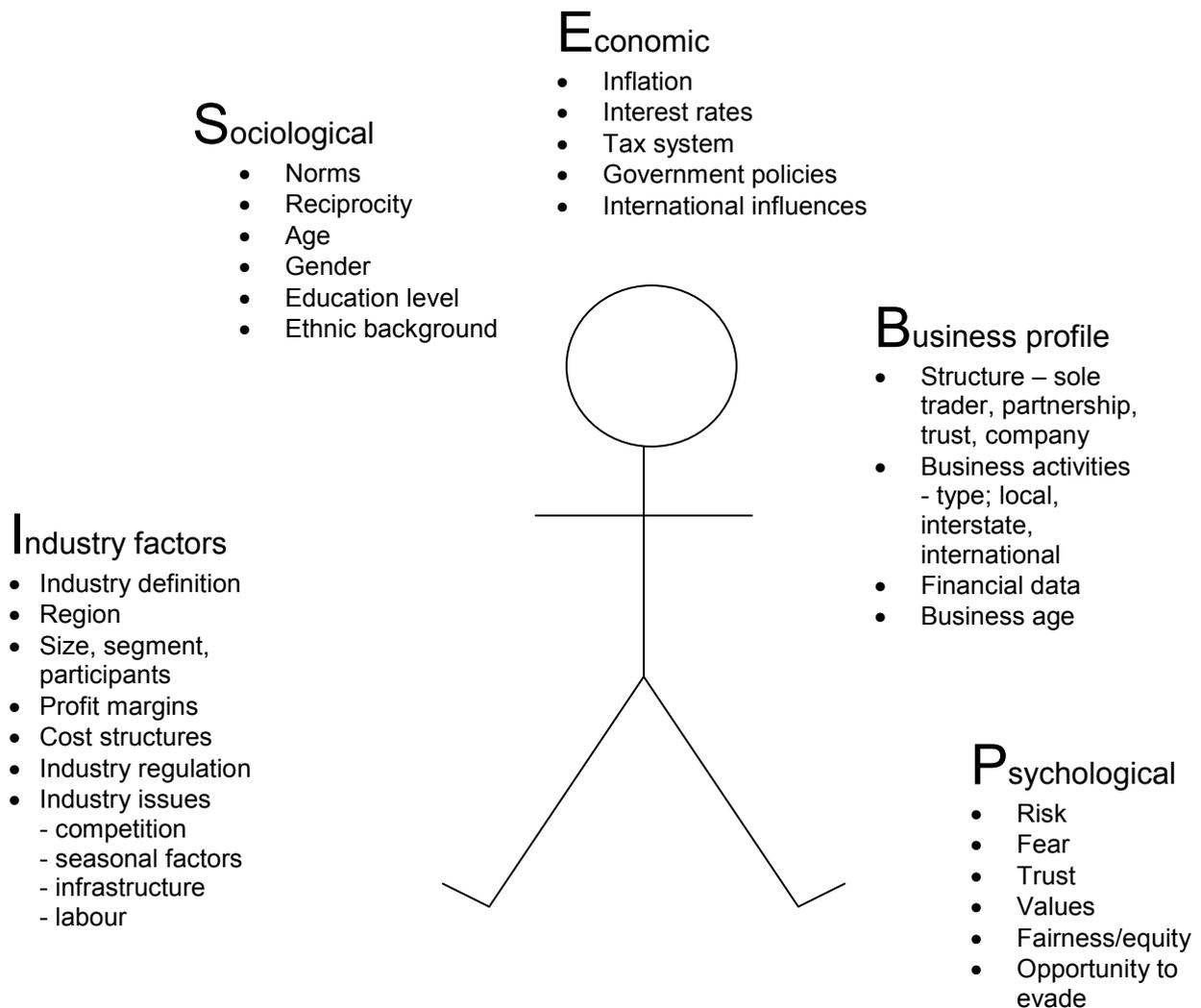
Finally Kaplan *et al.* (1986:461-476) base their respective theories on attribution theory. *Attribution theory* is concerned with how people make sense of their social world by attributing causes to one thing or another. These authors substantiate their viewpoint by mentioning that people do things either because they *have to* (environmental cause) or because they *want to* (internal cause). They additionally claim that several principles in attribution theory may be useful in formulating hypotheses concerning tax evasion.

Their research indicated that certain socio-psychological processes influence the perception of tax evasion behaviour of others and the stated propensity to engage in evasion behaviour. For example, if many people evade tax, the fact that a particular individual is noncompliant tells you little about that person. The individual would be seen as less responsible and, therefore, a lesser punishment is appropriate. Similarly, if individuals cheated only on their taxes and in no other context, this would lead to an attribution to the tax situation (based on its “distinctiveness”). In addition, it is pointed out that increased trust in government results in higher tax morale and thus lessens the likelihood of non-compliance.

The Australian Cash Economy Task Force (1998:18) conducted an extensive review of compliance literature whilst compiling its second report to the Australian Tax Office. The

research to date has revealed that taxpayer compliance decisions can be affected by factors that can broadly be categorised as psychological, sociological, economic and industrial. Figure 2 is a schematic presentation of these variant factors.

Figure 2: Factors influencing a taxpayer's compliance decision



Source: Australian Cash Economy Task Force. 1998. *Improving tax compliance in the cash economy*. [Online] Available from: <http://ctsi.anu.edu.au/publications/ATOPubs/improving%20tax%20compliance.pdf> [Accessed: 2005-03-31]. p.18.

The Australian Cash Economy Task Force (1998:19) considers that none of these factors stand alone as the sole reason for a taxpayer's behaviour, and equally, it is not possible to identify which factors in combination may influence the behaviour of any one particular person. This makes it difficult to study a taxpayer's attitude towards taxation (Fallan, 1999:173-184).

3. Methodology

This was an exploratory study and an interrogation/communication approach was followed as the data was collected from respondents by means of interviews using a questionnaire as the measuring instrument.

As trained fieldworkers merely recorded the responses as indicated by the respondents without any manipulation of variables taking place, an *ex post facto* design was followed. The study was descriptive as it revolved around determining the likelihood (how much) that taxpayers' (who) perceptions with regard to taxation would influence their attitudes towards tax compliance (what) in Tshwane (where) during February 2006 (when) (Cooper & Schindler, 2003:146-149).

As data was only collected on one occasion, this was a cross-sectional study. The study was also a statistical study and was designed for breadth rather than depth. It attempted to highlight a sample of South African taxpayers' perceptions with regard to taxation and made numeric inferences based on the data obtained. The research was also performed under field conditions as it was conducted under actual environmental conditions (Cooper & Schindler, 2003:149-150).

3.1 Sampling

3.1.1 Target population

The universe for the sample included residents who were twenty-one years and older of the White, Coloured, Indian and Black/African population groups (that is, the four major South African population groups as defined by Statistics South Africa (2004:1)) residing in the Tshwane metropolitan area (which includes Pretoria, the capital city of South Africa).

3.1.2. Sampling

Due to constraints such as time, budget and geographic distances, it was not possible to collect data from the entire population of South African taxpayers. Therefore, a census was not conducted, and a sample was drawn from the four selected South African population groups (Cooper & Schindler, 2003:179; Du Plooy, 2002:100).

A sample of South African taxpayers was selected from the greater Tshwane metropolitan area. This target area was selected, not only for reasons of convenience and cost, but also because it is an area that includes all the selected population groups, from many different age groups, who speak a variety of languages and represent a wide range of earnings (that is, from those who have no income to those who are extremely wealthy). The Tshwane metropolitan area also includes people who differ vastly in their educational

background and employment status. This area was thus not only selected for practical purposes, but also because it represents a heterogeneous population.

A sample size of 260 South African taxpayers was selected from this area. For this particular study, in order to comply with statistical requirements, a minimum sample size of 200 would have been acceptable. To improve the results of the study and because the budget allowed for this, a sample size of 260 was feasible. This was considered to be an appropriate sample size by leaders of and committees who approved the research project (that is, the Research, Post-graduate and Ethics Committees).

A *probability sampling* approach was employed in the study as the population elements were randomly selected based on a controlled procedure and each population element had a known and equal chance of selection (Cooper & Schindler, 2003:183). The study followed the most important form of cluster sampling known as *area sampling* because the sample of South African taxpayers was identified from a specific geographical area (Tshwane). The particular households within the Tshwane metropolitan area were then selected based on further groups (that is, specific areas within the Tshwane region) (Cooper & Schindler, 2003:196; Diamantopoulos & Schlegelmilch, 2000:16).

In order to comply with statistical requirements, the distribution for the target population groups was disproportionate to achieve a minimum of 40 Coloured and Indian, 80 White and 100 Black respondents.

The sample was based on the 1996 census population figures. The households were selected systematically from a random starting point. Following this, the individual respondents were selected from qualifying household members by means of a Kish Grid.

3.1.3 Respondent profile

As the services of MarkData were used to carry out the research and this organisation had access to all the respondents, they were able to follow up on any problem areas concerning the completed questionnaires (for example, missing responses, obvious errors or illegible writing for the open-ended questions). A sample size of 260 was thus realised.

It is important to emphasise that this was an exploratory study that attempted to highlight areas for future research. It was not the purpose of the study to generalise the conclusions reached to the whole of the South African population. Therefore, this study only highlights the various perceptions amongst the four major population groups within South Africa. An attempt was made to select the sample in such a way as to be broadly representative of the demographics of the South African population as a whole.

This was considered to be an acceptable sample size for the study and this area represents a heterogeneous population. Tshwane and Johannesburg are situated in the Gauteng province in South Africa. Gauteng is the smallest (18 810 square metres), wealthiest and most populous (per square metre) province in South Africa. Gauteng generates 10% of GDP for the African continent, and a third of South Africa's GDP (Gauteng Economic Development Agency, 2007). The selected area of Tshwane was, therefore, considered to have been appropriate in order to achieve the objectives of this study.

Population group: the results of the study showed that data was collected from 100 Black/African, 79 White, 41 Coloured and 40 Indian respondents (a minor deviation, unlikely to affect the results).

The **age** grouping of the sample is slightly older than the age distribution of the South African population if compared to the 1996 and 2001 census information (Statistics South Africa, 2004:19-23). Nevertheless, the age profile of the respondents was still regarded as acceptable.

The **gender** composition of the respondents was 53.08% male and 46.92% female. According to Statistics South Africa, the gender representativeness of South Africa during the 1996 census was 48.10% male and 51.90% female. In respect of the 2001 census, the gender composition of South Africa was 47.82% male and 52.18% female (Statistics South Africa, 2004:19-23). It is submitted that males are still, in some instances, more likely to be the breadwinners and thus the distribution of the sample was considered to be reasonably representative.

Regarding the **home language** of the respondents, all of the respondents indicated one of the eleven official South African languages as their home language. The home language of a respondent is, however, generally linked to a specific population group and, therefore, this has not been compared to the South African population. However, the greater Tshwane metropolitan area covers an area where a variety of languages are spoken and all of the main language groups were represented in the sample.

Regarding the **educational background** of the respondents, 43.85% had completed grade 12/matric, 34.62% had some form of higher education and 15.77% had some secondary schooling. Only very low percentages of the respondents had only completed primary (3.46%), had some primary (1.15%) or no schooling (1.15%).

The sample included respondents with a higher level of education than the South African population in general (when compared to the census data). Gauteng is wealthier

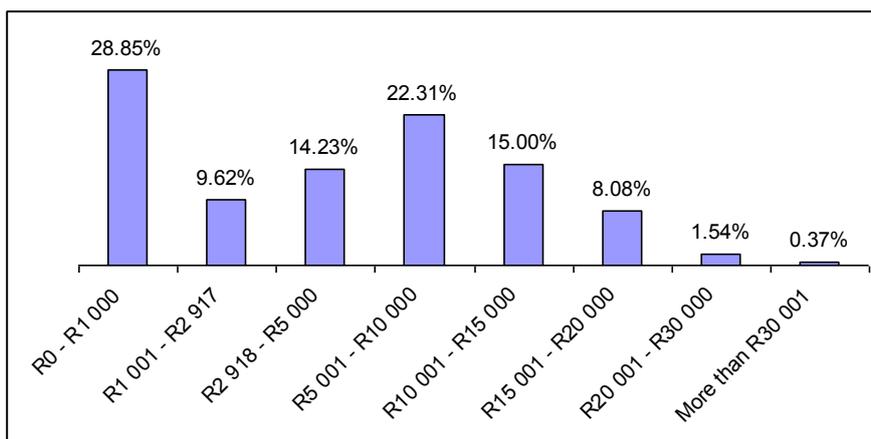
compared to other provinces (Gauteng Economic Development Agency, 2007). It tends to attract a greater number of inhabitants with higher educational qualifications than the country as a whole and provides more and better employment opportunities. Therefore, the composition of the sample was regarded to be acceptable as it included representatives from each major educational level.

Considering the **employment status** of the respondents, 36.92% are salaried employees in the private sector, 20.77% are unemployed, 18.08% are economically inactive, 13.85% are salaried employees in the public sector and 10.38% are self-employed. A comparison between the 1996 and 2001 census information shows that the official unemployment rate went up from 19.50% in 1996 to 24.00% in 2001 (Statistics South Africa, 2004:51-56).

Taking the above into account, it became evident that the sample included respondents with a higher level of employment than the South African population in general. As mentioned earlier, Gauteng is the wealthiest province in South Africa (Gauteng Economic Development Agency, 2007) and offers more and better employment opportunities compared to other provinces in South Africa. The sample was, therefore, acceptable in accurately including representation of all the types of employment status in the target population.

Figure 3 indicates the respondents' **income per month** before deductions. In addition, it was found that 23.46% of the respondents earn a **second or other additional income** (for example, income from a second trade or income from renting out premises).

Figure 3: Income per month before deductions of respondents



It is difficult to assess the representativity of the sample as the income brackets used to report the monthly income of the employed in South Africa according to the census are different from those used in the study. The brackets used in the study are designed, taking the tax threshold into account. In addition, the information provided in the census report on

the individual monthly income of the employed aged 15 to 65 (this study considered only individuals 21 years and older and the census includes individuals 15 years and older).

A wide spread between all levels of income was still achieved, with the larger proportion of respondents in the sample being in the lower-income brackets, as was shown by the census data. The sample was, therefore, considered to be acceptable.

3.2 Data collection

In order to ensure improved controls of the fieldwork, a private, independent company, MarkData Pty (Ltd) (referred to as MarkData from this point forward), was contracted to carry out the data collection phase for this research project. MarkData operates in the Tshwane metropolitan area and specialises in providing strategic research solutions on a variety of issues for numerous national and international clients.

When answering questions about taxation, respondents might be suspicious and secretive and thus unwilling to respond fully and honestly. In order to create a more trusting relationship, this study, therefore, conducted personal face-to-face interviews in the respondents' choice of language (making use of a standard set of questions to ensure that the same questions were asked to all respondents). This methodology appeared to be more appropriate than a mailed questionnaire or a telephone interview.

The questionnaire for the study was developed taking cognisance of research that had been conducted previously.

The interviews took place at the respondents' homes. Interviews were often conducted after hours to ensure that the selected respondents were available. Two revisits were made before a household was substituted.

This study followed two phases with regard to pilot testing. First, the questionnaire was pre-tested by fifteen academic colleagues. No major problems were detected and only minor comments in relation to the style and grammar of the questionnaire were received. These comments were taken into account and the questionnaire was amended accordingly.

For the second pre-testing phase, twenty-five respondents were drawn from the target population. The pilot test was carried out in a manner similar to the way in which the actual data for this study was to be collected. Fieldworkers from MarkData conducted interviews with the pilot group using the questionnaire. Minor amendments were suggested and incorporated. The actual data for this study was collected, using this questionnaire, during the month of February 2006.

The fieldworkers were trained on 10 February 2006 in Pretoria. The questionnaire was compiled in English. During training, all questions were translated by the responsible coordinator from MarkData into the relevant languages for the fieldworkers. Interviews were conducted in the respondents' language of choice. Fieldworkers were instructed to adhere to the sequence of the questions in order to ensure that respondents were not lead in answering the questions.

Throughout the survey, constant communication was maintained with MarkData to ensure that the quality of data collection was upheld. During fieldwork, once interviews were conducted, the completed questionnaires were collected and checked for correct completion. These were then returned to the office for further checking.

3.3 Measurement

In research, *measurement* consists of assigning numbers to empirical events in compliance with a set of rules. This means that observable empirical events are selected, a scheme is developed for assigning numbers or symbols to represent aspects of the event being measured and that the mapping rule(s) is applied to each observation of that event (Cooper & Schindler, 2003:221). Standardised scales did not exist to measure the constructs in the study. A customised scale was thus developed for the study. Simple category, multiple choice single-response, as well as multiple choice multiple-response scales were used in the final questionnaire to determine taxpayers' perceptions with regard to taxation.

Field editing was performed by MarkData. When the completed questionnaires were received from MarkData, these numeric codes were entered into the coding boxes on the questionnaires by a research assistant. The accuracy of the coding was verified by the researcher based on a random sample. The data was analysed electronically using the Statistical Analysis Software (SAS) package (Version 8.2).

As the focus of two questions in the questionnaire was concerned with the relationship between a number of constructs, the internal-consistency reliability of these two questions was tested, by means of the Cronbach alpha. The result of the Cronbach alpha was 0.72 and 0.74 respectively which provided an acceptable level of reliability.

A chi-square test was performed to test for independence (that is, whether a relationship exists between the variables). In each case a *p* value was established. This *p* value was then compared to alpha (which is the level of significance) (Cooper & Schindler, 2003:536). In this study, where the *p* value was found to be less than 0.05, a significant

relationship was present between the variables. Where the p value was less than 0.01, it represented a highly significant relationship.

4. Results and discussion

This study addressed three main themes:

- perceptions of general tax-related issues (question 18);
- perceptions of tax evasion statements (question 20); and
- perceptions of tax compliance statements (question 23).

This section presents the findings relating to the abovementioned themes. All the characteristics and circumstances that could have influenced respondents' perceptions are analysed, using statistical techniques.

In previous research the following factors were identified as affecting a taxpayer's decision whether or not to evade paying tax.

Relationship with SARS (Lewis, 1982:172): findings showed that 53.08% of the respondents were registered as taxpayers with SARS. Nevertheless, only 39.23% had consulted with SARS officials in the past

Fiscal attitudes: the respondents were asked to indicate how strongly they support the present government (Lewis, 1982:172). From the responses it became evident that 42.31% support the government very strongly, 38.46% are neutral and 19.23% do not support the current government at all.

The respondents were also requested to indicate their beliefs about the **future of South Africa** (Lewis, 1982:172). The responses indicated that 40.77% of the respondents were concerned about the future of South Africa, 24.61% were neutral and 34.62% were hopeful about the country's future.

The respondents were requested to indicate their view on **income distribution** (Lewis, 1982:172; Australian Cash Economy Task Force, 1998:18) in South Africa (that is, whether they believe that all income earned should accrue to the government which should then distribute this evenly among all South Africans, or whether everyone should be entitled to keep the income they earn).

In relation to the respondents' views on income distribution in South Africa, it was noted that the majority (76.15%) believed that all income earned should accrue to the government, which should distribute this equally among all South Africans. The remainder (23.85%) were of the opinion that everyone should be entitled to keep the income they earn.

4.1 Perceptions about general tax-related issues amongst South African taxpayers

The respondents' perceptions with regard to a number of general tax-related statements were determined. The respondents were asked whether they agreed, disagreed or had no opinion regarding a number of statements that deal with general issues related to tax. Each of the statements, together with the respondents' attitudes towards these statements, is presented in Table 1.

Table 1: Responses regarding respondents' attitudes towards general tax-related statements

Statements relating to general tax issues	Percentage of respondents who agreed with the statement	Percentage of respondents who disagreed with the statement	Percentage of respondents who had no opinion regarding the statement
A large proportion of taxes is used by the government for meaningless purposes	58.46%	32.69%	8.85%
It is unfair to pay tax	16.54%	73.46%	10.00%
Income tax rates must be reduced	77.31%	15.38%	7.31%
The VAT rate must be reduced	82.31%	11.54%	6.15%
The income tax rate (%) should be the same regardless of the amount of income earned (i.e. everybody pays income tax using the same percentage irrespective of the amount you earn)	37.31%	43.85%	18.84%
I do not know why I have to pay tax	31.54%	56.54%	11.92%
Waste and corruption in government is high	87.69%	6.93%	5.38%
Rich people should pay tax at a higher rate	63.08%	28.46%	8.46%
Tax is very complicated – I do not know how to calculate my own tax liability	37.69%	37.69%	24.62%
The amount of tax I have to pay is reasonable considering the benefits received	24.23%	38.46%	37.31%
The government does not provide enough information about how they use taxpayers' money	51.92%	23.85%	24.23%

Just over half of the respondents (58.46%) are of the opinion that a large proportion of taxes is used by the government for meaningless purposes. Although the majority of the respondents believe that it is fair to pay tax (73.46%), respondents generally believe that both the income tax rates (77.31%) and the VAT rate should be reduced (82.31%).

In terms of the income tax rate, 37.31% of the respondents are of the opinion that the rate should be the same regardless of the amount of income earned, 43.85% do not agree with this, and 18.84% have no opinion regarding this statement.

Just over half of the respondents, 56.54%, believe that they know why they have to pay tax. Only 31.54% are of the opinion that they do not know why they have to do so and 11.92% have no opinion.

A significant finding was that the majority of the respondents (87.69%) believe that waste and corruption in government is high. In addition, more than half of the respondents (51.92%) agree that the government does not provide enough information on how they use taxpayers' money.

A relatively high percentage of the respondents, 63.08% are of the view that wealthy people should pay tax at a higher rate. Further investigations showed that 24.23% of the respondents are of the opinion that the amount of tax that they have to pay is reasonable considering the benefits received, 38.46% do not agree with this and 37.31% have no opinion.

Only 37.69% of the respondents believe that tax is not complicated and that they know how to calculate their own tax liability. Nevertheless, the same percentage of respondents indicated the opposite, while 24.62% have no opinion.

4.2 Demographic, economic or other factors that might influence taxpayers' attitudes with regard to general tax-related issues

From this study it also appears that various demographic, economic or other factors potentially influence respondents' attitudes with regard to general tax-related issues. In [Table 2](#) a summary of the specific demographic, economic or other factors influencing a specific tax-related statement, is indicated.

Table 2: Summary of relationship between respondents' demographic, economic or other factors and their attitudes towards tax-related statements

Statements relating to general tax issues	Demographic, economic or other factors that influence respondents' attitudes towards general tax-related statements
A large proportion of taxes is used by the government for meaningless purposes	Age, population group, educational background, employment status, earnings potential, registered as taxpayer with SARS, support for current government, views about the future of South Africa and views on income distribution
It is unfair to pay tax	Population group, earnings potential, support for current government, views about the future of South Africa and views on income distribution
Income tax rates must be reduced	Population group, earnings potential, registered as taxpayer with SARS, support for current government, views about the future of South Africa and views on income distribution
The VAT rate must be reduced	Earnings potential, support for current government and views on income distribution
The income tax rate (%) should be the same regardless of the amount of income earned (i.e. everybody pays income tax using the same percentage irrespective of the amount you earn)	Population group, home language, earning additional income, earnings potential, registered as taxpayer with SARS, support for current government and views about the future of South Africa
I do not know why I have to pay tax	Age, population group, home language, educational background, employment status, registered as taxpayer with SARS, prior dealings with SARS, support for current government, views about the future of South Africa and views on income distribution
Waste and corruption in government is high	No factors influenced respondents' perceptions regarding this statement
Rich people should pay tax at a higher rate	Gender, population group, educational background, earning additional income, registered as taxpayer with SARS, prior dealings with SARS and views about the future of South Africa
Tax is very complicated – I do not know how to calculate my own tax liability	Gender, population group, home language, educational background, employment status, earning additional income, earnings potential, registered as taxpayer with SARS, prior dealings with SARS and support for current government
The amount of tax I have to pay is reasonable considering the benefits received	Age, population group, home language, educational background, employment status, earning additional income, earnings potential, registered as taxpayer with SARS, prior dealings with SARS, support for current government, views about the future of South Africa and views on income distribution
The government does not provide enough information about how they use taxpayers' money	Gender, population group, home language, employment status, prior dealings with SARS, support for current government and views about the future of South Africa

From these findings it appears that citizen involvement is necessary to build a closer relationship between the taxpayers and the government. Careful consideration should be given to the various factors that may influence a taxpayer's attitude, when managing the relationship between taxpayers and the government. Table 3 indicates the number of

statements where the respondents' attitudes were influenced by a specific demographic, economic or other factor.

Table 3: Number of statements where respondents' attitudes were influenced by a specific demographic, economic or other factor

Demographic, economic or other factor	Number of statements
Population group	9
Support for current government	9
Views about the future of South Africa	8
Earnings potential	7
Registered as taxpayer with SARS	7
Views on income distribution	6
Home language	5
Educational background	5
Employment status	5
Prior dealings with SARS	5
Earning additional income	4
Age	3
Gender	3

Taking all the above findings into account, this study argues that government should, in the management of their relationship with South African taxpayers, take cognisance of the specific factors that may influence their attitudes towards taxation.

4.3 Perceptions about tax evasion and tax compliance statements amongst South African taxpayers

The following summarises the findings of this study regarding the respondents' attitudes towards **tax evasion**:

- A high proportion of the respondents (61.15%) agree that the fiscal authorities (SARS) would notice if they decided to evade tax. Of all the respondents, 63.85% are of the opinion that wealthy people evade tax more often than poor people.
- Slightly less than half of the respondents (45.77%) believe that the burden of taxation is so heavy that many people are forced to evade taxation in order to survive. Of all the respondents, 45.38% believe that people evade tax because the risk that the authorities will find out is low.
- A low proportion of the respondents (24.23%) take the view that they work hard for the income they receive, so they should be allowed to keep it all for themselves. Of all the respondents, 19.62% agree that government receives enough tax so it does not matter if some people evade tax. In addition, 12.31% of the respondents believe that since so many other people are evading tax, they cannot be blamed for avoiding tax.

This study found that a number of demographic factors influenced respondents' attitudes towards tax evasion. These include age, population group, educational background and the respondents' views on income distribution in South Africa.

The following summarises the findings of this study regarding the respondents' perceptions on **tax compliance**:

- Just over half of the respondents (51.15%) report all of their income to the authorities when they submit their tax return every year. In addition, a low proportion (18.15%) indicated that they would consider not reporting all of their income to the authorities when they submit their tax return in future.
- A low proportion (17.69%) of the respondents indicated that they have previously made higher deductions than legally permitted when submitting their income tax return. However, a slightly higher proportion (20.77%) noted that they believe they would consider doing so in the future.
- A low proportion (31.54%) of the respondents agreed that they would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should. In addition, 40.38% believe that if a tax advisor advises them not to declare all of their income, that they would take this person's advice.

This study also found that a number of factors influenced respondents' attitudes towards tax compliance. These include age, population group, prior dealings with SARS officials, views on income distribution in South Africa.

The above findings reveal a difference in perceptions regarding taxation amongst the various population groups in South Africa. The next section highlights those areas where the respondents' population group had an impact on their perceptions.

4.4 Difference in perceptions amongst various population groups

Population groups and tax-related issues:

1. **Taxes are used by the government for meaningless purposes:** The majority of the respondents believe that a large proportion of taxes are used by the government for meaningless purposes. However, the Black respondents disagree to a greater extent with the aforementioned.

Smith (2003:6) suggests that in South Africa it is possible that those citizens who are in the racial minority may feel alienated from democratic government. Considering her suggestion and the findings of this study, it could be argued that, in comparison to other population groups, the Black population group has a bigger vote when electing

the government and, therefore, may be more supportive of the government they have elected and its utilisation of tax revenue.

2. **It is unfair to pay tax:** The respondents are generally of the opinion that it is fair to pay tax. However, the Coloured and White population groups believe more strongly than the Indian and Black population groups that it is not fair to pay tax.

Lieberman (2001:548) argues that given the important political changes in South Africa, including the promulgation of a non-racial constitution, there is good reason to believe that members of the White population will resist paying tax in future.

In view of this argument it would be justifiable to assert that the current political situation in the country might influence the perceptions of the different population groups. As the focus of the present government is to correct the wrongs of the past, a large proportion of the government's budget is allocated to uplifting previously disadvantaged South Africans (Eleftheriades, 1993:12). Members of the White population group might, therefore, be of the opinion that they receive fewer benefits from tax revenue. This might, in turn, lead to a less positive outlook with regard to the fairness of taxation. This does not, however, provide an explanation of the responses of the Coloured respondents.

3. **Reduction in income tax rates:** A high proportion of all the population groups agree that income tax rates must be reduced. Even so, it was also noted that the Black population group agree to a lesser extent than the other population groups concerning this matter.

An explanation for this finding might be linked to the current political situation in South Africa where the majority of voters fall within the Black population group. Because of their majority representation in government, they may be more in favour of current fiscal policies. A possible reason for the discontent of Coloured and Indian respondents with current tax regimes may be the fact that they perceive themselves no longer to be considered part of the previously disadvantaged group in the country.

4. **Income tax rate should be the same regardless of the amount of income earned:** The Indian and Coloured respondents regard the imposition of a fixed income tax rate more favourably than Black and White respondents.

This interesting finding may relate to the fact that members of the Indian and Coloured population groups often have stronger entrepreneurial tendencies and a fixed rate of tax would enable them to retain a larger proportion of their business profits.

5. **Understanding the need to pay tax:** Less than half of the respondents in each of the population groups are of the view that they do not know why they have to pay tax. In

comparison with the Coloured and Indian respondents, the White and Black respondents believe to a greater extent that they do not know why they have to pay tax.

Smith (2003:6) argues that those respondents who belong to a racial minority may feel alienated from democratic government and those in the majority may be reluctant to pay tax on the grounds that the burden should fall on those who benefited from racial privilege in the past. Moloko (1990:72) argues that Black professional employees need to be more informed about the history or the origin of taxation, the reasons why the government needs taxation revenue and how the government spends taxation revenue. This does not provide an explanation for the responses of the Coloured and Indian participants, but does explain the perceptions of the White and Black participants.

6. **Wealthy should pay tax at higher rate:** A high proportion of all the population groups agree that wealthy people should pay tax at a higher rate. Nevertheless, in comparison with the other population groups, it was found that the Indian respondents agree to a lesser extent, that the wealthy should pay tax at a higher rate.

It is possible that the Indian respondents could have been the highest income earners and, therefore, the least sympathetic regarding a higher rate of tax.

7. **Tax is complicated and unsure how to calculate own tax liability:** The findings of the study revealed that a higher proportion of White, Coloured and Indian respondents are of the opinion that tax is very complicated. By contrast, a somewhat lower proportion of the Black respondents noted that tax is complicated and that they do not know how to calculate their own tax liability.

A possible explanation for the slightly higher percentage of White respondents agreeing with the abovementioned statement could be because during the apartheid era, White respondents were the only population group responsible for paying taxes. White respondents are thus more familiar with the complexity of tax legislation.

8. **The amount of tax paid is reasonable considering the benefits received:** Although less than half of the respondents in each of the population groups agree that the amount of tax they pay is reasonable considering the benefits they receive, the White respondents believe to a greater extent that the amount of tax they pay is unreasonable considering the benefits they receive.

Lieberman (2001:548) argues that given the important political changes in South Africa, including the promulgation of a non-racial constitution, there is good reason to believe

that Whites will resist paying tax in future. This supports the findings of the present research.

9. **The government does not provide enough information about how they use taxpayers' money:** The majority of all the population groups are of the opinion that the government does not provide enough information about how they use taxpayers' money. Despite this, it was noted that the Coloured population group agree to a greater extent with the aforementioned than the other population groups.

The need for greater transparency regarding the utilisation of tax revenue is a significant finding which should be taken note of by government.

Population group and tax evasion issues:

The findings of the study revealed that the population group to which the respondents belong, influences their perceptions regarding tax evasion issues. It was found that, in relation to the other population groups, respondents in the White population group believe to a greater extent that it is not wrong to evade taxation.

Regarding this issue, Smith (2003:6) suggests that in South Africa a possibility might exist that those citizens in the racial minority may feel alienated from democratic government. Lieberman (2001:548) argues that given the important political changes in South Africa, including the promulgation of a non-racial constitution, there is good reason to believe that Whites will resist paying tax in future.

In light of these arguments and the above findings, the present study suggests that the White population group is less positive towards paying tax and may experience a sense of alienation from the government, as they have a smaller voting power than the Black population group. Therefore, they may be less supportive towards government and paying tax.

[The above was substantiated with the Scheffe's test and mean score.]

Population group and attitudes towards tax compliance:

The results of the study revealed that the respondents' population group influences their attitudes towards tax compliance issues. Contrary to the findings relating to tax evasion, where White respondents appeared to be of the opinion that it is not wrong to evade tax, it appears that both Black and White respondents are more likely to be tax compliant than respondents from both the Coloured and Indian population groups.

Friedman (2003a:7) argues that tax compliance may have originally been inspired by political loyalty but that the behaviour may survive even after its cause has passed into

history. Friedman (2003b), in particular, argues that it is possible in South Africa that many Whites may be more likely to conform (to tax compliance) than many Blacks. This author further states that: "Whites learned to comply because for years the system worked for them and doing your duty thus made sense. For many Blacks, it was irrational to obey until 1994. The switch to a legitimate government may not instantly cause either group to unlearn years of learned behaviour." This explains the higher level of compliance of White respondents (in the present study), but does not provide an explanation for the responses of the Black, Coloured and Indian participants. In order to create a more positive tax culture, government could possibly focus more strongly on educating the Coloured and Indian groups about the importance of paying their taxes.

[The findings above were substantiated with the Scheffe's test and mean score.]

5. Summary of findings

South Africa is a country of diverse cultures, languages, beliefs and backgrounds. This study found that tax compliance may depend on several factors and that citizen involvement is necessary to build a closer relationship between the taxpayers and the government. Careful consideration should be given to the various factors that may influence a taxpayer's attitude, when managing the relationship between taxpayers and the government.

Different population groups may have different perceptions towards taxation. In order to create a more positive tax culture, government could possibly focus more strongly on educating the various population groups about the importance of paying their taxes. A multifaceted approach is needed in order to understand and influence the large number of factors that play a role in individual behaviour.

In addition, the South African government should evaluate their corporate communication strategies on a regular basis in order to determine the most effective manner in which to communicate tax issues with its citizens.

The present study supports the view that South African taxpayers' perceptions influence their attitudes towards tax compliance. It is important that SARS should concentrate on changing taxpayers' perceptions with regard to taxation in order to achieve a more positive attitude towards tax compliance.

This study, however, focused only on natural persons. Corporate taxpayers were excluded. The research was performed within the Tshwane metropolitan area in Gauteng only and it was not the purpose of the study to generalise the conclusions reached to the

whole of the South African population. This study merely highlighted the various perceptions amongst a sample of South African taxpayers.

Other researchers may extend the findings of this research by testing these findings in other areas, amongst other population groups and using other interrogation methods.

Future research can investigate SARS' current corporate communication strategy and by doing so, develop improved communication strategies that could help to increase the provision of tax information to South African citizens in order, not only to improve their general understanding of taxation but also to emphasise the importance of paying tax. Further strategies can also be developed to communicate more efficiently and effectively to taxpayers how to calculate their own tax liability.

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Although some of the above references are not very recent no major research has been performed since this study has been conducted.