TITLE: What causes reduced tax morality and how can it be improved?

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By

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Glossary

CAF	Development bank of Latin America
CIT	Corporate Income Tax
DTC	Davis Tax Committee
ECLAC	Economic Commission for Latin America and the Caribbean
GAAR	General Anti-avoidance Provisions
GDP	Gross Domestic Product
HNWI	High Networth Individuals
IFF	Illicit Financial Flows
ILO	International Labour Organization
NDP	National Development Plan
NHI	National Health Insurance
NRF	National Revenue Fund
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay-As-You-Earn
PIT	Personal Income Tax
VAT	Value-Added Tax
SARB	South African Reserve Bank
SARS	South African Revenue Service
SA-TIED	Southern African – Towards Inclusive Economic Development

SMEs	Small Business Enterprises
TAA	South African Tax Administration Act No. 28 of 2011 (as amended)
WVS	World Values Survey

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Declaration

I, Tinna Snenjongo Nteleza, hereby declare that the work on which this research paper is based is my own original work (except where acknowledgements indicate otherwise) and that neither the whole work nor part of it has been, s being, or is to be submitted for another degree in this or any other university.

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Abstract

There has been a notable decline in the tax morality of South African taxpayers over the years. Tax morality is a term defined as the willingness of individuals to pay tax and comply with tax laws[1]. The concerns over the decline in tax morality were raised by the National Treasury when discussing the widening tax gap between the budgeted tax revenue collections and the actual revenue collected (in the 2017 Budget Speech)[2]. The importance of tax morality in South Africa cannot be overstated, the very success of South Africa's democracy is dependent on the very functioning of the fiscal citizenship principle, that means the state and the taxpayers must be committed to the operation of the democracy through the social contract, ie the taxpayers must be willing to pay their taxes and the government must provide the services due to the taxpayer, such as healthcare, education services and efficient infrastructure.

In the evaluation of South Africa's tax morality, the tax revenue collection process and methodology must be reviewed. For personal income tax, with the exception of PAYE, taxpayers must declare their income earned in order for the income to be assessed. It is for this reason that tax morality should be regularly reviewed, to ensure that taxpayers are motivated to pay the right amount of tax and are compliant with tax laws. Where this is not the case, symptoms of broken fiscal citizenship can include aggressive tax avoidance, base erosion and profit shifting and tax evasion, to an extent that legislation needs to be constantly reviewed in order to protect the South African tax base. To review the tax morality of the Republic, revenue collection statistics such as tax buoyancy are reviewed, revealing that after the 2008/9 global financial crisis, the revenue collection statistics remained buoyant until the 2017/18 period during which time it decreased to 0.91 indicating a threat to the long-term sustainability of the fiscal policy. The tax revenue collections when compared to GDP statistics also signal concern, and when taking into account the rate at which high networth individuals are leaving the country and their reasons, it is clear that the South African government should be applying more focus and resources in improving tax morality.

In order to recommend focus areas to improve tax morality, a review of research performed by the OECD globally into the tax morale of individuals and businesses around the world is used. The research focuses on factors influencing tax morale, which is a good indicator of what motivates taxpayers to participate in, and comply with a tax system. An overarching theme for individuals from the identified factors is the perspective of the government taxpayers have. It is this perspective that has been found in the study to influence whether individual taxpayers around the world comply with and participate in the tax laws of the country. For businesses, the most dominant factor appears to be tax certainty and while this is information derived from a general survey and on a limited population, it provides a general overview or a starting point in the improvement of tax morality.

With the factors identified, an evaluation of how they impact the South African population and to what extent the findings may be true for the Republic are investigated. The socioeconomic and institutional factors identified in the global study are relatable in the South African context and the results from the survey show parallels between the global population and the South

[1] Chenne (2018:4)
[2] Per the National Treasury, published 22 February 2017 (full link in the Bibliography).

African context, even though there are some differences in the survey results. The South African surveys presented further assist with providing a view of the current landscape (though with limited available research), by reviewing how much South African citizens' trust the government, how satisfied they are with government services and their willingness to forego democracy for an alternative more productive government.

Based on these findings, recommendations are formulated for the South African government to adopt in order to improve the tax morale of taxpayers. These recommendations, should they be implemented, could result in the improvement of taxpayers' willingness to comply with tax laws over time, thereby protecting the tax base and possibly increasing it. These recommendations would require extensive research into the South African taxpayers' level of tax morale and therefore expected tax morality. The research would include enquiries into the level of education around taxation, the awareness of available incentives, the trust taxpayers have in the government and how the current legislation impacts different age groups, and different genders etc. That way, the improvement of tax morale and therefore tax morality in the Republic will be more successful.

1 Chapter 1: Introduction and Background

1.1. Introduction

Samantha du Chenne (2018:4) defines “tax morality” as the willingness of individuals to pay their taxes and comply with tax laws. As individuals are multifaceted complicated beings, the willingness to pay tax is influenced by several different factors which in culmination, determine whether people feel inclined or disinclined to disclose their income to SARS. The investigation proposed by Chenne (2018:4) is an enquiry into the mind of the taxpayer, which has been noted as not being an easy or a simple thing to do. In order to understand the taxpayer’s willingness, their thoughts about tax payment must be investigated, this is the tax payer’s tax morale (OECD, 2019:1).

A steady decline in the South African taxpayer’s tax morality has been noted over the years. This is deduced from different statistics made available by SARS such as the difference between the budgeted tax revenue collected and the budgeted tax revenue estimated in South Africa, with the tax revenue collected not exceeding GDP growth for the first time in 2017/18 financial year since the 2008 global financial crisis (SARS: 2018). The widening of the gap between budgeted tax revenue collection versus actual tax revenue collected and talks of a tax revolt are a cause for concern in the Republic. SARS is responding to the non-compliance by imposing penalties, interest and by criminal prosecution on taxpayers who have ignored SARS’ reminders that they were due to file a return, and some of those taxpayers now possess a criminal record (South African Government, 2018:1). Global research has determined that several factors influence taxpayers’ willingness to pay tax and to comply with income tax laws. These factors must be investigated and their applicability assessed against the South African tax paying population, to determine how tax morality in South Africa can be improved.

In this dissertation, the author reviews SARS and other government revenue collection statistics, the general tax revenue collection procedures, potential signifiers of risks of decreased tax morality, and international tax morality studies, establishing the factors influencing a taxpayers’ willingness to pay tax and to comply with tax laws.

1.2. Background, rationale and purpose of research

Tax morality is one of the influencers of taxpayer behaviour, the factors determining whether taxpayers pay their taxes, and how much tax they pay and ultimately determining how much SARS collects in any financial period. Closely connected to tax morality are the concepts of fiscal citizenship and responsible tax, which affect, in culmination, the culture regarding tax payment or the resistance towards the payment of tax.

“Fiscal citizenship” is a term that is used in describing the willing participation of taxpayers in the social contract between a State and its citizens, underpinned by taxation.

The concept of fiscal citizenship is embodied in “responsible tax”, which binds the taxpayer, the tax administration agency and the government in the responsibility taken in relation to the taxes paid, collected and spent in order to increase the level of fiscal responsibility for the benefit of the State (Tickle, 2017:1). Tax morality and fiscal citizenship are closely related concepts, both dealing with taxpayers and their willingness to pay tax, however, tax morality extends beyond the adherence of taxpayers to the social contract between states, tax administrators and taxpayers and includes their general attitude towards the practice of payment of taxation. The concept of “responsible tax” is defined by Chris Morgan (2017:1) as an approach to tax that is open, developmental and considers the interests of all stakeholders i.e., the government, taxpayers and communities. Responsible tax acknowledges, like fiscal citizenship, that tax is the cost paid for a civilised society. Responsible tax is about recognizing that tax should be charged according to law and should follow the generally accepted criteria of being, as far as possible, progressive, clearly drafted, simple and efficient to collect.

Furthermore, responsible tax acknowledges that there is a moral dimension in the interpretation of law, it employs effective transparency in order to enable all the stakeholders to decide what it means. Based on this description of responsible tax, it can reasonably be deduced that tax morality and fiscal responsibility are building blocks in the wider discussion of responsible tax. This dissertation will investigate tax morality in South Africa and the factors that influence it.

According to the OECD (2019:5), the Forum on Tax Administration (FTA) is an organisation within the OECD which aims to influence the environment in which tax systems around the world operate, moving away from a confrontational dialogue, to a more constructive engagement with taxpayers, it is through this organisation that the OECD aims to improve taxpayer services and tax compliance by assisting tax administrations to increase their efficiency.

Minister Tito Mboweni reportedly mentioned to Fin24(2019:1) that, globally, people have been attempting to hide their assets and income from tax authorities and South Africa should implement the OECD’s mandatory disclosure rules which allow for an automatic exchange of information between government agencies such as Exchange Control, SARS and the government in response to this. Furthermore, according to the article by Fin24 (2019) Ferdie Schneider, the former national head of tax at BDO (an accounting, tax, consulting and business advisory firm) the question of whether South African taxpayers have the scope to be “tax immoral” is a recurring one and comments that it is important for the government to create an environment whereby taxpayers have certainty and confidence so that high tax morality can be established.

Ferdie Schneider further states that taxpayers need their money for themselves, and in order for them to pay their taxes, their perception of the government needs to be that their money is being utilised properly by the government e.g. on infrastructure. This then places a burden on politicians to demonstrate sound governance as, if they cannot do that, tax morality is jeopardised and decreases.

1.3. Focal research question

This dissertation sets out to answer the focal research question: What motivates South African taxpayers not to pay the amount of tax they are legally obligated to pay and not to be tax compliant? This paper identifies the factors that affect tax morality, through a combination of studies, including a study of tax morale and proposes possible ways in which tax morality can be improved in South Africa.

1.4. Limitation of scope

This dissertation is primarily focused on collection of direct tax, namely, income tax. It does not investigate the collection of Value-Added Tax, transfer duty, securities transfer tax, and customs and excise duty.

Furthermore, this study includes all taxpayers in South Africa, non-resident and resident taxpayers, this is due to the South African taxing methodology being the worldwide basis (ie residents are taxed in South Africa on their worldwide taxable income and non-residents are taxed in South Africa on South African sourced income). This dissertation, furthermore, includes commentary on all taxpayers – natural persons, juristic persons and trusts and hence tax morality including but not limited to - natural persons, juristic persons and trusts. The research for this dissertation was up to 29 February 2020 and does not take into account the effects of COVID-19 on the concepts under discussion.

1.5. Sub-questions

As indicated in 1.2 above, the main research question being investigated in this dissertation is: What motivates South African taxpayers not to pay the amount of tax they are legally obligated to pay and not to be compliant and, based on the identified factors, how can the tax base of South Africa be improved? In answering that question, the following sub-questions will be explored:

- What criteria were used in international studies to measure tax morality? And where does South Africa fit on the international tax morality scale?
- What factors were identified in these studies and how do they affect tax morality?
- How do the factors identified apply to South Africa?
- Taking all of these factors into account, how can tax morality be improved in South Africa?

1.6. Research Methodology and approach

The research method to be used in preparing this dissertation is qualitative and it includes the review of publicly available research, journals, reports and other documents on tax morality in South Africa and abroad, through the use of the following methods of analysis:

- Comparative and critical (theoretical) analysis methods: following research already carried out in this field and comparing the information found in that field to the available data and information available in South Africa. This will be done by the presentation of notable or significant findings in other countries and a comparing these with available South African information or data. The similarities and differences identified will then be considered and thereafter, recommendations will be made to better equip the revenue collection agency to inspire a willingness by taxpayers to be tax compliant and to pay tax.

1.7. Structure/Outline of chapters

Each chapter in this dissertation addresses the issues associated with tax morality. With this first chapter providing the definition of, and background to, tax morality, its impact and its relevance. The following chapters will address the following:

- Chapter 2 outlines tax avoidance and tax evasion in South Africa, as an indicator of decreased tax morality in the South African taxpayer.

- Chapter 3 analyses statistics from the World Values Survey of research performed in other countries about tax morality, identifying the factors affecting tax morality in different economies and in different jurisdictions.
- Chapter 4 evaluates the factors identified in chapter 3 in the South African context, identifying similarities and factors not applicable in the South African context and recommendations.
- Chapter 5 concludes on the findings and answers the main question of what causes tax morality to decrease and how it can be improved in South Africa.

2 Chapter 2: Tax avoidance and tax evasion as indicators of a reduced tax morality

2.1. Introduction

Due to the end of apartheid and the first South African democratically elected government in 1994, a review of the legislation was conducted over the period of 1994 to 1999 (Davis tax committee, 2014: 7[3]). In this democratic system, taxation is a critical part of the social contract between the state and its citizens. It is important for the functioning of the state that the citizens of the Republic view the revenue collection agency (and other organs of the state), as an effective and useful tool in the fulfilment of the objectives of the Republic. A broader tax base is important in the Republic as it fosters a culture of accountability between the government and its citizens. If tax is viewed by taxpayers to be levied fairly and administered efficiently an incentive for greater responsiveness to citizens can be created - after all, the Government depends on citizens for revenue (Davis Tax Committee, 2015:8[4]). The South African taxpayers' perspectives of the government as a whole are also influenced by their perception of SARS, this perspective also influences their perspective of taxation. In the discussion of tax morality, aggressive tax avoidance and tax evasion must be addressed as these speak to the level of confidence and trust taxpayers have in the government.

Haupt (2019: 626) defines tax avoidance as an attempt to minimise a tax liability using legal means, usually through the organisation of one's affairs in such a way that the minimum tax is imposed by the Act rather than the maximum. The practice of taxpayers arranging their tax affairs in a tax efficient manner has been covered in cases such as *Hicklin v SIR*[5] and *Commissioner for Inland Revenue v Conhage (Proprietary) Limited (1999)*[6]. These cases outlined and applied the principle that taxpayers reserve the right to structure their affairs in the most beneficial manner for them.

Tax evasion on the other hand is defined as the use of illegal means to reduce tax liability, for example, the falsification of accounting records, suppression of income, fraudulent non-

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[3] Published in April 2016 on *The Tax System And Inclusive Growth In South Africa: Towards An Analytical Framework For The Davis Tax Committee, the full report.*
[4] Published in June 2015 on *The Tax System and Inclusive Growth in South Africa: Towards An Analytical Framework For The Davis Tax Committee*, Macro Analysis First report.
[5] 1980 (1) SA 481 (A), 41 SATC 179 at 193
[6] 1999 ZASCA 64 (606/97)

disclosure of income, and overstatement of deductions etc. It is important to note that these two concepts are different and often misunderstood and the lines between them blurred[7].

In South Africa, the burden of disclosure falls on the taxpayer, at the end of the tax year (the only information prepopulated in the income tax return is an employee's employment income[8] and investment income[9]). All other income from additional trades, such as rental income must be disclosed by the taxpayer. This then suggests that the tax collection procedure in the Republic must be carried out in such a way that the taxpayer does not have an incentive to evade or avoid tax. Whether this is the case currently, remains open for evaluation. It is for this reason, that SARS must be perceived by the taxpayer, to be a trustable establishment, capable of fair revenue collection. The reliance on taxpayers for information, introduces a risk to SARS, a risk of misstatements, omission of income and overstatement of expenses.

Revenue collection statistics suggest that there has been a steady decline in the amount of tax revenue projected and the amount actually collected, and that the level of tax morality is one of the factors identified as causing this gap. However, as it is not easy to measure tax morality, indicators of a decreased tax morality are investigated, such as the presence of tax avoidance and tax evasion. The purpose of this chapter is to establish whether the level of tax avoidance and tax evasion in the Republic warrants concern over the tax morality of the South African taxpayer.

2.2. How is tax levied in South Africa?

Taxation is the means by which the government collects and funds the benefits it provides to its citizens, in South Africa there are two tax types, direct taxes and indirect taxes. It is submitted that direct taxes are taxes levied on a person, such as normal income tax, dividends tax and various withholding taxes, while indirect taxes are levied on transactions, for example VAT, customs and excise taxes, transfer duty and fuel levy (Haupt: 2018:4). In South Africa, the arm of state charged with the administration and collection of revenue from resident and non-resident taxpayers (where the income is of a South African source) is SARS, SARS is an autonomous agency, responsible for the administration of the South African tax system and customs (SARS website: 2018).

[7] Commissioner for the South African Revenue Service v NWK (2011) 73 SATC 55.
[8] This information comes from the employer populated IRP5 certificate.
[9] The information is usually prepared by the relevant financial institution, in the form of an IT3(b) certificate.

The relationship between SARS and South African taxpayers is vital to the collection of revenues and the proper functioning of the national and regional governments. This relationship must be reviewed regularly because, South African taxpayers actually have to declare their income to SARS. The taxable income for income tax purposes is determined by first calculating the gross income of a taxpayer. The gross income as determined according to the definition of *Gross income* in section 1 of the Act is:

'"Gross income", in relation to any year or period of assessment, means –

(i) In the case of any *resident*, the total amount, in cash or otherwise, received by or accrued to or in favour of such resident; or

(ii) In the case of any person *other than a resident*, the total amount, in cash or otherwise, received by or accrued to or in favour of such person from a *source* within the Republic, during any year or period of assessment, excluding receipts or accruals of a capital nature, ….'

Once the gross income is determined, including the specific inclusions to the definition such as fringe benefits are included, exempt income is excluded from the calculation, followed by allowable deductions, and capital gains. Any assessed loss is then offset with the calculated net income after the deduction of the above-mentioned items. The result is then the taxable income, on which the applicable tax rate is applied depending on the type of taxpayer[10] it is.

Normal income tax is calculated at the end of each year of assessment, however, Pay As You Earn (**PAYE**) is an advance payment of normal tax to SARS, calculated and withheld by employers in South Africa in terms of the Fourth Schedule to the Income Tax Act read with Chapter 15 of the Tax Administration Act, 2011 (**TAA**). Provisional taxes are payable, by individuals who have additional income to their employment income, directly to SARS (Haupt, 2018:11).

2.3. SARS revenue collection statistics

In the 2017/18 financial period, for the first time since the 2008 global financial crisis, tax revenue growth did not exceed GDP growth (SARS: 2018a). In the 2018 fiscal year, tax

[10] Natural persons are taxed on the progressive individual tax rates (from 18% to 45%)
Trusts are taxable at 45%
South African companies and close corporations at 28%
South African branches of foreign companies at 28%
Personal service provider companies/close corporations at 28%

revenue collected in South Africa amounted to R1 216.5 billion (an increase of 6.3% from 2017). The largest source of the revenue collected came from Personal Income Tax (38.1%), followed by Value Added Tax (24.5%) and finally Corporate Income Tax (18.1 %).

The different commentaries do not conclude on which factors are at the centre of South Africa's reduced tax collection, they merely indicate which factors are suspected to be the cause of the decline. Thus, the administration and collection process of the Republic and any opportunity it presents for evasion and/or avoidance must be reviewed.

SARS attributed the growth in revenue, notwithstanding the shortfall to budget, to the following factors:

- An improvement in business confidence, resulting in improved profit outlook and resulting provisional tax payments;
- Strengthening of commodity prices attributable to the mining sector company income tax payments;
- Increased income tax payments from the manufacturing sector, following a more favourable Purchasing Manager's index for this period; and
- A stronger currency towards the end of the 2017 period, with a resultant increase in imports.

Furthermore, SARS' collections were impacted by a slower than expected recovery of consumer confidence resulting in VAT collections with a growth percentage of 4.5% in the 2017/18 period compared to the 8.1% growth experienced in the prior year. Although SARS does not provide (and may not know) how much each revenue collection factor impacted the collections the most in the 2017/18 financial year this slow recovery was one of the factors leading to a shortfall in the budgeted tax revenue for the period under consideration.

An important factor indicating tax revenue performance is the tax buoyancy ratio. This indicator measures the sensitivity of tax revenues to changes in economic growth. Buoyancy of tax revenue reflects both the effect of automatic stabilizers and of discretionary fiscal policy changes. A ratio greater than one over the long term supports the sustainability of fiscal policy. Short term buoyancy ratios fluctuate more and are the outcome of economic structural factors, tax policy changes and tax administration.

After the 2008/9 global financial crisis, South African tax revenue collections have remained 'buoyant' despite difficult economic conditions. The buoyancy ratio for the 2017/18 period, where the growth in tax revenue was less than the economic growth was .91, which is lower than the long-term average of 1.07. The lower buoyancy is attributable to lower expected collections in taxes, due to lower wage settlements and increasing unemployment. The lowest tax buoyancy ratio was -0.71 which occurred during the 2008/9 financial crisis and the highest was 1.38 in 2014/15 before it fell to 0.91 in the 2017/18 period, as mentioned. The buoyancy ratio of 0.91 suggests a threat to the long-term sustainability of fiscal policy. While that tax buoyancy ratio only occurred for the 2017/18 period, it cannot be ignored, and must be attended to and improved (SARS & National Treasury, 2018:8).

As South Africa is a sovereign state, funded primarily by tax revenue collections from its citizens (corporate and natural persons), and also by local and foreign debt, it is imperative that revenue collection statistics are studied and taxpayers' attitudes towards paying taxes are examined closely and periodically, as the country depends on the taxpayers to thrive to carry out its duties to society. These statistics and commentary signify a rising problem with the tax morality decline in the Republic, while there are many other factors simultaneously at play, such as slow economic growth, tax morality is an identified contributing factor.

The decrease in tax revenue collections when compared to GDP and the decreased tax buoyancy ratio are a cause for concern in the Republic and, in the 2017 budget speech, the then Minister of Finance, Pravin Gordhan expressed alarm over the lagging tax revenue with respect to the economy. These worries arose as a result of a revenue collection shortfall of R30 billion when compared to the budgeted revenue collection estimate of the 2016 period. The then Minister attributed the shortfall to a slower growth in wages, employment and bonus pay-outs among other factors, and he concluded by stating that the capacity of the South African Revenue Service (SARS) must be improved, by enhancing its relationship with taxpayers in order to recover the fiscal health of the country (National Treasury, 2017a).

On 1 April 2019, SARS released the preliminary revenue outcome for the 2018/19 financial year, revealing SARS collected a gross amount of R1 575.4 billion reduced by refunds of R287.8 billion to a net result of R1 287.6 billion against the 2019 budget estimate of R1 345 billion, which demonstrates a shortfall of R57.4 billion. SARS cautions these results are subject to a detailed financial reconciliation and a final audit (SARS: 2019).

Fin24 (Leuvennik, 2017) reports on the possibility of a looming tax revolt, deducing this from the reported decline in tax collections and the widening budget deficit. The author, paraphrasing the Medium-Term Budget Policy statement, states that policy and administrative factors may be contributing to the tax collection shortfall, however, behavioural responses to tax increases may be bigger than anticipated and SARS could perform below expectations even if taxes are increased. According to de Lange (2019:1), the reason for the decrease in South Africa's revenue when compared to the projected revenue collection could be explained by the inefficiency of SARS, a decline in tax morality and the impact of the Laffer Curve on collection rates.

The Laffer Curve is a concept, represented by a diagram, developed by an economist, Arthur Laffer, which shows that a disproportionate high taxation rate leads to a high wedge between gross and net pay, low production, low income and consequently to low tax revenue collected (Heijman and Ophem, 2005:721). According to Akgun, Bartolini and Cournéde (2017:8) the relationship between tax revenues and tax rates can be expected to be non-monotonic, meaning that the same tax revenue is consistent with two levels of the tax rate, for example, revenue is zero when the tax rate is 0%, the revenue rises, peaks and declines when the tax rates reach 100%. The Laffer curve therefore shows that there is a point whereby increasing tax rates or tax types, leads to an eventual decrease in tax revenues due to the factors influencing them, such as powerful economic distortions reducing output and incentives to avoid taxes. In reviewing tax policy, the impact of an increased tax rate should be considered, and the position currently assumed by South Africa on the curve.

2.4. The effect of HNWIs on tax revenues

According to DTC (2018:42), the World Wealth Report defines High Net Worth Individual (**HNWI**) as an individual with net assets exceeding USD$1, 000, 000. In September of 2017, the SARS HNWI register reported 37 299 individuals in South Africa falling into the category of HNWI.

The definition of HNWI is expanded to include the following sub-segments:

a) Lower affluent individuals – these are individuals who earn more than R3 million per annum. This category does not have a net asset criteria, and is generally comprised of salaried employees and represent the majority of the SARS HNWI register.

b) Affluent individuals – these are individuals earning between R5 million and R7 million income or have net assets worth more than R16 million and these taxpayers make up 27% of the SARS HNWI register.
c) HNWI – these individuals income exceeds R7 million per annum or they have net assets worth more than R40 million. They represent 18% of the HNWI register.
d) Ultra HNWI- these individuals have net assets exceeding R75 million and comprise less than 1% of the HNWI register.

In the discussion about tax morality, the impact of HNWI on tax revenues in the Republic is important, because information on HNWI can be useful for the following reasons:

- The complexity of HNWIs' tax and private affairs and the large number of entities that they may be in the control of could potentially allow the revenue authorities to better understand and assess such individuals and their tax morale levels, in order to act swiftly and quickly to improve them;
- It provides an opportunity for tax revenue officials to review the tax revenues at stake;
- It provides an opportunity for tax revenue officials to review the opportunity HNWIs have to partake in aggressive tax planning, and
- It provides an opportunity to review the potential impact of HNWIs on the overall integrity of the tax system.

In South Africa, there is a disproportional split of tax revenues collected from individuals, with a small minority of individual taxpayers contributing a large percentage of the revenue (DTC, 2018:40). For this reason, SARS has identified the need to concentrate resources on the HNWI segment in order to better manage their tax affairs, as concentrating resources on identifying individuals falling into the HNWI category and ensuring that the right of amount of tax is paid will increase revenue collections (DTC, 2018:44).

2.5. The effect of migration on tax revenues

In the discussion of tax morality and its improvement, it is important to investigate the factors that are likely to be affecting the tax revenues collected and it is important to also review the different factors contributing to taxpayer's perceptions of the government. An example of such a factor is migration, its perceived and actual impact on tax revenue collected.

According to the OECD/ILO (2018:15), immigration is linked with South Africa's history, with migrant labour contributing significantly to the economy since the 20th century. As South

Africa is one of the middle-income African countries where the impact of immigration has been assessed, the economic impact of immigrants based on common methodologies has been contrasted and compared across other similar countries. In the study conducted by the OECD and the ILO into the contribution of immigrant workers in South Africa, the contribution of immigrant workers and the dimensions of their contribution to the economy were investigated, such dimensions include labour markets, economic growth and public finance.

According to OECD/ILO (2018:26), there is no universal definition of an immigrant, the most commonly used definition accords with the 1998 Recommendations on Statistics of International Migration and it states that an immigrant is any person who changes his or her country of usual residence, […] in which an individual normally spends his daily period of rest. This is the definition that was adopted in the report referenced and it considers international immigrants as individuals who were born in another country than the country in which they live, it is important to note that this definition does not take into account the citizenship of people.

Migration to South Africa has been shaped for decades now, by the need for labour to serve the main labour-intensive industries such as agriculture and mining (in the form of temporary labour) while the permanent labour was provided by the immigration of those meeting the criteria of the governing minority. Furthermore, trends in immigration and emigration during the apartheid period reflected major political events, such as the 1985 state of emergency, while permanent migration rates became consistently negative in the early 1900s. Despite the decrease in permanent migration to South Africa, temporary migration mostly from African countries increased and this increase is attributed mainly to other African countries. The increase was related to the need to fill positions in South Africa, previously occupied by the white minority and by students and others seeking to benefit from the ending of the apartheid era (OECD/ILO, 2018:30). It is important to note, that a large group of immigrants are asylum seekers originating from the Democratic Republic of Congo, Ethiopia, Nigeria, Somalia and Zimbabwe.

The effect of the apartheid era and its policies on mobility entrenched negative attitudes towards African workers among a range of South African institutions, as such, there is a considerable amount of hostility towards foreign workers and in the post-apartheid period, xenophobic attitudes and violence have become defining factors of the relationship between South Africans, African and Asian citizens. However, despite these sentiments, research shows that international migration, if managed well, can be beneficial to the country and even create employment opportunities for native-born individuals (OECD/ILO, 2018:31). The creation of employment opportunities for individuals will most likely lead to the payment of PAYE, a positive contribution to the fiscus.

The effect of migration in South Africa is especially important in addressing tax morality as it concerns the perspective the citizens have of the country, the controls in place to control the flow of immigrants and its implications for the Republic. According to the OECD/ILO (2018:132), the current contribution of immigrant workers is estimated to range between 8.9% and 9.1% of GDP, however, this is less than their respective share in employment of 9.2% in 2011, and demonstrates that foreign-born workers are more likely to be employed in relatively low productivity sectors. Furthermore, it is important to note that an empirical assessment of the impact of immigrant workers on income per capita cannot be undertaken with certainty, but it was found that certain labour market characteristics of the immigrant population, for example the high share of the population function approach confirms the positive effect that an increasing immigrant labour force has on the economy.

The flipside of the immigration discussion is emigration. According to Bloomberg (2019:1) the world's wealthiest individuals are increasingly on the move, with China, Japan and South Korea being the top destinations. Emigration is detrimental to the tax revenue of a country with a worldwide taxation system and in which majority of the personal income tax collected is from High Networth Individuals, and according to Carin Smith (2019:1), the current economic climate is leading South Africans to hedge their bets by investing abroad, acquiring a second citizenship or residency overseas (as described by Andrew Rissik, a director at Sable International). According to Andrew, the individuals are internationalising themselves despite the complex tax, wealth and money transfer implications involved in these deals, the individuals seem to be interested in safer and better schooling systems for their children, and safe havens for investment.

According to Kaplan and Höppli (2019:1) South Africa does not collect extensive data on the number of individuals emigration from the Republic. The available figures are collected from the countries to which they immigrate, as these countries record the number of residents born in foreign countries. For South African emigrants, the top destinations can be divided into three categories, the five English speaking countries, ie the United Kingdoms, Unites States of

America, Canada, Australia and New Zealand (the so-called big 5), the United Arab Emirates (the Gulf); and other developed countries of the OECD.

Kaplan and Höppli (2019:1), report that in the year 2000, the number of South African nationals in the above mentioned countries was estimated at 435 000, with the best available 2017 estimate stipulating approximately 820 000 individuals split between these countries. Available data on the education and skills of the South African immigrants revealed that more than half of SA immigrants in Australia in the 2016 year were classified as professionals, managers, clerical and administrative personnel, technicians and personal services practitioners. According to Australian government data, in the period 2011 to 2015, the top five occupations entering were accountants, ICT, software related engineers, teachers and metal fitters and machinists, and as a result the weekly median family income was 39% higher than the median family income of the Australian-born population, a reflection of their relative skills and occupational status (Kaplan and Höppli, 2019:1).

It is stated that emigration also leads to outflows of wealth from South Africa while there is no comprehensive data on the magnitude of wealth outflows, there are indicators, such as the sale of residential property, the number of high net worth individuals in South Africa over the years and the accelerated emigration of South Africa's wealthy population (Kaplan and Höppli, 2019:1). In the 2018 financial year, it is alleged that according the FNB property barometer, the proportion of home sellers citing emigration as their reason for sale has increased almost four times from 2013 to 7.8% in 2018. The percentage is reportedly higher in upper income brackets.

The number of high net worth individuals with net worth exceeding $5 million has reportedly declined by 3, 030 between the 2012 and 2017 years, while the number of individuals with a net worth of over $50 million declined by 140 and finally, the number of individuals with a net worth over $500 million remained constant at 30. These reduced numbers, according to Kaplan and Höppli (2019:1) are a result of economic factors, the declining value of the currency and the slow rate of growth of the economy and among other factors, emigration has played a part in worsening the situation.

The SA report of AfrAsia Bank reportedly stated that of the nine SA born billionaires, four have left and only five remain, and indications are that the rate of emigration of the wealthy will accelerate further, this accelerated emigration of South Africa's wealthy individuals would be in line with expectations for the overall rate of emigration from South Africa. According to

Kaplan and Höppli (2019:1), accelerated rates of emigration will exacerbate the chronic skills shortage in this country, inhibit already low rates of growth and further constrain government's limited capacity to raise tax revenues. Ultimately, emigration leads to decreased revenue collections and worsened economic conditions for the economy, this ultimately further lowers tax morality as emigration could also serve as an indicator of decreased trust and faith in the government.

2.6. Avoidance and IFF

As tax evasion is illegal, the discussion turns to tax avoidance, which includes the employment of existing domestic legislation to the benefit of the taxpayer. According to Oguttu (2016:6), in order to understand why there are base erosion and profit shifting curtailing initiatives, it is important to explain that taxpayers have the freedom to minimise their tax liability legally. Furthermore, taxpayers reserve the right to structure their affairs in a manner that is most beneficial to them, while this is not specifically stated in the legislation, this principle has been established in several pieces of case law:

In Levene v IRC[11], the following was held;

"It is trite law that His Majesty's subjects are free, if they can, to make their own arrangements so that their cases may fall outside the scope of the taxing Acts. They incur no legal penalties, and, strictly speaking, no moral censure if, having considered the lines drawn by legislation for the imposition of taxes, they make it their business to walk outside of them."

In this case, the judge infers that, provided that they do not break the law, taxpayers are free to make arrangements which ensure that their income falls outside of the tax net, it is important to note that this case is of persuasive value in South Africa, it is not binding on any taxpayer or on SARS.

This view was also upheld in CIR v King[12] when Watermeyer CJ stated that it is absurd to suppose that the Legislation was intended to impose a penalty upon a man who enters into a transaction which reduces the amount of income from what it was in the previous years merely because his purpose was to reduce the amount of his income and consequently, income tax.

In Ayrshire Pullman Motors Services and D M Richie v IRC[13], it was held;

[11] [1928] AC 21.
[12] [1947] (2) SA 196 (A).
[13] Ayrshire Pullman Motors Services and D M Richie 14 TC 754

“No man in this country is under the smallest obligation, moral or otherwise, to arrange his legal relations to his business or to his property so as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow – and quite rightly – to take advantage, which is open to it under the taxing Statutes for the purpose of depleting the taxpayer’s pocket. The taxpayer is in the like manner, entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Revenue.”

However, Oguttu (2016:8) continues to state that even though tax avoidance is not illegal, it has a negative effect on the revenues collected by a country and for this reason, it has been frowned upon by the courts, this is evidenced by the New Zealand case, Elmiger v CIR[14] in which Judge Woodhouse, stated:

“Each tax according to a legislative plan raises funds to carry on government. The purpose here is to tax earnings and profits less expenses and losses. If one or the other factor in any calculation is unreal it distorts the liability of the particular taxpayer to the detriment of the entire tax-paying group.”

When taxpayers engage in aggressive tax planning or tax avoidance schemes, the effect on the fiscus can be devastating, this is a principle that has been established in research in the past, the Republic therefore needs measures to combat this behaviour by taxpayers, through the use of anti-avoidance provisions in the legislation, double-tax treaties and through countries adhering to international initiatives and recommendations against tax avoidance (Oguttu, 2016:6). SARS remains the overseer of the implementation of these anti-avoidance provisions through the application of the GAAR and the specific anti-avoidance provisions of the Act to any transaction, structure or business arrangement yielding disproportionate amounts of tax or taking advantage of the provisions of the legislation for aggressive tax planning purposes. The effectiveness of these measures remains open to evaluation.

It is important to note that while tax planning does not translate to diminished tax morality, ie taxpayers are well within their rights to pay the ‘right amount of tax’ and are viewed as simply not paying more than is absolutely necessary, not lacking in tax morals. However, if the same taxpayer conducts transactions, on which they do not pay the necessary amount of tax, or alters or deceives the revenue authorities of their nature in order to minimise tax payment or in order to avoid contributing the correct amount of tax, there is decreased tax morality. Tax morality

[14] [1966] NZLR 161 (CA).

is therefore the subject under discussion, the link between tax morality and aggressive tax planning is that aggressive tax planning has at its core, the increased need to reduce one's tax liability, even if it means manipulating the law and ignoring the purpose with which the provisions of the legislation were promulgated (Fin24, 2019:1(b)).

2.7. How is avoidance measured in South Africa?

An example of the international initiatives currently in place is the OECD's recommendations to South Africa and other countries, as detailed in different reports published by the organisation for adoption by the countries which are OECD member countries and by countries nominating observer status. In 2013, the OECD published a report on addressing base erosion and profit shifting in which it notes that even though globalisation has boosted trade, increased foreign direct investment and encouraged the free movement of capital and labour, it has resulted in the shift of manufacturing bases from high-cost to low-cost locations (DTC, 2014:10).

According to the OECD (2013: 15) there is circumstantial evidence that BEPS behaviours are taking place which affect the corporate tax base of the countries involved negatively, however, it is difficult to measure exactly how much avoidance is taking place. In South Africa, Global Financial Integrity[15] published a report which reported tax and illicit capital flight from South African countries to the value of $50 billion and $80 billion per annum, while illicit capital funds are illegal, their measurement plays an important role in estimating the amount of tax evasion occurring and the participation of citizens in BEPS behaviours demonstrates a lack of tax morality. According to Esa Alexander (2015:1) South Africa has lost billions in tax revenue in the past decade as a result of large corporations, wealthy individuals and crime syndicates removing nearly R1 trillion to foreign countries. Furthermore, the Republic suffered "illicit financial flows"[16] of more than $122 billion between the 2003 and 2012 years, with $29.1 billion lost in 2012 alone.

South Africa suffered a decrease in the corporate taxes collected after the 2008 global financial crisis. The table below shows the trends in corporate tax collected between the 2007/2008 and 2013/14 financial periods. Per the table below, there is a decline in the percentage of corporate

[15] An organisation based in Washington, which researches and analyses illicit financial flows through conducting research, advising governments and providing policy solutions (per GFI website, 2019).
[16] According to DTC (2014:14) this term generally refers to the movement of money in a way that contravenes the laws or regulations of a country, the movement can be attributable to illegal activities such as tax evasion, organised crimes, money laundering, customs fraud, terrorist funding and bribery.

taxes included in the GDP, and while these statistics do not imply that BEPS activities were not occurring before the global financial crisis, they may indicate that BEPS activities are indeed occurring (DTC, 2015). Based on these statistics, there are indications of a declined tax morality in the corporate taxpayers and HNWI, taxpayers are shifting their income to other jurisdictions, evident from the outflow of capital and other cash outflows from the Republic.

Apart from a low tax morality, South Africa has suffered a weaker economic growth which is bound to negatively impact revenue collections. The noticed movement of capital and cash could well be due to the continued effects of the 2008 global economic effects or could be a combination of other factors, but a reduced confidence in the Republic cannot be ruled out yet. According to the Minister of finance, Tito Mboweni (2019:32)[17], revenue estimates have been revised down steadily since the 2014/15 period due to lower than expected collections and inefficiencies and structural weaknesses at SARS, which affected revenue collections. According to the Minister of Finance, South Africa's state-owned companies are in crisis as a result of governance failures, poor operational performance and have resulted in unsustainable debt burdens for these entities.

Year	Actual	% Year-on-year change	% of tax revenue	% of GDP
	R million	**%**	**%**	**%**
2007/08	141 635	17.9%	24.7%	6.8%
2008/09	167 202	18.1%	26.7%	7.3%
2009/10	136 978	-18.1%	22.9%	5.6%
2010/11	134 635	-1.7%	20.0%	4.9%
2011/12	153 272	13.8%	20.6%	5.2%
2012/13	**160 896**	**5.0%**	**19.8%**	**5.0%**

[Table 1: Showing the actual contributions of corporate tax to GDP over a period of 6 years]

[Table 1: extracted from the DTC[18] (2015:27)]

According to Table 1, the contribution of corporate taxes to GDP declined over the six years. From this table, it is evident that there was a negative change in the corporate taxes collected over the years 2007 to 2013. It should also be acknowledged that, over the years, the overall attitude towards tax planning has changed, with more attention being paid towards MNEs and their tax compliance in developing countries (Hearson and Brooks: 2012, 6). It is noticeable

[17] Per the 2019 Medium Term Budget Policy Statement.
[18] Davis Tax Committee: Second Interim Report on Base Erosion And Profit Shifting (BEPS) in South Africa: Introduction (30 May 2016)

from Table 1 that the decrease came in the 2009/10 period, ie after the global economic crisis and has remained steady thereafter, it is therefore not unreasonable to postulate that the crisis impacted companies and not that avoidance took place or that the level of avoidance that was taking place did not increase or decrease during this period. For the periods following the 2012/13 period, revenue collections continued to fall, despite corporate income tax collection maintaining its status of being the third largest revenue contributor. In the 2017/2018 period, the corporate income tax to GDP ratio increased to 6.9% and fell to 4.4% in the 2018/19 period (SARS, 2019:158). SARS attributes this decrease to the sluggish economic growth, structural challenges in some sectors of the economy, low confidence levels and political uncertainty and not necessarily low tax morality.

According to the 2019 medium term budget policy statement (2019 MTBPS), the economic and revenue outlook has deteriorated since the 2019 MTBPS relating to the tax year ended 28 February 2020 and the fiscal year ending 31 March 2020. Tax revenues have been revised down from the 2019 MTBPS estimates by R10.7 billion. Furthermore, the government has chosen not to apply additional revenue measures for the next year resulting in a lower revenue collection over a period of 3 years of an estimated R10 billion. Thus, no changes are assumed in revenue projections except for annual adjustments in personal income tax brackets, levies and excise duties, to align them with inflation.

According to the DTC (2016:27), multinationals search for ways to pay less taxes, creating complex corporate structuring of transactions, routing money to tax havens ensuring them an advantage over local entities, by affording them tax savings not available to local entities. Important and interesting to note are the changing attitudes in the governance of multinationals in the world and in South Africa. For example, SABMiller which was (before its acquisition by Anheuser Busch InBev in 2016) the world's second largest beer company, and was found to have been using accounting principles to remove profits from African and Indian companies to those in tax havens. ActionAid also reviewed the published financial information and the interviews with government officials, in order to ascertain how SAB Miller avoided tax across these regions, and in the reviewed AFS, SAB Miller went through great lengths to explain its tax in order to retain goodwill and as a consequence, MNEs have become aware of the risk to their reputations should they engage in aggressive tax planning. This raised concerns into their commitment and participation in the corporate social responsibilities in several countries (Hearson and Brooks, 2012:6). The South African Finance Minister also expressed the need to eradicate aggressive tax avoidance and likened it to a cancer eating at the South African tax base

Furthermore, according to a recent study conducted by the SA-TIED (The Southern Africa – Towards Inclusive Economic Development programme), South Africa loses an estimated R7 billion a year due to profit shifting by multinational corporations, which amounts to 4% of the total corporate tax receipts of the 2017/18 collection period. According to the study conducted, 98% of the calculated taxes lost to profit shifting is associated with the biggest 10% of multinational corporations (SA-TIED, 2018:1). As this is a more recent and continuing study into BEPS activities, it validates the above presented information and speaks to a growing concern in the South African context. Furthermore, according to the OECD (2017:14) when designing the country-by-country reporting mechanisms, as a response to BEPS, the MNE Groups with annual consolidated group revenue of 750 million Euro or more, are the primary targets of that provision. MNEs falling into this category constitute 10% of the MNEs conducting 80% of the global business.

BEPS activities are, by their nature, difficult to quantify. To estimate the damage caused by these activities SARB produces statistics showing the payments directed to offshore persons. According to data obtained from the SARB, between 2008 and 2011, this amounted to a total of R205, 239, 803, 668 for non-tangible good items, such as royalties, copyright, legal and accounting fees, architectural fees etc (SA-TIED, 2018:1). Of these outflows, more than 50% related to legal, accounting and management consulting services. These statistics further prove that after the 2008 global financial crisis, the legal, accounting and management consulting services increased by nearly R6.5 billion indicating an increase of 32.6% and an increase of R3.7 billion in engineering and technical services (DTC, 2016:27). These payments in themselves do not necessarily confirm the existence of BEPS in the Republic, however, the patterns and quantities of outflows, when taking into account the economic climate at that time suggest a serious threat to the fiscus as far as tax revenue is concerned and is an indication that the South African tax base may have been eroded through avoidance schemes and practices.

The trends presented above show that just after the global financial crisis, outflows increased by nearly one quarter, despite it being well known that the South African economy did not feel the full brunt of the aftermath of the financial crisis (DTC, 2016:28). Furthermore, it must be noted that the 2010 soccer world cup may have influenced these fluctuations over the period presented, however, the quantum of these transactions might not be explained by a singular event such as the soccer world cup. The report also alludes to the oddity of the consumption increasing during the aftermath of a global financial crisis in the slow economic growth, uncertainty and falling commodity prices.

It is important to note that, of the data presented above, payments made to non-connected persons are assumed to be at arm’s length and therefore excluded from the BEPS project, and more data is needed which shows country-by-country analysis of the outflows in the case of interest, royalties, leases and services. Payments to low-tax rated countries would need be investigated as they present an increased risk, especially when those jurisdictions lack meaningful substance, such as lack of operational functions or economic activity. Furthermore, it is important to note that the above statistics do not confirm the existence or the extent of any BEPS or IFF activities in the Republic, but are merely pointing out the oddities and probabilities given the time of their occurrence and the economic climate.

2.8. Reduced trust in the government

One of the most important reasons for reviewing the tax gap, defined by the HM Revenue & Customs (2019:3) as the difference between the amount of tax that should, in theory be paid to HMRC, and what is actually paid by the taxpayers, is to understand the relative size and nature of non-compliance. Once the non-compliance is measured, it can be addressed by the revenue service, in order to improve the overall health of the tax system. One of the things affecting how much the tax gap is, as defined by the HMRC, are legal interpretation, evasion, avoidance and criminal attacks on the tax system. All of these factors may be attributable to how the taxpayers view the government. People will be reluctant to pay to the government, their hard-earned money if they do not trust it.

The lowered trust in the South African government can be deduced from events such as the lapse in integrity at SARS, as reported on by the Nugent Commission (2018:4), events such as these were published by several media houses and exposed to the general public. It is therefore not unreasonable to deduce that if the revenue collection agency displays a lack of integrity in the carrying out of its duties, the taxpayers will not trust it. Due to the magnitude of misuse and abuse of funds by government, available to the public eye there is a lack of confidence in the government by taxpayers. These factors compound the issue of lack of trust in the government which is a critical factor in voluntary tax compliance and are some of the determinants of non-compliance which are at play in the South African context (Gilfillan, 2017:1). The perspective taxpayers have of the government and the tax authority is therefore important for their tax compliance, tax morale[19] and thus tax morality.

According to Phakgadi (2019:1), Transparency International ranked South Africa, 43/100 on the corruption perceptions index, with South Africa being perceived as the 73rd most corrupt nation out of 180 countries. This index is considered to be the leading global indicator of public sector corruption, the scale uses a scale of zero to 100, where zero is highly corrupt and 100 is considered very clean. South Africa is currently one of the countries ranking below 50, and according to the report, the sub-Saharan African region is still the worst performing, due to political and socio-economic contrasts in these regions. Despite these African countries declaring 2018 the year of anti-corruption, according to Phakgadi (2019:1), that commitment did not translate into concrete evidence. In the article, David Lewis, the Director of the Corruption Watch stated that South Africa's experience of State Capture was an example of the relationship between corruption and the undermining of democracy, stating that in order to loot public funds, the perpetrators have to undermine those key pillars of democracy that are responsible for holding those in power to account, in this case the undermining of Parliament and criminal justice institutions are key.

2.9. Conclusion

The purpose of this chapter was to discuss and outline the difference between tax avoidance and tax evasion, discuss how they impact South Africa and whether they may be accepted as indicators of a deteriorated tax morality of the South African taxpayer. Based on the findings documented in the discussion above, it becomes clear that it cannot be considered unreasonable to deduce that tax avoidance and tax evasion occurring in the Republic can be taken as an indicator of a deteriorated tax morale and hence a decreased tax morality. Given South Africa's history, income inequality and unemployment rate, the conversation on tax avoidance and tax evasion is necessary as part of addressing tax morality.

This is especially the case given the methodology of tax collection in South Africa, SARS simply does not have enough resources to know all of the transactions taxpayers participated in during the year of assessment, information such as inheritances, capital gains on disposal of assets and other trading income remains the taxpayer's responsibility to disclose. Whether or not the taxpayer does disclose all of their income (as required by tax laws through the

[19] Defined extensively in Chapter 3.

legislation) is dependent on their willingness to disclose and adhere to tax laws, which in turn can evidently be influenced by a host of factors including their perception of the government.

Based on the unfavourable tax collection statistics and analysis, such as the tax revenue growth rate lagging behind GDP growth, the tax buoyancy ratio currently below a unit and the increased foreign outflows of revenues, there is reason to be concerned about the South African taxpayer’s perception of the government. In addition, tax evasion, which does indicate an eroded tax morality in taxpayers is believed to be one of the reasons behind an enlarging tax gap, with other factors such as slow economic growth and unfavourable trading conditions contributing to the gap as well.

Exacerbating this situation are news and media reports of corrupt activities in the government, featuring some of the most prominent figures of the government and of the revenue collection agency, the lack of accountability and constant protest action over service delivery the citizens of the Republic are exposed to. Confidence in the government and the perception the taxpayers have of the government and therefore SARS, further threatens the South African tax base.

From the information and statistics provided, it can be concluded that there is an opportunity and cause for taxpayers of the Republic to be reluctant to pay tax or to employ aggressive tax planning activities, while this does not suggest that they are, the statistics presented certainly suggest a need for the government of the Republic and SARS to actively protect the South African tax base. The starting point of protecting the tax base against tax evasion and avoidance is focusing on taxpayer’s tax morality and investigating, using research available, the factors that impact taxpayer’s willingness to pay tax apart from the legal obligation to do so. Once this is established they can be applied to the South African context and recommendations can be formulated.

3 Chapter 3: An analysis of tax morality research in other jurisdictions

3.1. Introduction

After having defined what tax morality is[20], and exploring the concepts of fiscal citizenship, responsible tax and after the investigation of how a decreased tax morality threatens the social contract between the state and citizens, an enquiry into whether tax avoidance and tax evasion may be used as indicators of decreased tax morality was conducted. In this enquiry, the difference between avoidance and evasion was explored, and the right taxpayers have to arrange their affairs in a way that allows them to pay a minimal amount of tax was established. It was then found that the difference between permissible tax planning and aggressive tax avoidance is the extent of the arrangement of tax affairs by the taxpayer. After considering the SARS' statistics and the amount of cash outflows existing in the country together with a consideration of the economic conditions at that time (ie the global economic crisis and slow growth in the 2008 – 2009 period), it was concluded that indeed, the increased tax evasion and tax avoidance, which are possibly occurring in the Republic, may be used as indicators of decreased tax morality and warrant further investigation into the ways in which decreased tax morality may be mitigated.

A more detailed understanding of the factors that influence taxpayers' perceptions of the tax system and willingness to pay taxes is the starting point for improving tax morality. The purpose of this chapter is to break down the factors that have been identified as contributing to taxpayers' perceptions through the review of the results from the World Values Survey (**WVS**) on the matter. The WVS is a global network of social scientists studying changing values and their impact on social and political life, led by an international team of scholars, with the WVS Association and WVS Secretariat headquartered in Vienna, Austria (World Values Survey, online). The main source for the results under review is the public consultation document issued by the OECD in May 2019 (OECD, 2019:11).

It is important to note that the survey uses the term tax morale, instead of tax morality as it investigates tax morale. The report sets out the factors influencing tax morale for individuals and for businesses. There is a difference between tax morality and tax morale as, while these are closely connected concepts, they do not mean the same thing. Tax morale indicates the state

[20] As taxpayer's willingness to pay tax and to comply with tax laws (Chuene: 2018:4)

of mind or wellbeing of the taxpayer while morality indicates a willingness to do the right thing, which in this case, is the payment of the amount of tax imposed by the legislation without any malicious intent to the fiscus. Torgler (1999:735) defines tax morale as the intrinsic motivation to pay taxes, and continues to state that it is a key determinant to explain the degree of tax compliance, taking into account the low level of deterrence. It is not unreasonable to closely align the tax morality of taxpayers to their tax morale, their attitude with regard to paying taxes informs whether they are compliant or not. For this reason, the factors that have been identified in this study as affecting tax morale will be accepted as factors also affecting tax morality.

Due to the difficulty in measuring the amount of tax evasion taking place, it is difficult to measure the level of tax morality, instead, the tax morale or the mind set of taxpayers is investigated, it is this motivation to pay tax that informs whether or not taxpayers do the right thing, which in this case is the payment of taxes.

As tax morality is a global concern, and its improvement is paramount, the factors speaking to tax morale must be reviewed at different levels, based on the information and data readily available. The global analysis will therefore be reviewed first, followed by the different regions involved in this study, in order to provide a regional comparative, followed by a presentation of results of over 500 firms and ultimately the South African results, with the results for individuals presented first. It should be noted that the WVS focused specifically on developing countries for this study, due to the impact of tax morality and therefore its improvement in the development of these countries.

3.1.1. A global view of tax morality

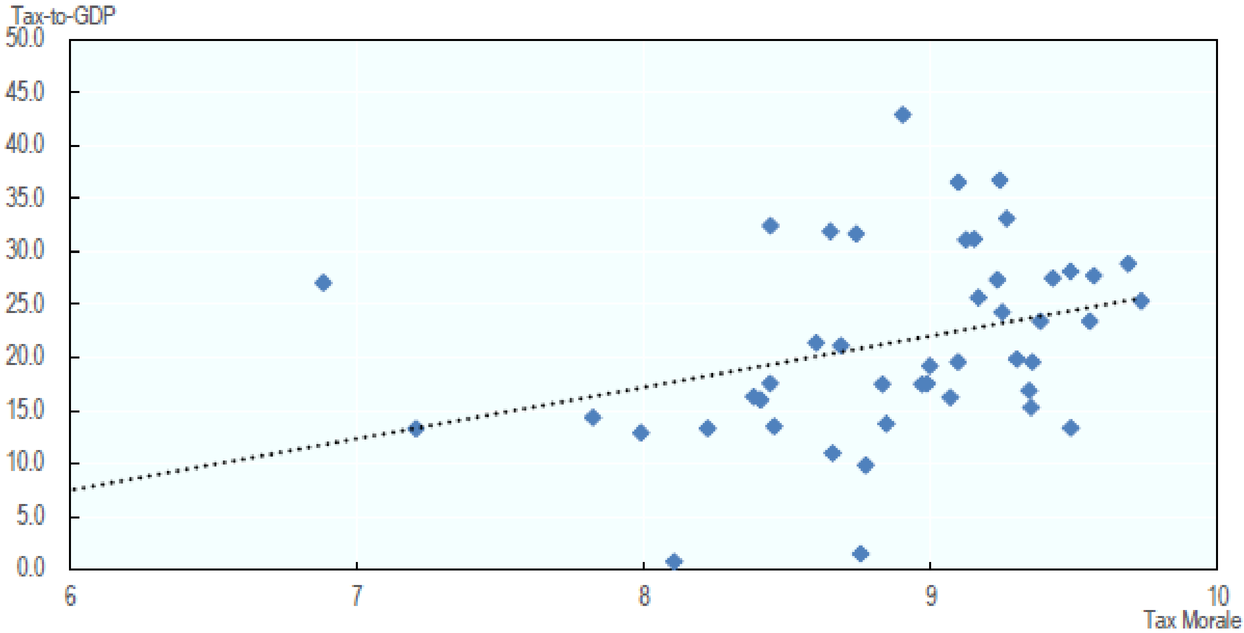
In 2013, the WVS published a research paper on which the OECD reported, in which institutional and socio-economic factors were associated with tax morale. In this study, the WVS compared, for individuals, different attitudes towards tax avoidance and tax evasion. This was done by posing certain questions to the individuals partaking in the survey, such as whether they could justify cheating on their taxes. According to the OECD (2019:47), the following countries per region responded to the tax morale question in World Values Survey in the period 2010 – 13:

OECD Countries	**Latin America**	**Emerging Asia**	**Africa**	**Eastern Europe**	**Rest of the world**
Australia	Argentina	China	Algeria	Belarus	Armenia
Estonia	Brazil	Hong Kong	Egypt	Georgia	Azerbaijan
Japan	Chile	India	Ghana	Romania	Cyprus
Netherlands	Colombia	Malaysia	Libya	Ukraine	Iraq
New Zealand	Ecuador	Pakistan	Morocco	Russia	Jordan
Poland	Mexico	Philippines	Nigeria	Ukraine	Kazakhstan
Slovenia	Peru	Singapore	Rwanda		Kuwait
South Korea	Trinidad and Tobago	Thailand	South Africa		Kyrgyzstan
Spain	Uruguay		Tunisia		Lebanon
Sweden			Zimbabwe		Palestine
Turkey					Uzbekistan
United States					Yemen

According to the OCED (2019:14), when the participants in the relevant countries were asked the question: "do you justify cheating on taxes if you have the chance?", those in the OECD member countries and Latin American economies reported the highest levels of tax morality with more than 70% of the population answering in the negative. It is important to note that these regional surveys are not comparable to each other, the coverage per country is still limited and the period of implementation of each survey differs. Furthermore, the questions posed in this study are intended to measure the attitudes and perceptions and the information presented therefore correspond to self-report answers that can lead to a biased result (OECD, 2019:50). This statistic dropped to 50% in Africa and Eastern Europe, with the response indicating an increased willingness to justify cheating on taxes when given the chance.

When comparing the taxation levels of these regions and their effect on tax morale (Per figure 1.1 below), it was found that for the majority of the documented countries, the higher the tax to GDP, the higher the tax morale, as such, according to the report, countries with higher levels of taxation are reported to have higher levels of tax morale According to the results found between these regions, there is a positive correlation between the level of tax morale and the tax-to-GDP ratio in a country.

Figure 1.1 Tax morale and tax-to-GDP ratio

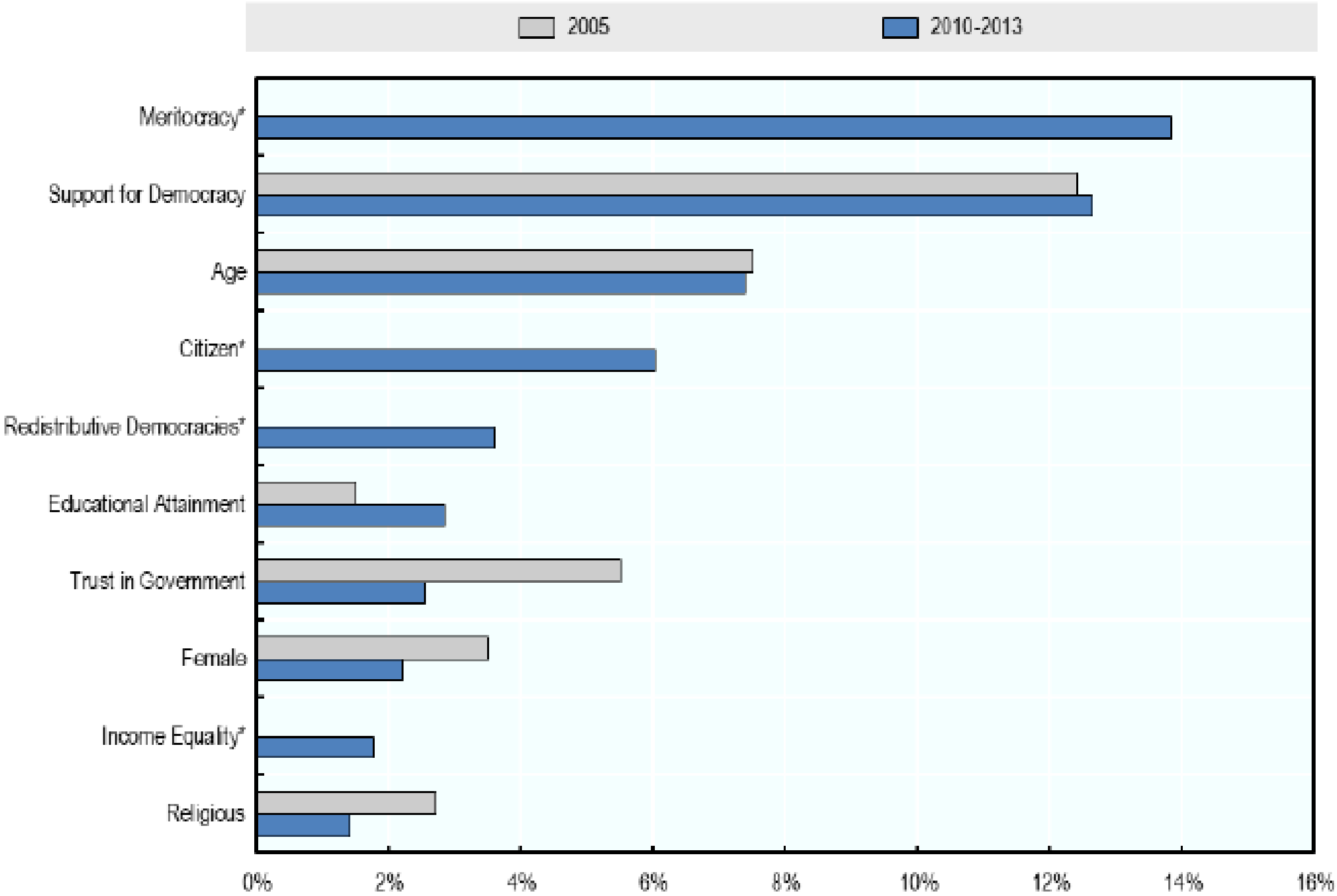


Source: For tax morale, the data is from the World Values Survey (2010-14). For tax-to-GDP ratios, the data is from the OECD Global Revenue Statistics Database and the World Development Indicators.

The cause of this positive relationship between these factors is not certain, but is suspected to be indicative of a virtuous circle of public service provision, co-operative tax compliance, and fiscal stability that many developing countries face challenges in addressing. These factors are explored in a more detailed analysis in the referenced report.

Furthermore, according to the statistics provided by the WVS, institutional and socio-economic factors are strongly linked with tax morality, this result is consistent with previous studies conducted by the WVS. In Figure 1.2 below, the marginal effects of each variable on the probability of reporting high tax morality are shown.

Figure 1.2 Institutional and socio-economic factors associated with tax morale



Source: OECD Development Centre/Centre for Tax Policy and Administration estimations based on World Values Survey (2010-2014), and OECD, 2013.

In Figure 1.2 above, the effect of an additional unit of each of the variables is shown, such as religion, gender, trust in government, support for the government etc. is measured against tax morality. As can be deduced from Figure 1.2 there is a positive relationship between an additional unit of these factors and tax morality, an additional unit of support for the government increases tax morale between the years 2000 to 2010/2013.

The below presented results emphasise the role of socio-economic factors in explaining individual taxpayers' tax morale, these may be summarised as follows:

— Individuals who are more educated have a more positive attitude towards the payment of tax, this could be due to the fact that these individuals have a deeper understanding of the role of taxation in the economy.
— Women tend to exhibit higher tax morality than men.
— Older people are less likely to justify cheating on taxes than younger people.

- Those who are citizens of the country they live in, exhibit higher tax morality than those who are non-citizens.
- Individuals who claim a faith or religious identity have more positive attitudes towards paying taxes.

According to the OECD (2019:18), the confirmation of these links provides confidence to use such factors in constructing taxpayer profiles and enabling better targeting of efforts by tax revenue collection agents, and it is of vital importance that an analysis is performed at a country level in order to acquire the local context.

In addition to the abovementioned socio-economic factors, the following institutional factors show that government policies and performance are also likely to have a significant impact on tax morale:

- Individuals who believe they are living in a meritocratic society have a significantly higher tax morale.
- Individuals who trust their national government display higher tax morale than those who do not trust their government.
- Individuals who identify fiscal redistribution to be essential show higher tax morale.
- Individuals who perceive democracy to be the best system of government for their country tend to think that cheating on taxes is not justifiable.

According to the OECD (2019:16), a common thread in all of the factors identified in the above analogy is that government performance and its responsiveness to the needs of citizens appears to be a central theme in terms of driving tax morale in all of these regions. According to these statistics, it is clear, across these regions that trust in government is affected by how effective the government is in delivering on its promises to its citizens, and perceived meritocracy relies on governments helping in the creation of a society where hard work results in success and where opportunities are available to all. On a global level, this analysis assists in gauging the global perspective, a more focused regional perspective and analysis may assist in the exploration of specific aspects affecting different regions and different countries.

3.1.2. An analysis of tax morale in Asia

There is limited data available for the Asian region as the AsiaBarometer (a comparative survey database in Asia, including East, Southeast, South and Central Asia[21]), however, the World

[21] According to AsiaBarometer, online, reference included in Bibliography.

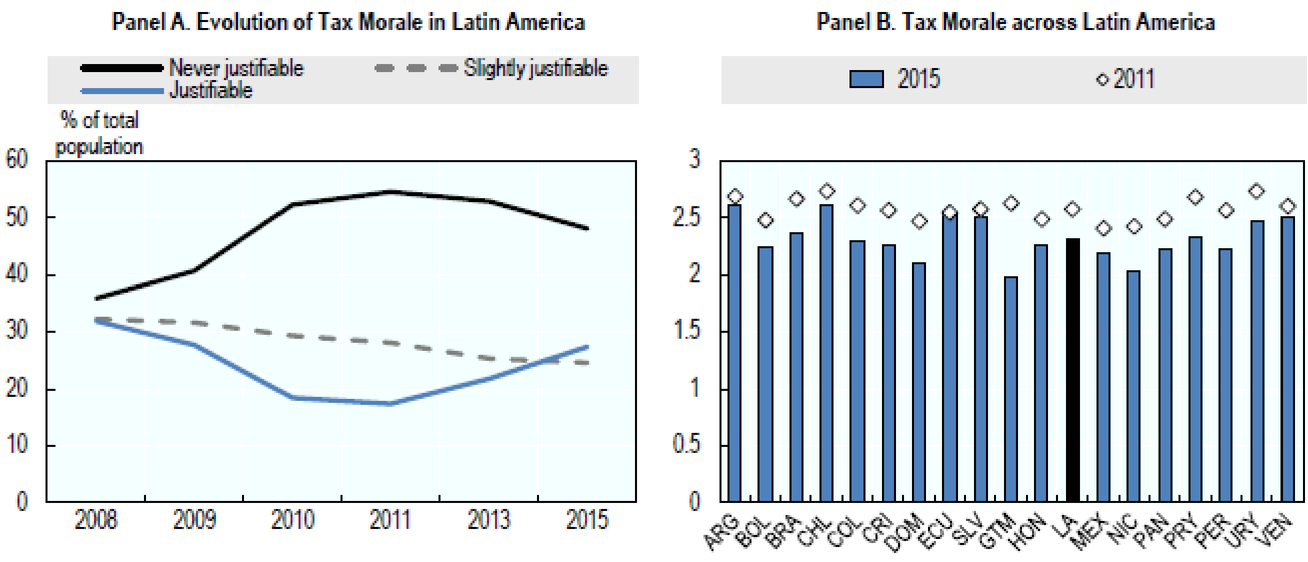
Values Survey data is able to provide some insight into the factors that appear to drive tax morale, even though fewer observations have been obtained compared to the other regions.

From the available data, it is clear that taxpayers having preferences for more equal and meritocratic societies have higher tax morale. According to the observations, individuals who are older, more educated and female participants also show higher tax morale, once again speaking to the importance that taxpayer education programmes aimed at younger, less educated citizens have, and their impact. Due to the limited data in the WVS, the strength of the fiscal contract in Asia cannot be tested.

3.1.3. An analysis of tax morale in Latin America

In Latin America, a steady decrease in tax morale was noted between 2008 and 2015, as shown by Panel A in Figure 1.3 below. As can be seen from the below figure, the percentage of Latin Americans who would never justify evading paying taxes decreased from 54% in 2008 to 48% in 2015, and those who would find reason to justify evading taxes increased from 17% to 27% from 2011 to 2015, according to panel B in the below.

Figure 1.3 Tax Morale in Latin America



Source: OECD Development Centre/Centre for Tax Policy and Administration calculations based on Latinobarómetro (2016) and Afrobarometer (2015).

In Panel A, the level of tax morale was measured through posing the question "Do you justify cheating on taxes if you have the chance?" on a scale of 1 to 10 (1 being not justifiable at all and 10 being totally justifiable). From the Panel, it is clear that between the years 2008 and 2015, there has been a negative shift in the way Latin Americans viewed tax morale, with more taxpayers believing evading taxes is sometimes justifiable, with those who believe it is never justifiable decreasing and the population that believes it is slightly justifiable also decreasing over the years.

In Panel B, tax morale is presented as the average of all available observations for the question "How justifiable do you believe it is to evade paying taxes?", on a scale of 1 to 10 (1 being totally justifiable and 10 being not at all justifiable) and normalised between 1 and 3 for illustrative purposes. The black bar represents the simple regional average including all economies in the Latinobarómetro.

According to the OECD (2019:23), there seems to be a link between tax morale and recent economic changes in Latin America. It is alleged that the fall in tax morale coincides with an economic slowdown that also began in 2011. It is noted that the economic slowdown brought a period of economic and social progress to an end, where poverty had declined sharply and created an increasingly demanding middle class. Factors such as reversals in poverty reduction, inequality, and global trends such as technological change, aging populations and a number of corruption scandals across Latin America have created an uncertain climate regarding the ability of government institutions to respond effectively to the needs of citizens in Latin America (OECD/CAF/ECLAC, 2018:27).

According to the OECD/CAF/ECLAC (2018:28), there has been a deterioration in the Latin American perception of well-being, driven by falling confidence in public institutions and decreasing satisfaction with public services. A strong fiscal contract is critical in the fostering of citizen well-being, and at the same time, greater well-being would support a stronger social contract, when citizens perceive that government institutions are unable to respond to their demands, as in the case of Latin America, they are not incentivised to fulfil their obligations in the social contract and this in turn has a negative impact on citizens' well-being.

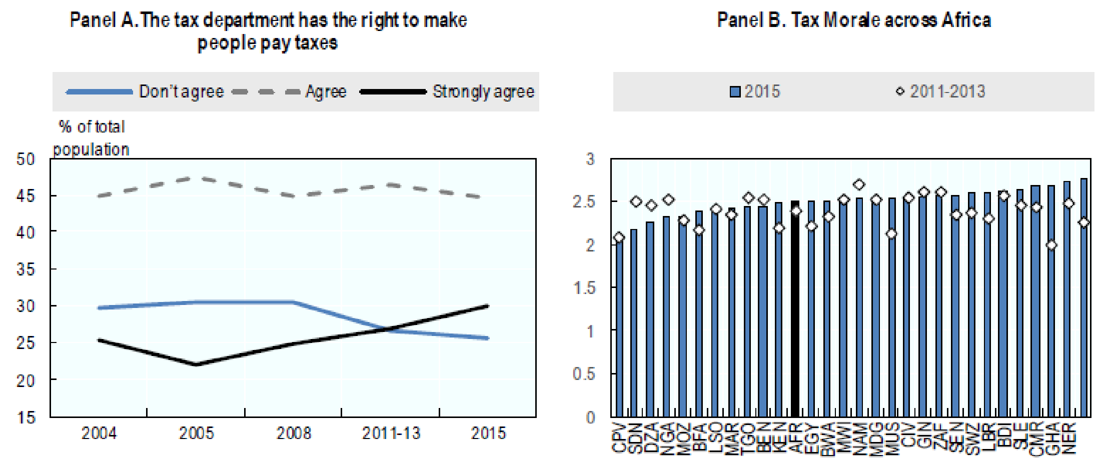
A number of factors have been identified which affect an individual's tax morale, in line with the globally identified factors such as, older age, higher level of education, and faith are examples of such factors. Taxpayers who claim democracy as their preferred system of government are significantly more likely to never justify cheating on their taxes but are also less likely to argue for increased taxes to pay for development. This therefore draws attention to the fact that high tax morale in one area (which in this case is never justifying cheating on one's taxes) does not automatically correspond to high tax morale in another area (willingness to pay more taxes), (OECD, 2019:24).

Interesting to note, the relationship between tax morale and public services is not very clear for Latin America, the results between prior studies and recently acquired data are mixed. Results from the Latinobarómetro find a positive relationship between tax morale and satisfaction with education, health services and public services, that is, the more satisfied the citizens seem to be with the education facilities and the medical services, the greater their tax morale. The current analysis finds a mixed relationship between public services and tax morale, with individuals who are more satisfied with public health provision, showing lower tax morale and no link being found between the citizens' satisfaction levels with the education services and tax morale. For healthcare, the inconsistent results may be linked to the way in which it is financed in Latin America - many countries have mixed financing models including social security payments. General taxation and significant out-of-pocket expenses which result in many individuals in Latin America paying significantly for health individually, rather than through taxation. However, despite the relationship being unclear between specific service provision and tax morale, trust in government and the perceived level of corruption both showed an impact on tax morale, highlighting the importance of government performance in Latin America for influencing tax morale in Latin America (OECD, 2019:24).

3.1.4. An analysis of tax morale in Africa

There are significant variations between countries in the African continent, although most countries have seen increased morale, some have seen it decline according to the 2011- 2015 Afrobarometer. According to Figure 1.4 below (depicting tax morale in Africa), between the 2005 and 2015 periods, the proportion of people who strongly believed that the tax authorities had the right to make people pay taxes increased from 22% to 30%.

Figure 1.4 Tax Morale in Africa

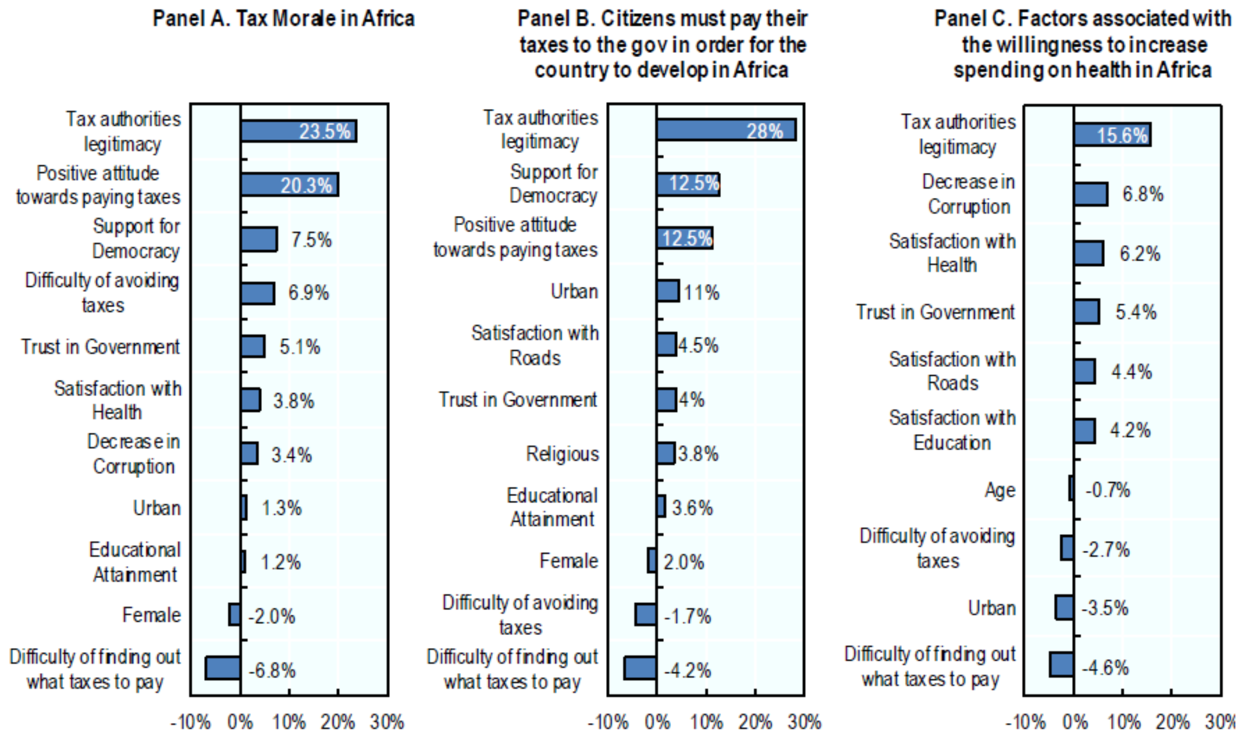


Source: OECD Development Centre/Centre for Tax Policy and Administration calculations based on Afrobarometer (2015).

In Panel A, the question "For each of the following statements: "please tell me whether you disagree or agree: The tax authorities always have the right to make people pay taxes." In Panel B, tax morale is measured as the average of all available observations for the question "How wrong is not paying the taxes" on a scale of 1 to 3, 1 being not wrong at all and 3 being wrong and punishable. The black bar in the middle represents a simple average of the countries included in the Afrobarometer. Per the positioning of the black bar, the average person in Africa believe there is something wrong with not paying tax.

One of the factors identified as having a significant impact on tax morale is a perceived improvement in the quality of tax administration. On the surveys conducted, the Afrobarometer was the most detailed and includes a focus on tax administration. Below is Figure 1.5, showing the importance of the perceptions and the quality of the tax authority to taxpayers. According to Figure 1.5 below, gains in the perceived legitimacy of the tax authority have the largest impact on increasing tax morality. Other factors identified, which include linking taxes to public spending, particularly health, could all improve the willingness to increase tax payments with an improved tax administration over time being identified as a key driver in the increasing of tax morale.

Figure 1.5. Factors associated with tax morale in Africa, 2015



Source: OECD Development Centre/Centre for Tax Policy and Administration estimations based on Afrobarometer (2015)

It is important to note that Figure 1.5 measures the marginal effects on the probability of reporting high tax morale and a high willingness to increase taxes. In Panel A, B and C the results are based on regression coefficients of significant variables. In Panel A, the question posed to the participants of the survey to measure tax morale was: “Do you justify cheating on your taxes if you have a chance”?

Making taxes simpler to pay has also been identified as a factor increasing the willingness to pay in taxpayers, it was observed that a higher perceived difficulty in finding out how to pay taxes has a negative impact on tax morale.

The improvement of public service delivery has been noted as one of the factors driving tax morale in Africa. According to the data provided effective public services are a means to demonstrate how well governments turn tax revenue into beneficial expenditure, so these services can produce a double dividend comprising both the intrinsic benefit of the services provided and the benefit from public satisfaction generated from the provision of these services. According to the results provided, there is a positive relationship between tax morale and the satisfaction derived from functional roads, education and health services.

Generally, the factors influencing tax morale and therefore tax morality in Africa match those identified at the global level, these include democracy, faith, educational attainment, and trust in government. From these factors, trust in government was identified as the most consistent factor, emphasising the importance of the relationship between tax morale and the performance of the government. These factors also speak to the improvement of tax morality in South Africa. One factor found to contradict the factors identified at the global level was that women in Africa were found to have a lower tax morale than men. This difference has been attributed to the fact that tax systems can affect men and women differently. This happens in the form of the interaction of the tax system with other patterns of economic behaviour, such as differences in labour participation, entrepreneurship, wage rates, education decisions, savings, property ownership, and consumption. If tax policies are designed in such a way that the gender roles and inequalities affecting women and men are not considered, these policies can entrench gender inequalities and deepen women's poverty and/or decrease their willingness to participate in the fiscal contract.

3.2. Analysing tax morality in corporate entities

According to OECD (2019:29), the focus on the taxation of businesses has increased over the years, with the tax certainty agenda seeking to increase the predictability of the tax environment to encourage investment. The tax certainty agenda and the tax morality agenda are closely intertwined, as both of them are concerned with the factors that determine the willingness for businesses to voluntarily take part in the tax system. While there is minimal data on the tax morality of businesses, a recent OECD tax certainty survey provides a useful proxy to open the debate on business tax morale in developing countries, and therefore the tax morality levels in these developing countries.

It is important to note that the impact of low tax morale in businesses is not confined simply to tax revenues, but also encompasses the level or type of investment chosen by the firms and other spill-over impacts. For example, low tax morale in individuals can result in tax avoidance and in firms exiting the market as, at the end of the day, it is individuals who run firms.

Tax morale in businesses has both similarities and differences to tax morale among individuals, as these decisions in firms are made by individuals, some of the factors influencing those individuals may spill over into firms, especially for small firms. Factors include corruption, cultural norms and other norms. Other factors determined by the firm's corporate behaviour might also affect their tax morale. These include risk preferences, tax advisor effects, board reputation, company structure, size of the firm, compliance cost, and tax complexity.

The estimates of tax morale vary across regions and countries, emerging economies show the lowest levels of tax morale. As there is no simple way of measuring tax morale, proxies are generally used. One commonly used method is the fraction of sales concealed from tax authorities. Using this measure, on average, OECD member economies present the highest levels of tax morale with less than 46% of formal firms not declaring all sales for tax purposes. In emerging regions, the figures are relatively higher, especially in Africa and Latin American countries, with almost 60% of firms not declaring all sales for the purpose to reduce their tax payment. It is important to note that although this is the measurement used as a proxy for tax morale; other factors, most notably enforcement levels, are likely to impact on the results.

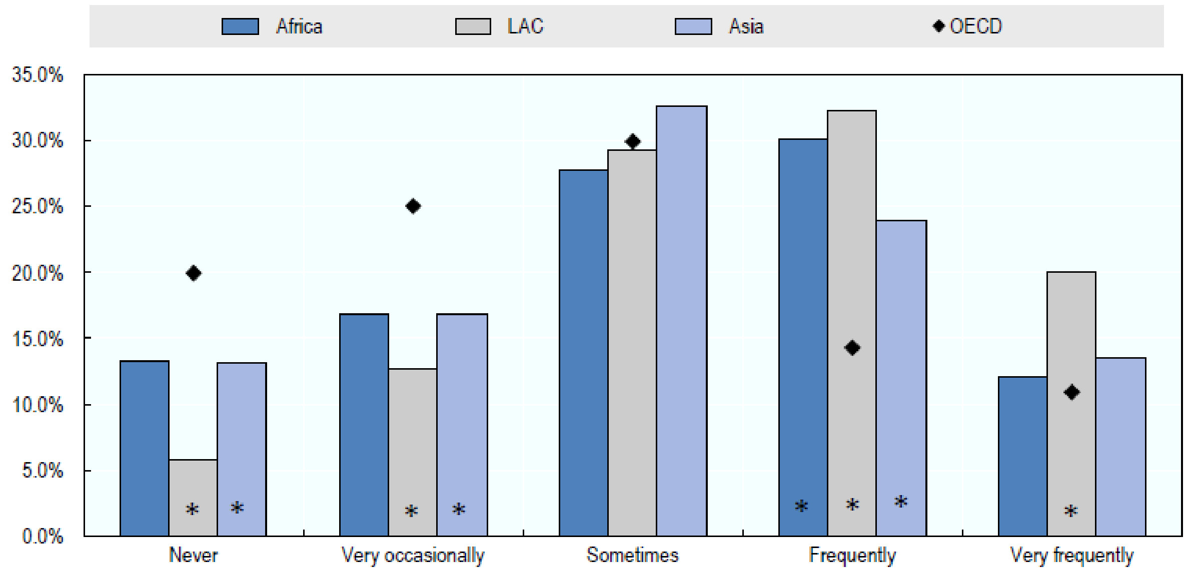
Furthermore, it should be noted that there is limited data on the main challenge into deepening the analysis for business tax morale. Datasets similar to those used for individuals’ tax morale do not exist. The available empirical papers that have focused on tax morale for businesses have used the European Bank for Reconstruction and Development (EBRD) and World Bank Environment Performance Survey (BEEPS), based on a question related to percentage of total sales declared for tax purposes by a firm. As of 2014, the question is no longer included in the survey, limiting the options to continue analysing firms’ tax morale with this methodology.

3.2.1. MNE tax morale – lessons from a survey on tax morality

Due to the limited data on the tax morale of MNEs, tax certainty is used in this study as a proxy to measure tax morale among MNEs. Tax certainty appears to offer potential as an indicator of tax morale of MNEs, as tax certainty affects the ease of paying taxes and relationship with the tax authority, these are some of the issues that were found in Africa as having significant impact on tax morale of individuals (OECD, 2019:32). Tax certainty is likely to influence issues that shape how a business chooses to engage with the tax system of a country, for example in its choices around investment, approach to tax incentives, and tax planning strategy. The analysis is based on a unique data source, the 2016 OECD business survey that gathered views from senior staff from over 500 companies, almost all MNEs, providing views on tax certainty in 82 developing countries.

According to the survey, there appears to be a greater impact on business decisions in developing countries due to tax uncertainty than in OECD member countries. While there may be other factors influencing investment decisions, the survey suggests that tax uncertainty can have an impact and that for developing countries the impact is more common than it is for OECD member countries. The participants of the study revealed the following results in Figure 2.1 to the question: ‘How frequently has uncertainty in the tax system had a serious impact on business decisions?’, the respondents had to indicate on a scale of 5 to 1, where 5 indicated very frequently, 4 frequently, 3 sometimes, 2 very occasionally, and 1 never. The question posed was asked separately for each country selected by the respondents, each respondent could select a maximum of 4 countries.

Figure 2.3. Frequency of tax uncertainty seriously affecting business decisions



According to Figure 2.1 above, the frequency of tax uncertainty affecting business decisions is higher in the “very occasionally, sometimes and frequently” brackets which means that it is often a significant consideration when business decisions are made.

Tax certainty has significant impacts, including changing business structures, adding costs and even reducing the scale of the investment. These impacts are understandable, as businesses seek to maximise their returns on investment, it is important that all foreseeable future costs are quantified. This becomes impossible if the tax cost/exposure is not quantifiable. Some of the impacts of tax uncertainty arising from the survey are: reduced or changed location of investment, increased risk premium or tax rate assumption for potential investment, change in business structure, additional resource expenditures (including management time) incurred to manage tax uncertainty and the firms taking advantage of tax uncertainty to reduce the firm’s tax liability in a country.

According to OECD (2019:36), the sources of tax uncertainty include: the legal systems of the jurisdictions, tax administration in the targeted countries, dispute resolutions in the jurisdictions, and specific international dimensions. In terms of the survey reported, unclear, poorly drafted tax legislation affects African firms more than the Latin American countries and the Asian and OECD member firms. The report further shows that uncertainty about the ability to obtain withholding tax relief or claim VAT/GST input tax credits or refunds, impacts the African countries, followed by the Latin American countries and lastly the Asian countries with the lowest level of impact under this category.

In terms of tax administration, it is evident from the reported survey results that unpredictable or inconsistent treatment by the tax authority affects Latin American countries and Asian countries more than it affects Africa while OECD member countries are least affected by them. Bureaucracy to comply with tax legislation, including documentation requirements proved to affect Latin American countries the most, with Asian countries following and Africa reported to be the least impacted. When it comes to the inability to achieve early certainty pro-actively throughout rulings or other similar mechanisms, Latin American countries reported to be the most impacted economies, with Africa and Asia reportedly impacted in a similar manner.

In terms of dispute resolution, lengthy decision making of the courts, tribunals or under relevant bodies appear to impact Latin American countries more than African and Asian countries while unpredictable and inconsistent treatment by the courts also appear to impact Latin American countries more than Asian and African countries. And in terms of specific international dimensions, inconsistencies or conflicts between tax authorities on their interpretations of international tax standards appears to impact the Latin American countries more than any other jurisdiction in the survey. Lack of expertise in tax administrations on aspects of international taxation appears to be impacting African and Latin American countries more than OECD countries and Asian countries. Furthermore, lack of understanding of international business affects mostly the Latin American countries, followed by the African countries and the Asian countries experience the least impact.

3.3. Tax morality research in South Africa

3.3.1. A study performed on taxpayers’ attitudes to paying tax

In 2008, Professor Ruanda Oberholzer of the University of Pretoria conducted, as part of a bigger project, research on the attitudes of South African taxpayers towards taxation, this study was conducted on South African individuals, through face-to-face interviews using semistructured questionnaires[22] at their homes (Oberholzer, 2008:45). The research was conducted on a group of South African individuals from the greater Tswane Metropolitan area as it represents a heterogeneous population, the findings from this study therefore do not represent the views of the rest of the country. Of the chosen population, only twenty-five individuals, above the age of 20 were randomly selected to be participants in this study.

According to Oberholzer (2008:46), there appears to be a substantial tax gap between the tax that is theoretically collectable from economically active persons in South Africa and the tax that is actually collected by SARS, and one of the main reasons identified as being responsible for this gap is the cause of non-compliance caused by the attitudes and perceptions people have of SARS and the government. The purpose of this study was therefore to determine, generally, how the taxpayers of the Republic felt about paying taxes through their answers to the answers posed by the questionnaires.

While this study was completed over 10 years ago, limited to the population of participants interviewed, it gives a sense of how the South African taxpayer perceived the tax collection agency, the government and the perception of the taxation methodology. Furthermore, these results are of interest due to their collection before the 2009 – 2008 era of blatant corruption. The study provides a starting point for the discussion to be presented, as it is presented by the OECD.

3.3.2. Demographics of the participants to this study

The participants of this study comprised 56% male participants and 44% female participants. Their ages ranged between 21 years and above years with the majority of the participants being between 21 to 59 years of age. About 40% of the respondents were black Africans and the rest of the demographic consisted of coloured, Indian, Asian and white individuals. When asked about their individual types of residential dwellings, the participants revealed about 8% of them live in a flat in a block of flats or in a house, flat or room in a backyard and the rest of the participants are evenly spread, living in a room or flatlet not in a backyard but on shared property.

Furthermore, of these participants, 40% are salaried employees in the private sector, 24% are self-employed, 20% are salaried employees in the public sector, 12% are unemployed and 4% are economically inactive. The income per month of the participants showed that 28.85% of

[22] Consisting of closed- and open-ended questions.

them earn between R0 – R1 000, 22.31% earn between R5 001 – R10 000, 15% earn between R10 001 – R15 000, while 14.23% earned between R2 918 – R5 000, 9.62% earn between R1 001 – R2 917, 8.08% earn between R15 001 – R20 000, 1.54% eared between R20 001 – R30 000 and finally, only 0.37% earned more than R30 001 before deductions.

The participants further disclosed that 27.69% of them lived with four people within their household, while 23.08% live with three people, 18.08% of them live with two people, 13.08% live with five people, 9.62% live with six people, 3.46% live with only one person, 1.92% of the participants reportedly live with seven people, 1.54% live with eight, 1.15% live with nine and 0.38 live with ten or more individuals in their dwelling.

3.3.3. Findings from this research

On the perception of the taxpayers of the then current government; over 50% of the participants revealed that they feel neutral when asked about their support of the current government at the time. The rest of the participants expressed either support (24%) or no support (also 24%) for the local government, furthermore, 72% of the participants expressed concern about the future of South Africa while 20% expressed hope for the future the remaining 8% were neutral concerning the future of the Republic. On income distribution in South Africa, 60% of the participants believed that everyone should be entitled to keep the income they earn, the remaining 40% were of the view that the income they earn should accrue to the government which should in turn, distribute this equally among all of the citizens of South Africa.

The participants were further asked a number of general tax issues, the following opinions were prominent:

- All of the participants were of the opinion that waste and corruption in the government are high,
- 87.50% of the participants were of the opinion that income tax rates must be reduced,
- 79.17% of the participants believed that a large proportion of taxes are used by the government for meaningless purposes,
- 73.91% of the participants believed the VAT rate must be reduced,
- Of the participants, 56% believed rich people should pay tax at a high rate,
- while another 56% of the participants believed tax is very complicated and do not know how to calculate their own tax liability,
- Of the participants, 34.78% believed that the amount of tax they have to pay is reasonable considering the benefits received,

- 25% of the participants believed that it is unfair to pay tax,
- 24% of the participants believed the income tax rate should be the same, regardless of the amount of income earned, and
- 20% of these participants do not know why they have to pay tax.

The participants were also asked for what they consider an appropriate penalty for certain crimes, the punishments ranged from penalties being levied, to a fine being issued and imprisonment of the perpetrator. For housebreaking and hi-jacking, all of the participants believed that the appropriate punishment is imprisonment. For drunken driving, 95.83% of the participants indicated that they believe drunken driving should result in the imprisonment of the perpetrator, while the 4.17% of the participants believed the appropriate punishment for drunken driving was a fine. For shoplifting, 75% of the participants believed that the punishment for shoplifting should be imprisonment, 20.83% believed there should be a fine for the perpetrator and 4.17% believed there should be no penalty for criminals shoplifting. For failing to report additional income, 87.5% believe that the appropriate punishment is a fine, while 8.33% believe that no penalty should be levied and only 4.17% believe imprisonment is an appropriate punishment. Finally, for tax evasion, 60% of the participants believe that there should be a fine for evading tax, 36% of the participants believed criminals should be imprisoned and 4% believe that no penalty should be levied for tax evasion. The different perceptions of these two levels of punishment indicates the lack of understanding as to what tax evasion is, which in itself is a concern from a tax morality perspective. It is important to note that tax evasion is a crime in the Republic, and according to this study, there were still participants who believed that no penalty should be levied against this type of law breaking.

3.4. Conclusion

The aim of this chapter was to establish the factors influencing tax morality, in the world and in South Africa. The factors identified in the global analysis apply in the African and South African contexts. While there is limited data in South Africa, there are multiple factors to be explored in the South African context, factors that require exploration in the South African context and require further investigation in the identification of processes and procedures to increase tax morale and hence tax morality in South Africa. These factors include different age groups, the type of government a jurisdiction has, government provision of services to the public and the perception taxpayers have of the government. Most of the responses received from the surveys conducted spoke to the existence of the fiscal contract between citizens and the government, and how it impacts their willingness to pay taxes and comply with tax laws.

The next chapter aims to evaluate the factors identified in this chapter, for application in the South African context as it currently stands. Thereafter, the final chapter will present recommendations to South Africa to increase tax morality.

4 Chapter 4: an evaluation of the factors influencing tax morality and their applicability in the South African context

4.1. Introduction

Multiple factors have been identified as having an impact on the tax morality of taxpayers, at a global level and at the South African level. The purpose of this chapter is to evaluate these factors in the South African context, to identify any areas that can be improved by the South African government in order to improve the perspective taxpayers have of the government, thereby increasing tax morality and broadening the tax base. The research presented in the previous chapter identified a range of socioeconomic and institutional factors that may influence a taxpayer's willingness to pay tax and a review of the literature available revealed that it may be more beneficial to move away from the mechanistic recommendations on tax administration, towards an analysis of the relationship between tax morale as an indication of the tax morality levels in developing countries and individual characteristics as well as satisfaction with and trust in the government (OECD, 2013:2).

It is important to note that the data from global and regional public opinion surveys may not predict actual behaviour, as people do not necessarily do what they say they will do. The starting point of this evaluation is by determining the socioeconomic, institutional and perception factors identified by the WVS and then evaluating some factors identified by the OECD as being relevant considerations for policymakers.

4.1.1. Support for democracy in South Africa

South Africa held its first democratic election in April of 1994 under an interim Constitution i.e this election was the first in which all races participated. In this election the African National Congress (ANC) emerged with a 62% majority, with Nelson Mandela being the first democratic president. In 1999, the second democratic election was held, in which the ANC increased its majority to about two thirds of the total vote. In April 2004, the ANC again won the national vote with 69.68% also the ANC also celebrated 10 years of freedom which was attended by heads of state and government delegations from across the world. In 2008, the President of the Republic became Mr Kgalema Motlanthe, after the recalling of President Thabo Mbeki. In 2009, South Africa held national and provincial elections with about 76% of the registered voters casting their votes. This election saw the inauguration of President Jacob Zuma on the 9th of May 2009 (Government Communications, 2018/19). This summary of national elections provides a brief history of the lineage of presidencies and the participation of the population in these elections.

In April 2015, the Republic celebrated the 21st anniversary of its inaugural elections under full universal suffrage, ie South Africa's transition from an apartheid form of governance to electoral democracy. With the success of this transition 2015 was, according to Lekalake (2016:1), best remembered for the political turmoil that ensued in the Republic, including corruption scandals of government officials, nationwide student protests against higher education fees and a combative atmosphere in parliament.

The Afrobarometer is a pan-African, non-partisan research network conducting public attitude surveys on democracy, economic conditions and related issues across Africa (Lekalake, 2016:1). In the investigation of taxpayers' support for democracy, this survey is the closest in providing the necessary information to make informed deductions and recommendations.

According to the survey referenced above, public opinion data from the 2015 Afrobarometer survey in South Africa show significant declines in approval of government performance on a wide range of priority issues. According to the survey, race continues to be a leading source of differences in South Africa's attitudes towards democracy, with the majority of black citizens reporting higher levels of support for democracy and its current institutionalization in the country (Lekalake, 2016:1).

Since 2000, about two-thirds (64%) of South Africans have revealed, by way of this survey, that democracy is preferable to any other kind of government. The support for democracy has increased gradually from 60% in 2000 to 72% in 2011, but after 2011 it began to decline. When the support for a democratic government is compared to other African countries which vary widely, the level falls below the average of 67%. In South Africa, levels of support for the government also vary within the country significantly, by residential location, age, education level, and race but not by gender. According to this survey, 68% of South African citizens living in rural locations are in support of democracy as opposed to the 61% of urban living citizens.

Younger citizens (18years old– 49 years old) reported higher support for the government at 66% than the older citizens (50 years old and older). According to the survey, the more educated the citizen, the higher their preference for democracy, as 65% of those with at least secondary education prefer democracy, while 56% of citizens with no formal education display a lower level of support for government. In terms of race, black South Africans show a higher support for democracy (67% of the surveyed population showed support for democracy), followed by 57% of the coloured population surveyed, 56% of the surveyed Indian population showed support for democracy and 49% of the surveyed white South Africans showed support for the democracy.

When one considers the civil unrest in the form of strikes and protests on the basis of service delivery in the Republic, it becomes clear that the above noted support for the government has spilled into the support for democracy itself, and despite the country's successful transition into democracy in 1994, South Africans have slightly lower levels of pro-democratic attitudes than the continent. What is even more interesting to note from the survey is that as support for democracy has declined since 2011, and although disapproval of non-democratic alternative regimes is high, a majority of citizens are willing to give up democratic elections in favour of a basic service providing administration or government (Lekalake, 2016:8).

The above surveys and reports assist in providing recommendations on how to improve tax morality in the Republic. They achieve this by providing insight on the view the South African taxpayer has or had at a point in time of the government. The taxpayer's view of the government is an established influencer of the taxpayer's tax morality. As South Africa is a democracy, it's very functioning is dependent on the upholding of the fiscal contract. The hostile political landscape and civil unrest are testament to the breaking down of the contract. Trust in democracy improves when service delivery, basic services such as health care and education improve and citizens have access to them. This deduction follows from the data collected from the participants of the Afrobarometer survey. Citizens don't seem to necessarily be against the principles brought by democracy (the freedom provided by the Constitution and voting for everyone) but are suffering the effects of a broken service delivery system by the government. This deduction is evidenced by the majority of citizens being for democracy yet being prepared to substitute a democracy for an administration that will provide basic services. Other factors identified by the WVS survey include, age, and trust in government, gender and educational attainment.

4.1.2. Age and gender in South Africa

Two of the factors identified as having an impact on tax morality are age and gender of the taxpayer. Statistics South Africa (StatsSA) conducted and released the population estimates in the 2019 year, the methodology used in these was the cohort-component methodology. The estimates cover all the residents of South Africa at 2019 mid-year and are based on the latest available information (Statistics South Africa, 2019:5).

According to StatsSA (2019:14), the 2019 mid-year population is estimated at 58,8 million, with black African individuals in the majority (47.7 million), constituting approximately 81% of the total South African population. The coloured population is at an estimated 5.2 million, while the white population is at 4.7 million and the Indian/Asian population at 1.5 million. According to these statistics, just over 51% of the population is female (30, 1 million).

Of the estimated 58.8 million individuals in the Republic, about 28.8% of the population is aged between 0-14 years and approximately 9% is 60 years and older. These statistics, as detailed as they are in the report provided by the organisation, do not show how each age group is affected or influences tax morality. That research has not been conducted in the Republic and is a field for further investigation and research.

4.1.3. Trust in government in the Republic

The institute for Justice and reconciliation (2018), while assessing the healthiness of South Africa's democracy conducted research on the citizens' trust in government. It described trust in government as one of the cornerstones of a democratic legitimacy and triggers citizens' willingness to contribute to a strong and robust democracy, stating that citizens who trust their government are more willing to listen and support government policies if they trust their government. As seen in international studies, the level of trust in the government may also be a proxy for tax morality. According to this study, South Africa saw a dramatic drop in government trust in 2015, after witnessing and experiencing economic difficulties and corruption scandals, around the time of the Afrobarometer survey (August 2015 – September 2015).

When the respondents of the survey were asked: "How much do you trust each of the following, or haven't you heard enough about them to say: The president? The Parliament? Your local government council? The premier of this province? The ruling party? Opposition political parties, the following responses were found:

- Trust in the president has fluctuated between the years 2002 – 2015. Between 2002 and 2004, trust in the president increased, from 37% to 66%, and increased again to 69% in 2006. However, from 2006 to 2008, there was a dramatic decrease in trust in the president, signified by the falling of the % trust from 69% to 31%. After 2008, trust in the president improve in 2011 to 62% but again dramatically decreased to 34% in 2015.
- Trust in parliament/national assembly fluctuated in the same direction as trust in the president, with less dramatic increases and decreases. In 2002, 31% of the survey

participants expressed trust in the parliament/national assembly which increased to 52% in 2004 and to 54% in 2006. And just like trust in the government, after 2006, trust in parliament/national assembly decreased to 41% in 2008, while increasing to 56% in 2011 and decreasing again to 41% in 2015.

- The fluctuation of the trust in the premier, local government council, local government council and the ruling party shows the same fluctuation as the trust in the president and the parliament/national assembly. Interestingly, from 2002 up to 2015, there has been a steady increase in trust in the opposition political parties, the named opposition parties are the DA and the EFF.

When measuring the average trust in the president, parliament, premier, and local government council in 2015, the following results were found:

- Of the ANC supporting participants in the survey, 51% of them expressed trust in the president, parliament, premier, and local government. This trust for the president, parliament, premier, and local government from the ANC supporters is not surprising as the ANC was the ruling party in the Republic at the time of the survey.
- Of the DA supporters participating, only 29% of them expressed trust in the president, parliament, premier and local government. This is not a shocking lack of trust either as the DA is an opposition party to the ruling party and has conflicting policies.
- Of the EFF supporters participating in the survey, 25% of them expressed trust in the president, premier and local government. The survey did not extend to other political parties.

When the results were broken down by province, the results revealed as follows: KZN participants reported the highest percentage of trust in the president, parliament, premier and the local government, as 54% expressed that they trust the president, parliament, premier and local government, followed by Mpumalanga at 48% and Limpopo at 43%. Gauteng, Northern Cape and the Free State reported the lowest levels of trust for the president, parliament, premier and local government with 28%, 32% and 33% respectively. These results are also not surprising as at the time of this survey, Kwazulu Natal and Mpumalanga were both ANC metropolitans while Gauteng and Northern Cape were split between the DA and the ANC.

When the results were presented by the level of formal education, it was found that of the participants in the survey with no formal education, 39% of them showed trust in the president, parliament, premier and local government. Of the participants with primary school education only, 49% of them expressed trust for the president, parliament, premier and local government while 39% of participants with secondary school education expressed trust in the president, parliament, premier and local government and finally, of the individuals participating in the survey with tertiary education 35% of them expressed trust in the president, parliament, premier and the local government.

On the basis of age, of participants older than 51 years of age, 44% expressed trust in the president, parliament, premier and local government, while of the participants between 31 and 50 years of age, 39% expressed trust in the president, parliament, premier and local government and of the participants aged between 18 and 30, 36% of them expressed trust in the president, parliament, premier and the local government. This is an alarming statistic even for that year as it may signify a reluctance to partake in fiscal citizenship, and therefore, a decreased tax morality, especially for younger (individuals below 50 years of age) who are still active in the economy or who are entrepreneurs.

When broken down by the area, race and between the genders, it was found that of the participants located in rural areas, 45% of them expressed trust in the president, parliament, premier and local government while 36% of participants in urban areas expressed trust in the president, parliament, premier and local government. Of the black/African participants, 45% of them expressed trust for the president, parliament, premier and local government, while 34% of the participants expressed trust in the president, parliament, premier and local government 26% of the white participants expressed trust in the president, parliament, premier and local government and only 12% of the Indian participants expressed trust in the president, parliament, premier and local government. Between the two genders participating in the survey, of the male participants, 40% expressed trust in the president, while 39% of the female participants expressed trust in the president, parliament, premier, and local government.

These results may be influenced by multiple factors, as trust in the president, parliament, premier and local government in South Africa is not a simple inquiry to make. Factors such as service delivery, the quality of the services provided, unemployment rates, political turmoil and scandals and the perceived mis-use of taxpayer revenue may all be influencing these groups. However, trust in government (all spheres) could also be influenced by a lack of access to information, lack of education that will enable individuals to make sound judgement of the state of affairs in the country and lack of a better comparative system. South Africa is still suffering the perils of apartheid and still an incredibly unequal society both economically and racially. Thus, the establishing of trust in government and ultimate improvement of tax morality is very complex and requires the breaking down of those complexities.

4.1.4. The religious landscape in South Africa

According to Schoeman (2017:1), the South African religious landscape is diverse and has a profound effect on the role that faith communities and its members may and should play within this context. The results in the report presented by Schoeman (2017), are derived from a survey in 2013 - the General Household Survey (GHS) conducted by Statistics South Africa (StatsSA). The purpose of this survey was to use religious affiliation and adherence as indicators to plot the South African religious landscape. While the survey does not speak directly to the tax morality of the Republic, it does provide an insight into the available statistics for purposes of evaluating South Africa's position, when compared to the global economy.

According to Schoeman (2017:2), the first national census was taken in 1911, the religion statistic was obtained by asking the participants of the census whether they were religiously affiliated. In the 1991 and 1996 census, the question on religious affiliation was optional as at the time, religion was viewed as being a personal issue. The 2001 census questionnaire (which used the 1996 census as a basis) presented the question on religious affiliation as a compulsory question and this resulted in a more credible and improved result. According to the 2001 census, of the 44.8 million people residing in South Africa, 79.79% ascribed to the Christian religion, 0.17% ascribed to the Jewish religion, 1.23% were Hindu, 1.46% were Muslim, 0.02% practiced an Eastern Faith, 0.93% were ascribed to other religions not specifically mentioned in the survey, and 16.41% reported that they ascribe to no religion, refused to answer the question or remained unspecified.

The 2011 national state census did not include religion as a question and therefore poses a challenge in tracking the movement in the South African population for the period between 2001 and 2011, however, available information (from different international surveys[23]) provides that in 2011, 87% of the population adhered to the Christian religion. Furthermore, nominal membership of affiliation is one aspect of religious participation, religion could in fact be described in terms of participation and adherence, and when participants of a study held in 2012 were asked the question "Irrespective of whether you attend a place of worship or not,

[23] The Pew Forum on Religion and Public Life published a comprehensive report in April 2010 titled: *Tolerance and tension: Islam and Christianity in sub-Saharan Africa* and WIN-Gallup International published a report on religiosity in 2012.

would you say that you are a religious person, not a religious person, or a convinced atheist?" religiosity declined in South Africa from 83% in 2005, to 64% in 2012 (Schoeman, 2017:2).

StatsSA has been conducting annual household surveys since 2002 and these cover all private households in the nine provinces of South Africa and these surveys do not cover other collective living quarters such as students' hostels, old age homes, hospitals, prisons and military barracks, and are, therefore only representative of non-institutionalised and non-military persons and households in the Republic (Schoeman, 2017:3). In the 2013 GHS survey, which is the latest religious survey available for purposes of this dissertation, religion was included for the first time and two questions about religion were posed, these were:

a) How would you describe your religious affiliation?
b) Aside from weddings and funerals, how often do you attend religious services?

The results from the GHS 2013 survey revealed that of the 52.9 million people surveyed, 84% ascribed to the Christian religion, 2% ascribed to the Muslim religion, 5% ascribed to an ancestral, tribal, animist or other traditional African religions, 1% ascribed to Hindu, Buddhist and Bahai, Jewish and Atheist and agnostic religions, while the remaining 7% ascribed to a religion not mentioned in the above or ascribed to no particular religion, other participants refused to answer these questions or did not specify their religious affiliations.

What we can learn from these statistics is that South African taxpayers are mainly religious, and ascribe to the different religious affiliations mentioned above, these statistics do not necessarily tell us anything about these taxpayers' tax morality. However, we can deduce, from the interpretation of the expected behaviour of religious taxpayers, that based on religion alone, South African taxpayers are inclined to have a higher tax morality.

In an inquiry about the effects of religion on economic choices and outcomes in a variety of contexts, it was found that religion tends to have an influence on economic choices with honesty and risk aversion being the two norms characterising the religion. When the levels of religious adherence as a proxy in the United States of America, it was found that higher levels of adherence to a religion are associated with both a lower likelihood of financial misstatements and less risk that financial statements are misrepresented because of overstated (understated) revenue/assets (expenses/liabilities). Furthermore, this study found, where there is a higher concentration of religious adherence, there is a lesser likelihood to engage in tax sheltering and the individuals tend to be more forthcoming with bad news (Dyreng, Mayew and Williams, 2012:1).

It is important to note that the inquiry into one’s willingness to pay tax is much more involved and more complex than an inquiry into religion. The level of religion, the commitment and the level to which it influences one’s decisions are still information that is not available on the South African population. Therefore, one cannot conclude on this basis alone, that South African taxpayers have a high tax morality or identify any trends between the answers provided in the surveys against these statistics.

4.1.5. Concluding remarks on socioeconomic factors in South Africa

Socioeconomic factors assist in understanding the low tax morale and therefore morality in the Republic by dissecting the possible influences of the decisions of the taxpayers. As these are findings based on the research collected at that specific time, all they communicate are what the demographics were and how the taxpayers were divided on the issues explored. Some of the socioeconomic factors reveal expected statistics such as more educated people displaying reduced trust in the government as they would have a better view of the reality of the performance of the government, educated people will generally have more access to information such as the budget speech, the government spending statistics and media coverage of politicians and prominent leaders being involved in corruption scandals which will most likely reduce the trust in government should it be negative. As people will be better equipped to make more informed decisions, in the case of the Republic, where most of the available information points to inefficiency, tax morale and therefore morality may decrease. .

Socioeconomic factors can also be used to identify where there is an information gap and how the government can improve education and research in particular instances to increase tax collection. For example, as it is established that the majority of the South African residents are religious, religious leaders could actively participate in governance and government could hold leaders accountable, to ensure that the congregations feel involved in the government of the country. This perspective may increase the trust in government and hold local government officials, who are members of congregations and communities, accountable.

A concerning statistic from the Afrobarometer survey was the amount of people showing decreased trust in the government and showing lower levels of support for the government. This speaks to the breaking down of the social contract between civil society and the government and growing unwillingness from the taxpayers to finance a government they do not support. While these statistics are not recent, they provide a picture of where the mind of the taxpayer was, given those circumstances. Since then the political climate has not shown significant improvement, the reports of service delivery protests are common and the wasted expenditure reports are still increasing without any form of accountability being shown to the public. More research into the source of the dissatisfaction of South African taxpayers would be required in order to make more accurate deductions. However, at this stage, it is not unreasonable to call for increased and improved service delivery, government spending and holding accountable of those found to be guilty of crimes against taxpayers in order to improve tax morality.

4.2. Institutional factors and recommendations on the improvement of tax morality and tax morale

Institutional factors identified by the OECD (2019:38) are aimed at fostering tax certainty in the global market. Tax certainty influences tax morale and therefore tax morality, it influences the perspective of the government that taxpayers have. The improvement of tax morale would therefore lead to an increase in tax morality. The institutional factors identified in the study mainly relate to the improvement of the tax morale of business, examples include reducing bureaucracy, improving consultation and transparency, providing more effective dispute resolution, however, it is important to note that any change in these is likely to impact individuals' tax morale as well as that of MNEs. It is for that reason that research into the improvement of tax morale has to be done at a government wide level with all taxpayers in mind. The improvement of tax morale will lead to an increase in tax morality.

The recommendation provided by the OECD to improve tax morale through the use of policy considerations are set out below. Due to lack of information in South Africa, unlike individuals it is much more difficult to ascertain or gauge the position or view being taken by local businesses when it comes to tax morale and therefore the tax morality. According to the OECD (2019:39), increased business tax morale could lead to greater co-operation with compliance as it would translate to an increased tax morality. This view is informed by the possibility of tax morale and therefore tax morality affecting the occurrence of an investment being minimal, or affecting the scale and composition of the investment itself. While investors aim to primarily maximise profits, they have the right to decide how they go about doing this, what to invest in and how much to invest. The following recommendations from the OECD (2019:40) are aimed at governments to increase the tax morale in order to improve tax morality of businesses specifically at MNEs, as it has been established that it is even more difficult to build tax morale in developing countries such as South Africa.

- Increasing capacity building on international taxation issues in tax administrations in developing countries. According to the OECD 2019 report, this is in order to address inconsistencies in the application of international standards and build the experience of revenue authorities in this area. Furthermore, increasing capacity building on international tax issues in South Africa will assist in the research and obtaining valuable practical experience in the application of international tax standards.
- Expanding business engagement in capacity building for tax administration in developing countries. While there are risks involving business in capacity building, there are also potential gains through the provision of deeper explanations of how their structures, processes and value chains work. According to the report, such capacity building can be delivered by non-tax staff from businesses, helping manage potential conflicts of interest.
- Supporting the development of effective VAT and withholding tax systems. In terms of this dissertation, the focus on MNE taxation is on corporate tax, despite there being significant issues with the other taxes being paid by MNEs. VAT is an example of tax whose inefficiency and lack of effective refund systems can lead to demands for tax exemptions or negatively influence investment decisions.
- Information and experience sharing among tax administrations was also suggested as a way to increase the tax morale and therefore tax morality of businesses. According to the report, there are significant variations between regions and countries on issues affecting tax morale amongst businesses, as the circumstances affecting these regions may be different, however, they may also have faced similar issues in administration that are not unique to them, and thus being able to share information and sharing progress may be useful to another region. Regions should therefore open themselves up to the idea of information sharing, unlocking and sharing their expertise and experience with others.
- Countries are encouraged to look for synergies in building tax morale across the whole tax system. The issues identified in this research, such as lack of transparency and lack of trust are common across businesses and individuals. The OECD therefore suggests addressing these issues as a common challenge, sharing information and insights across the system through the targeting of specific taxes such as solely individual, corporate or even MNE taxation. Countries are advised to rather target the issue of a low tax morale in taxpayers, rather than collection of the specific tax group, ie in individual taxpayers, in corporate taxpayers or in taxpayers who are MNEs.

- Throughout the survey, it is that there is a lack of information on a lot of the aspects influencing tax morality and tax morale, as such, the recommendation to develop country-level surveys to identify key issues affecting tax morale across different types of businesses, individuals and MNEs is applicable to the South African context. According to the report, there is a need for a deeper, country-level study into the tax morale and tax morality of taxpayers, to provide further insights, including drivers of tax morality beyond tax certainty and operational-level findings. The research would need to be streamlined to cater to the complexities of the country, it could be led by the questions in the WVS report but they are not enough to distinguish between these two. The first phase of the South African research would be measuring the tax morale and then the second phase would to measure the tax morality and the strength of the link between these two.
- The undertaking of further research into understanding the impact of voluntary principles on tax morale was also identified as a measure that could potentially increase tax morale. This is a measure the OECD is planning on implementing, primarily in developing countries.
- According to the OECD (2019:40), there is a need for in-depth research needed on factors that influence SMEs, as well as on the role of non-tax factors for all businesses, that influence the tax morale on businesses. This research would enable the understanding of how non-tax factors, such as service provision, levels of corruption, and company structure may influence the tax morale of that business.

4.3. Conclusion

The aim of this chapter was to evaluate the applicability of the factors identified in the previous chapter as influencing tax morality in the South African context. As South Africa is a democracy, the success of which needs trust and commitment from its citizens, the importance of tax morality cannot be overstated, it is for this purpose that this dissertation is relevant i.e. to identify the problem and recommend ways in which that problem could be solved.

South Africa is, since 1994, a democratic state, still suffering from the effects of the apartheid government, such that it remains an economically unequal country, with one of the highest income inequality rates in the world. Therefore, embedded in the tax policy currently in action is the purpose of redistribution of wealth, in order for the rich to finance the public services enjoyed by the poor. It is not farfetched to expect taxpayers in different economic conditions to have a different level of access to information, thereby affecting their decision making process and the actual choices made. The decisions made by the taxpayers and citizens will therefore be influenced by their own experiences of the government. These are some of the considerations to be kept in mind when interpreting the data collected by the different interest groups in the Republic.

The factors identified by the OECD and by the Afrobarometer surveys suggest that there is a relationship between service delivery and the citizen's trust. This is evident from the survey showing that more than 50% of taxpayers would be willing to forego their voting rights and a democratic government if it meant they could have efficient public services, such as reliable and affordable health care, schools and infrastructure. The Afrobarometer survey also revealed that, despite the survey being taken more than 5 years ago, there has been a deterioration in trust in the government (president, parliament, premier and local government) and based on the news reports on corruption and misuse of revenues, it is not difficult to see why this is so and to deduce that that trust has not been gained back by the government. The surveys presented were used in this dissertation as indicators of the likely tax morality as there is very limited research on the matter, and from those surveys, while there were some fluctuations in the movement of trust and support for the government, it was clear that there are improvements that the government needs to implement in order to regain trust. From the feedback provided, service delivery, accountability and decreased wasteful expenditure are some of the improvements that can be made to improve tax morality.

At the time of the survey, there was a disconnect between people younger than 50 years of age, and those older than 50 years. The results between male and female participants also showed that the two genders do not place the same level of trust in the government, and those who claimed affiliation to a faith, are expected to be more compliant to laws. While these factors do not assist in immediately increasing the tax morality, they do assist in identifying potential groups to target with improvement measures, such as education on the mechanics of the tax acts and policy to increase awareness and compliance. Based on the available surveys for the individuals, a common theme arising is broken trust between the taxpayers and the government, the documented groups show a negative impression of the government, due to the dysfunctional state and wastefulness of the government. It is therefore justified to recommend, in order to assist in improving tax morality, an improvement in the relationship between taxpayers and the government through better service delivery, responsible spending, public display of accountability for wasteful expenditure and mismanagement of government funds and education.

From the policy considerations provided, the most prominent and applicable theme is information, the sharing of information among tax administration agencies, the conduct of further research into what the views of taxpayers in South Africa are and analysis of similarities between countries of how they increased tax morality. From a South African perspective, the most prominent of these is further research into the perceptions of taxpayers on tax morality. From there, conclusions can be drawn and appropriate policies developed. The next chapter summarises the purpose of this dissertation, how and if that purpose was fulfilled and what further research needs to be done.

5 Chapter 5: Concluding chapter: Summary and conclusions on how can tax morality be improved in the Republic and what additional work is needed

5.1. Key questions and relevance of research

The question for consideration is "what motivates South African taxpayers not to pay the amount of tax they are legally obligated to pay and not to be tax compliant?". The starting point of this inquiry was establishing what tax morality was and its importance to the Republic, hence establishing the relevance of this dissertation. In this regard, the definition and understanding of tax morality was provided by Samantha du Chenne (2018:4) as the willingness of individuals to pay their taxes and comply with tax laws. This is not an easy inquiry as individuals are multifaceted beings with several factors influencing the decisions made. Therefore in answering this question, it was established that there is a close enough link between tax morale and tax morality and as tax morale provides an indication of the level of tax morality, research on tax morale was used in the formation of recommendations, since an increase in the tax morale of taxpayers leads to an increase in the tax morality of taxpayers.

As South Africa is a democratic country, one of the most important concepts tying back to tax morality is fiscal citizenship and responsible tax. These principles affect not only whether or not taxpayers pay their taxes but the attitudes and culture of tax compliance in the Republic. Fiscal citizenship was described as being embodied in the concept of responsible tax, which binds the taxpayer, the tax administration agency and the government in the responsibility taken, over the taxes paid, collected and spent in order to increase the level of fiscal responsibility for the benefit of the state (Tickle:2017). These principles are what guide the conversation on tax morality in this dissertation, the idea that if all of the identified participants in fiscal citizenship play their role, pay their taxes correctly, collect it efficiently and spend it in a way that is most beneficial to all the participants, the result will be a functioning and prosperous democracy. In answering the focal question, and after understanding what tax morality was and how it affects the Republic, the ways in which citizens display decreased tax morale and tax morality was discussed.

5.2. Tax evasion and tax avoidance in South Africa

From the structure of South Africa's democracy and the constitution, it was established that taxation plays a very important role in the functioning of a democracy and a critical part of the social contract between the state and its citizens. Taxation is the tool with which the state is able to provide basic services to the most vulnerable and underprivileged members of society, it is important that the taxpayer perception of the government and revenue collection agency is one of an effective and efficient organisation, so as to encourage cooperation and willingness from taxpayers and enable for our democracy to be upheld. This is one of the most important factors identified as influencing taxpayers' morality i.e. their perception of the government.

In South Africa, the burden of disclosure falls, in the most part, on the taxpayer, which is why the discussion of tax avoidance and tax evasion is critical in the conversation and unpacking of tax morality. Tax avoidance and tax evasion are similar in that they both seek to minimise or eliminate the tax liability, while tax avoidance employs the applicable legislation to achieve this goal, tax evasion does not and as a result is illegal to practice. Tax evasion includes extreme measures such as falsification of books, non-disclosure of material amounts, and fraudulent non-disclosure of income. Tax avoidance on the other hand includes structuring legitimate transactions, in a way that does not trigger the anti-avoidance rules, the extent of the employment of these measures is why their use is worthy of inclusion in the discussion about tax morality (Haupt, 2019:626). The occurrence or the perception that tax avoidance or evasion is occurring in the Republic would not encourage other taxpayers to pay their taxes and comply with tax laws.

Where taxpayers do not view the revenue agency as a trustworthy establishment, or the government as an institution capable of performing its duties to society, instances of tax avoidance and tax evasion are likely to occur, and while there are measures such as anti-avoidance provisions in the legislation (specific and general), double tax treaties and international recommendations and initiatives encouraging transparency and automatic information sharing, the decrease in tax morality is still a cause for concern and should be addressed. This is especially the case given the corruption scandals and reports of increasing government wasteful expenditure, the root of taxpayers' resistance to paying tax cannot be ignored any longer, and the broken trust between the government and its citizens must be researched and reported on. The relationship between the state and the citizens is paramount in the success of a democracy.

5.3. Lessons on tax morality from other jurisdictions

The OECD released a discussion paper in May 2019 detailing the findings from a WVS survey on tax morale, through a survey with various questions measuring the tax morale of individuals and businesses. While tax morality and tax morale are two different concepts (defined in the preceding chapters) and as previously stated, due to the lack of research on tax morality itself, tax morale is used as an indicator the current state of mind of taxpayers. This is therefore the criteria used to gauge where South Africa is, with regards to tax morality when compared with the global economy.

The study reviewed tax morale at different levels, at a global level and at a regional level for both businesses and for individual taxpayers. These results, while not reporting on the tax morality of taxpayers, do provide an indication of the perception of that taxpayers have of the government and how willing the taxpayers are to comply with tax laws. The countries surveyed included the OECD countries, Latin American countries, Emerging Asian countries, Africa countries, Eastern European countries and an assortment of countries around the world. This way, a global view, a continental view and a country level view is possible from these results.

From a recommendation perspective, the African and Eastern European economies could potentially benefit from drawing some lessons from the OECD and Latin American economies. This would require further research into the answers provided or give birth to more research between these reasons to establish what needs to be improved for them to change their stance on this question. This way the core issues could be identified. In the South African context, this analysis could be achieved by choosing a Latin American or OECD country with a similar background and economic state as the Republic and an elaboration into these questions could be designed, to drill down on the reason for the answers provided by the individual countries.

The study also found that for the majority of these countries, the higher the tax to GDP ratio, the higher the tax morale. The reason for this correlation was suspected to be indicative of a virtuous circle of public service provision, co-operative tax compliance and fiscal stability. These areas of governance are also areas most developing countries are struggling to address, with South Africa being the prime example of a developing country with notable challenges in service delivery, and a broken fiscal contract between the citizens and the government. It is important to note that the GDP ratio indicating a high level of tax morality doesn’t mean that there is 100% tax morality, it just means that it is better than other countries. In this regard, South Africa’s tax amounts to 26% of GDP, which is good but can be improved. From a recommendation perspective, it is clear that the repair and improvement of the view or impression of the government and all its agents (including the revenue collection services) is paramount in the improvement of tax morality. It appears as though citizens refuse to give their taxes to an administration or a government they do not trust according to an interpretation of these results.

An analysis of the socioeconomic factors identified reveals that individuals who believe they are living in a meritocratic society have a significantly higher tax morale than individuals who do not. These results further enforce the interpretation above, suggesting that there is a strong link between government policies and execution of those policies in how willing individuals are to partake in the social contract and to increasing tax morale. The improvement of tax morality then turns to the government, it turns to the fostering of a culture of accountability, of service delivery and, in South Africa, the creation of jobs or policies that seek to eradicate the plight of youth unemployment and poverty. While these are issues that should be important to a country such as the Republic, it is important that they are carried out and progress is reported on publicly.

The analysis of socioeconomic factors further revealed that individuals who trust their government display higher tax morale and therefore higher tax morality than those who do not trust their government. Individuals who identify fiscal redistribution to be essential show higher tax morale and individuals who perceive democracy to be the best system of government for their country show higher levels of tax morale. It is impossible to ignore the common thread in these results - government efficiency plays a key role in the improvement of tax morale. The South African government and the individuals who elect that government all have an important role to play in the restoration and improvement of tax morale. These results are apparent from the identification of factors driving tax morale and therefore morality from a global level. Tax morale is therefore also improved where taxpayers trust their government, the improvement of trust in the government is paramount in the improvement of tax morality.

The regional results showed a variation of the levels of tax morale of the countries, for example in Latin America, a link between tax morale and the economic slowdown was identified pertaining to the 2011 year. At this time, it is alleged that during the period of economic slowdown, there was a slowing down of social progress, where poverty had declined sharply and created an increasingly demanding middle class. The inequality, global trends such as technological change, aging populations and corruption scandals created an uncertain climate amongst taxpayers. It became unclear to them whether the government and its institutions were even capable of tending to their needs (OECD/CAF.ECLAC, 2018:27).

The lesson from Latin America for the South African economy is that, a deterioration in the perception of well-being of the citizens, which is driven by a decrease in confidence in public institutions and dissatisfaction with public services signifies a broken down fiscal contract and thus when citizens perceive government as being unable to respond to their demands, they are not incentivised to fulfil their obligations in the social contract. Non-participation in the social contract includes not paying taxes or complying with tax laws. It is important to note that while it is important to draw lessons from other jurisdictions, the governance and finance models of jurisdictions are all different and in the designing and implementation of policies, this should always be taken into account. In answering the question of tax morality and its improvement, the government has to pay attention and attend to the improvement of the well-being of its citizens, as it is evident from the research set out in this dissertation that there is a link between these.

5.4. Lessons from Africa and South Africa

The African results revealed that in comparison with other regions, Africa has an increasing tax morale, with the average person believing there is something wrong with not paying tax. The increasing tax morale in this continent was attributed to an improvement in the quality of tax administrations and the improved perception of the legitimacy of the tax authorities. Another important factor identified was the simplicity of the tax payment process and the perceived difficulty in finding out how to pay taxes. These results speak to an issue of the governments investing in the education of taxpayers, and the development of systems and mechanisms that are easy to use for taxpayers and educating taxpayers on how to pay their taxes and how to calculate them. Further to these implementations, the government should survey the taxpayers regularly for feedback on their performance and on areas of improvement, this is a process that SARS should take very seriously and improve on, as nobody is better suited to provide feedback to SARS than South African taxpayers as they have the lived experiences of the performance experienced.

The socioeconomic factors in Africa are not unique to just Africa, with the exception of African women showing a decreased willingness to comply with tax laws than their American counterparts. This difference was attributed to the different laws in jurisdictions and how they impact men and women, the interaction of the tax system can be more detrimental for women than it is for men. It is therefore unreasonable to launch an investigation into the tax policies and how they impact the different genders, if one gender is impacted negatively by a policy, it is not surprising if they have a lessened tax morality. This can be solved by conducting gender specific research into the effects of a policy before its implementation and the reviewing of existing policy in order to ensure that the policies are not discriminatory towards one group.

For corporates, factors that impact their tax morality have both similarities and differences to individuals as the decisions in firms are ultimately made by individuals, these include corruption, cultural norms and social norms. Factors differing include risk preferences, tax advisor effects, board reputation, and company structure, size of the firm, compliance cost, and tax complexity. The estimated tax morality according to the survey varies across regions and countries, with emerging economies showing the lowest levels of tax morale and therefore lower tax morality. From the survey, it was clear that examples of the most recurring factors are tax certainty, tax administration and dispute resolution. These are the biggest influencers of the entity's tax morality. When engaging in business deals, corporate taxpayers need to have a level of comfort of what the result of the transaction will be, this is tax certainty. While SARS offers some solutions this process takes time and entities without tax representatives suffer the most.

The South African results (albeit from the 2008 year) are very relevant for the assessment of tax morality in the Republic, as they provide a foundation from which to gauge the average taxpayer against. This position can be compared to more recent studies into the tax morality of the taxpayers to better enable the government to respond to the decrease in tax morality. The study revealed interesting findings, such as the perception that over 50% of the participants feeling neutral about their government at the time. A more recent study showed that trust in government among the citizens by the Institute for Justice and reconciliation (2018), has fluctuated over the years in a downward sloping manner. The downward spiral of trust in government was attributed to taxpayers believing there is increased wastage of government expenditure, increased corruption and an increased wastage of tax revenues. As such, taxpayers started believing it is not fair to even levy tax on taxpayers since they are not receiving adequate services from the government.

These results from the surveys signal a severe loss of faith in the South African government by taxpayers due to a multitude of reasons, from corruption, reckless government spending, and poor governance, inefficient public service delivery by the government and high unemployment rates. These are factors that matter to the population of the Republic and these are things the government can improve on, with changed attitudes when it comes to diligence, with accountability and with the diligent and honest implementation of the law. These are examples of actions that can be taken in order to improve the tax morale and therefore tax morality levels in the Republic.

5.5. Conclusion

The chapter sets out the question for consideration, and summarises how the dissertation addresses this question, by breaking down the identified issue, the international research and the local research into the matter. The chapter then summarises all the identified factors in answering the key question, what causes decreased tax morality?

From the discussion set out above, it becomes clear that the question of tax morality is far more complex than the difference between the budgeted tax collections and the actual collected revenue, even though this is a good start to the enquiry. The state of the economy also plays a role, and most importantly the perspective taxpayers have of the government and its functions, which in the case of South Africa have been found to be lacking according to the discussion and research presented above. While SARS' collection statistics provide a picture of how the revenue trends in the Republic have been for the past few years, they cannot provide insight into why they are that way and how much of the decrease/increase is attributable to the economy and which part is attributable to tax avoidance or evasion, all of which threaten the South African tax base.

Where taxpayers have decreased confidence in their government and the tax administration, there will be a deceased tax morale and therefore low tax morality. A strong link between tax morality and service delivery by the government is present, and the perception of the quality of life the taxpayers have has an impact in their tax morale, meaning, where taxpayers are of the view that their tax revenues are not improving their lives, there will be a decreased tax morale. In order for the government of the Republic to improve tax morale and therefore tax morality, further and more detailed research will be needed, research specific to the South African tax payer.

Therefore, tax morality in South Africa, can be said to be directly proportional to the trust taxpayers have in government, and the ability the government has to educate, and uphold its duties to the taxpayers.

5.6. Areas for further research

Research into the impact of the current legislation on different groups could better assist policymakers and implementers such as SARS. For example research into how the current tax legislation impacts women, economically disadvantaged groups, the middle class and individuals who are breadwinners in their households. This would assist in the implementation of measures that promote a healthy and more equal tax system, prompting trust in the government and inspire a willingness to participate in the fiscal contract and increased tax morality.

More detailed research, such as gender, age, region specific research into tax morality in the Republic is still necessary and would better guide the inquiry into the improvement of tax morality better, and more efficiently. The improvement of tax morality in the Republic will take time, it is not simple and involves action and commitment from both of the participants in the fiscal contract, the South African government needs to work harder to regain the trust of the public by proving themselves capable of providing quality services and the citizens need to hold the government accountable by electing a trustworthy government and speaking out on injustice and criminal activity. This way, the citizens will be paying for services they actually benefit from and seeing the fruits of their compliance, which will improve their trust in government and improve tax morality.

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