Fiscal and Institutional Factors and Taxpayer Culture as Explanations for the 2018 VAT Increase in South Africa

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Declaration

I, Kirsten Susan Pearson, hereby declare that the work on which this dissertation/thesis entitled ‘Fiscal and Institutional Factors and Taxpayer Culture as Explanations for the 2018 VAT Increase in South Africa’ is based is my original work (except where acknowledgements indicate otherwise) and that neither the whole work nor part of it has been, is being, or is to be submitted for another degree in this or any other university.

Abstract

The 2018 Value Added Tax (VAT) rate increase in South Africa is a significant event in that it was the first time since the advent of democracy in South Africa (1994) that the VAT rate had been raised. Located within the discipline of fiscal sociology, this study emphasises the developmental implications of fiscal policy choices. It problematises tax revenue mobilisation to meet growing spending requirements in South Africa. It looks at why, of the various fiscal and tax policy options available, the decision was made to raise the VAT rate. The mixed methods study provides a content analysis of literature obtained through a desk review and statistical analysis of a public opinion survey. By examining the underlying dynamics that influence fiscal policy decisions, it explains how fiscal and institutional factors and taxpayer culture interacted to bring about the decision to increase the VAT rate. It finds that policy decisions with large spending requirements can have an impact on fiscal policy decisions with implications for rights realisation. A conceptual framework specific to the South African context was developed as an output. Additionally, a revised conceptual framework for the determination of taxation was produced.

Key words: Fiscal sociology, neopatrimonialism, South Africa, state capture, taxation, VAT

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List of Abbreviations

CIT	Company Income Tax
CPI	Consumer Price Index
DNA	Discourse Network Analyzer
GST	General Sales Tax
GDP	Gross Domestic Product
PIT	Personal Income Tax
NHI	National Health Insurance
SARS	South African Revenue Services
SOE	State Owned Entity
VAT	Value Added Tax

1 Overview of the Study

1.1 Introduction

On 01 April 2018, the Value Added Tax (VAT) rate in South Africa was increased by one percentage point, from 14% to 15%. The VAT rate had not been increased post democracy, having remained at a level of 14% for twenty-five years. The decision therefore constituted an event of considerable significance and implication. The response to the VAT increase was mixed. The reception from business and the financial services sector can be characterised as one of pragmatic acceptance; that it was unavoidable because the budget deficit needed to be addressed. In contrast, labour and progressive civil society were vehemently opposed to the increase. Central concerns about the implications were that it would increase the burden of taxation on the poor, lead to a rise in the cost of living and have inflationary effects, in turn leading to worsening poverty and inequality in the country as a whole.

The purpose of this mixed methods study was to investigate the circumstances leading to the 2018 VAT rate increase in South Africa, with the emphasis of the study being on the developmental implications of fiscal policy choices. Examination of the factors that led to the VAT increase was instructive in terms of which underlying dynamics need to be addressed when fiscal policy decisions are being made.

Setting fiscal policy entails a government making decisions relating to its tax rates, borrowing levels and spending levels. Fiscal policy decisions are made in the context of various pressures and can entail trade-offs which may be detrimental to certain groups' interests. Fiscal policy decisions influence the economy as adjusting taxation and spending levels may boost or dampen aggregate demand. Therefore, decisions such as raising the VAT rate or lowering Company Income Taxes (CIT) are not trivial.

In order to finance a country's public expenditure, a government must raise funds. Governments typically do so through revenue from taxation or by borrowing the funds. South Africa, like most countries, derives the greatest proportion of its public revenue from taxation (Dare, du Plessis & Jansen, 2019, p. 1). Ensuring that revenue collections meet revenue targets is a problem in South Africa, which in recent years has been experiencing issues of a widening budget deficit.

In the lead-up to the decision to hike the VAT rate, there were significant pressures to increase spending on government programmes. A restructuring process at SARS had been affecting the achievement of revenue collection targets. This mixed methods research problematised the challenge of tax revenue mobilisation to meet growing spending requirements and rights realisation in South Africa by examining the reasons for the 2018 VAT increase.

The study is located within the discipline of fiscal sociology, which entails the study of how decisions about taxes and state expenditure are made and how these impact on society (Beckert & Zafirovski, 2006, p. 286). A key objective of fiscal sociology is to locate government policy decisions within the nexus of social, political, institutional and economic factors as key determinants of these decisions. It was therefore of central interest to research the current topic using a fiscal sociology lens. The term 'fiscal sociology' was coined by Rudolf Goldscheid in 1917 (Beckert & Zafirovski, 2006, p. 286). The Austrian economist, Joseph Schumpter, was a significant contributor to the field and often referred to Goldscheid's work (Swedburg, 1989, p. 515). Schumpeter's 1918 essay, "*The crisis of the tax state*", is a foundational piece of literature in the fiscal sociology corpus (Musgrave, 1992, p. 90).

Summarising the nub of what Schumpeter's crisis of the tax state entails, Musgrave

(1992) writes:

> While the tax state has been able to survive rising costs of administration and war, changing attitudes towards property and demands for social expenditures offer a more ominous signal for its future. These may generate a crisis which the tax state cannot survive. (p. 90)

Schumpeter's theory encapsulated in fiscal sociology scholarship is that tax policy can be treated as a symptom of changes in the economy and society. The parallels of the fiscal crisis in the contemporary South African context bear a resemblance to those which Joseph Schumpeter was writing about in the context of World War I. The situation in South Africa in 2018, when the VAT rate was hiked and where the fiscal position has subsequently further worsened can be considered to be a crisis of the tax state, in Schumpeter's parlance. Various challenges have converged including declining economic growth, declining revenue collection by the South African Revenue Services (SARS), increasing demand for social spending, and high levels of poverty, unemployment and inequality in the country. For Schumpeter, the crisis of the tax state is not merely a budgetary crisis, but needs to be understood through sharper insight into the historical interaction between fiscal affairs and social structure (Musgrave, 1992, p. 90). In line with fiscal sociology scholarship, this study goes beyond a superficial analysis of budget data, focussing rather on the substantive reasons of which the VAT increase is a symptom.

This study also draws on Campbell's conceptual model for the determination of taxation. Campbell (1993, p. 174) created his conceptual model after an extensive review of fiscal sociology literature. He outlined that economic, fiscal and geopolitical crises give rise to a political response, which is to change the level of taxation, change the taxation system and/or change the distribution of the tax burden. In response to a crisis that has arisen, the conceptual model holds that the political response is determined by state structure, political representation and the balance of class and interest group pressure. Campbell designates tax collection capacity and political access as subsets of state structure.

In 2014, Ali et al. undertook a study on factors affecting tax compliant attitudes in South Africa, Kenya, Tanzania and Uganda. Based on a literature review, Ali et al. (2014, p. 3) identified five main theories that predict whether a taxpayer will be compliant or not: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; and (5) political legitimacy.

Campbell’s conceptual model does not consider taxpayer (compliance) culture as a contributing factor in the determination of taxation. In other words, the model does not account for why some taxpayers engage in tax evasion and tax avoidance. Neither does it address patrimonialism, corruption or state capture. These shortcomings were identified during the literature review. To address this and enhance Campbell’s model, an aspect of the quantitative research in this study focussed on taxpayer culture following the method of Ali et al.

1.2 Statement of the Problem

This study emphasises the developmental implications of fiscal policy choices. It does so by examining the underlying dynamics that influence fiscal policy decisions to determine why, of the various fiscal options available to the government, the decision was made to increase the VAT rate. Two key issues are identified: (1) that the VAT rate increase appears to be a decision that could exacerbate poverty and inequality; and (2) the issue of tax revenue mobilisation to fund spending requirements.

When tax revenue is used for social spending, it can have a redistributive effect in society (Prasad, 2008, p. 1). An aspect of the research problem relates to the interface between tax policy decisions and poverty and inequality in South Africa. Although there is literature which concludes that increasing VAT in South Africa is not a regressive tax policy decision due to zero-rating of specified goods, many societal stakeholders nevertheless rejected the VAT rate increase, branding it a regressive decision that increased the burden of taxation on the poor. This study therefore sought to understand why more apparently progressive decisions were not made.

A further aspect of the research problem is that of tax revenue mobilisation. Ensuring that tax revenue collections meet revenue targets is a challenge in South Africa. In recent years, SARS has not succeeded in mobilising tax revenue sufficiently to meet South Africa's public expenditure requirements. This has led to increased borrowings and debt servicing costs are crowding out social spending. It is therefore imperative to address the challenges related to revenue collection so as to restore spending on developmental goals. Examining the factors that led to the VAT increase was instructive in terms of which fiscal policy issues need to be addressed.

1.3 Research Purpose

As previously stated, the purpose of this mixed methods study was to explain the factors leading to the 2018 VAT rate increase in South Africa. A mixed methods two-phase sequential design was used. It involved reviewing fiscal sociology literature and texts about the 2018 VAT increase to generate research questions about the factors leading to the said increase. These questions were then answered by obtaining different, but complementary data simultaneously by employing both quantitative and qualitative methods. The quantitative data analysis was performed using tax statistics and a binary logit regression using survey data from Afrobarometer. The qualitative data were obtained by undertaking a content analysis of news coverage of the VAT increase to generate factors that brought about the decision to increase the VAT rate. The factors were clustered into categories and summarised. The findings from the qualitative and quantitative methods were then merged in the write-up of the findings.

1.4 Contribution of the Study

At the time when this study was undertaken, South Africa’s 2018 VAT rate increase was a relatively recent development which had not been comprehensively studied. This study therefore fills a research gap. Additionally, in a manner that few other studies have done, this study’s use of a fiscal sociology lens enables it to provide insights into how fiscal policy relates to developmental goals and addresses the budget deficit and revenue mobilisation, thus enhancing the study’s significance.

By focusing on the specific instance of the VAT increase, this study’s contribution is that it provides insight into how fiscal and institutional factors and taxpayer culture have shaped specific fiscal policy decisions in South Africa. Through providing a fuller understanding of how these factors interact with each other, this study facilitates reaching conclusions about how to achieve better management of public finances.

Despite studies which hold that VAT is not regressive overall, it is generally considered a more regressive tax type than other tax types. The findings of this study provide insight into why a tax policy decision to increase VAT, a tax type perceived to be regressive, was made in 2018. This is important because maintaining a progressive tax mix is highly relevant for South Africa, given its high levels of poverty and inequality.

The field of fiscal sociology is underdeveloped in South Africa. This study contributes to the expansion of the body of knowledge. Whereas fiscal sociologists typically apply comparative and historical perspectives to their studies, this study applies a mixed methods approach. It is argued that a mixed methods approach is ideally suited to the field of fiscal sociology, given that it draws on the scholarship of a variety of disciplines such as economics, sociology, polical science and law, all of which utilise both quantitative and qualitative approaches.

1.5 Limitations

This study focusses just on those factors which led to the 2018 VAT increase. It does not provide an in-depth comparative analysis of the VAT increase that took place in 1993, when the VAT rate went up from 10% to 14%. Furthermore, the study does not provide a comprehensive analysis of the tax mix.

Round 6 Afrobarometer data from 2015 were used for the quantitative aspect of the research, because these are the data from the closest year prior to the 2018 VAT increase. The Round 7 Afrobarometer study focussing on South Africa, was undertaken between 30 July and 26 September 2018 (Plus 94 Research, 2018, p. 2), which was a few months after the February 2018 VAT rate increase. Although it would have been of interest to determine if attitudes and perceptions have changed since Round 6 and since the VAT increase, such an investigation falls outside the scope of this study.

This study does not go into the implications of the VAT rate increase in any great depth, due to the limited amount of time that has passed since the decision was made. A research gap was identified where explanations for tax policy decisions pertaining to state capture, corruption and illicit financial flows, particularly in a developing country context are given, when seen through a fiscal sociological lens.

1.6 Research Questions

The central research question addressed by this dissertation is: What factors led to the 2018 VAT rate increase in South Africa?

Linked to the main question, the following sub-questions were asked:

1. What economic factors help explain the VAT increase?

2. What fiscal factors help explain the VAT increase?

3. What geopolitical factors help explain the VAT increase?

4. What factors related to the structure of the state help explain the VAT increase?

   4.1. What aspects of political access impacted on the structure of the state?

   4.2. What institutional factors impacted on revenue collection capacity?

5. What factors related to taxpayer culture impacted on revenue collection?

2 Literature Review

2.1 Introduction

This literature review provides a critical appraisal of the theory and conclusions contained in literature relevant to this study. The first section in this chapter provides the theoretical framework, outlining the theory drawn from fiscal sociology that supports this research study. How the concept of 'the crisis of the tax state' came about is outlined. Thereafter, the theory relating to the determinants of tax policy is outlined. In the 'state of knowledge' section, regressive tax policy decisions and previous studies that deal with VAT and tax mobilisation are discussed. The state of knowledge section also covers a brief overview of VAT in South Africa. Thereafter, the South African context − specifically South Africa's fiscal position over time − is discussed, and socio-economic circumstances are elaborated on.

2.2 Theoretical Framework

This study draws on fiscal sociology for its theoretical basis. Fiscal sociology entails the study of how decisions about taxes and state expenditure are made and the way in which these impact on society (Beckert & Zafirovski, 2006, p. 286). Rudolph Goldscheid coined the term 'Finanzsoziologie', which translates to fiscal sociology (Swedburg, 1989, p. 515) in 1917, so these early fiscal sociology writings are coloured by considerations relating to World War 1.

Because of the war, many states had been in a position of deficit financing, where increasing public debt was used to fund wartime spending. The social, economic and fiscal considerations of wartime society were therefore pertinent to the scholarly writing of the time. In 1918, Joseph Schumpeter wrote an essay based on a lecture he gave at the Sociological Association in Vienna entitled '*The Crisis of the Tax State*' (Swedberg, 1989;

Musgrave, 1992). This essay was written the year before Schumpeter was to become the Minister of Finance of Austria and it provided a foundation for the fledgling discipline of fiscal sociology (Musgrave, 1992, p. 90). In the role of finance minister, Schumpeter would need to deal in a practical manner with the fiscal crisis that his scholarly writing considered.

Schumpeter's essay examines the 'tax state'. 'Tax state' is shorthand for conveying that a central feature of the capitalist state is that it collects taxes (Turley, 2006, p. 11). Paying taxes in exchange for certain services and benefits is a long-time feature of the implicit social contract between citizens and the state in capitalist democracies. Musgrave (1992, p. 109) notes that although Schumpeter eschewed Weber's 'ideal type', the concept of the tax state can be regarded as an ideal type scheme. In setting out the notion of the tax state, Schumpeter's essay described how the 'modern tax state' came to replace feudalism in Germany and Austria and what significance that historical context had for understanding the World War 1 fiscal situation.

Schumpeter's historical analysis tracks the origins of the modern tax state. In 14th and 15th century Germany and Austria, there was no division between the public and private spheres − the prince shared rulership with lesser lords and estates and territory was a personal patrimonium (Musgrave, 2012, p. 91). As ruler in this feudal system, the prince needed to cover the costs of his court and generated revenue largely from dues paid by peasant serfs for the use of land as well as from lesser sources like the mint, customs, presents from vassals and offerings from the church (Musgrave, 2012, p. 91). The feudal system began to come under pressure from financial challenges in the 15th and 16th centuries due to costly wars and inefficient administration, but this could be addressed by improving efficiency of spending and was not, in Schumpeter's analysis, what brought about the change from a feudal system to a tax state.

Schumpeter observed that social change over time would result in a crisis of the fiscal system associated with feudalism. There were increased demands on the monarch's court for services in order to secure the continued loyalty of vassals and simultaneously to fund wars. With the royal court under financial pressure, it could not fund the extent of armies needed to protect the kingdom and lords began to operate in an independent manner, making use of mercenary armies (Musgrave, 1992, p. 91). The prince took on increasing debt to fund wars and called upon the lords for support. However, the lords were distrustful of the way in which the prince might manage the funds and they thus created a tax system which they would use for the funding of war efforts.

This concern would give rise to a response that would have lasting significance. Out of the need for a solution that was in the shared interest, the private sphere which had arisen was to be differentiated from by the addition of a distinct public sphere – and this is how the state was to have its genesis (Schumpeter, 1918, p. 101). The prince would later gain the upper hand once more and the powers of the state would be transferred to him from the estates but, importantly, it was no longer regarded as a personal patrimonium (Schumpeter, 1918, p. 106). Later, the powers of the state were transferred away from the feudal system to established monarchies and, as democracy was gradually established, (over the course of centuries) the said powers were finally assumed by leaders elected by voters, bringing about an increased delineation of the public and private spheres (Musgrave, 1992, p. 92). The primary reason for the genesis of the state was to prevent funds intended for the common good being usurped by the monarch.

With the historical analysis of the change from feudalism to the tax state as his basis, Schumpeter insisted that the fiscal crisis arising in the first quarter of the twentieth century was not necessarily a consequence of the earlier mentioned First World War, but that the war had laid bare the shortcomings of a society that has the tax state as its fiscal expression. He contended that the said war had exposed the structural weaknesses that were the actual deeper reason for the crisis of the tax state. Schumpeter concurred with Goldscheid (1917) that the capitalist market system accompanied by the tax state could well fail. However, he differed from Goldscheid on why it would fail. Goldscheid’s analysis was that the capitalist state would not be able to collect enough taxes to cover post-war public spending, which would result in increasing levels of public debt and in turn cause a fiscal crisis (Schmidt 2006, p. 339). Goldscheid’s work placed emphasis on a balanced budget. Schumpeter’s assertion in response to Goldscheid was that the fiscal crisis arose from a structural weakness in society, rather than a budgetary crisis (Musgrave, 1992, p. 90). Despite this critique, Schumpeter remarked on his respect for Goldscheid’s historical analysis. The centrality that Goldscheid and Schumpeter (and by extension, fiscal sociology) accord fiscal history and its sociological effects is evident in this passage from Schumpeter’s essay:

> The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare − all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns the thunder of world history more clearly than anywhere else. (p. 101)

The longevity of Schumpeter and Goldscheid’s work as a foundational basis for fiscal sociology can be ascribed precisely to broader insights based on historical analysis, which affords it applicability beyond the specific epoch about which they were writing. Based on historical analysis, Schumpeter posited that it is an inherent feature of the capitalist state to tend towards instability in the form of financial crisis (Schmidt 2006, p. 345). This structural weakness is encapsulated in the idea of ‘the crisis of the tax state’, which is a key theoretical concept for this study. It is further elaborated on in the section below, which examines the determinants of taxation and which also sets out the conceptual framework for this study.

2.3 Determinants of Taxation

A crisis of the tax state occurs when the state cannot collect sufficient revenue from taxpayers to meet growing spending requirements. Musgrave (1992, p. 92) aptly articulates the problem that Schumpeter identified as being that the demand for growing social spending poses a threat to the future of the tax state in that these demands may bring about a crisis that it cannot withstand. Notably, the definition that Bös provides speaks to the notion of progressive versus regressive tax types. In defining ‘a crisis of the tax state’, Bös (1982, p. 226) argues that a ‘crisis’ occurs if the majority of the citizenry is discontented with paying progressive income taxes to enable the financing of goods supplied by the public sector (Bös, 1982, p. 226).

South Africa has a long-established tradition of progressive taxation. Lieberman (2009, p. 113) outlines that ’during the course of the twentieth century, South Africa developed a highly progressive and efficient tax state’. Lieberman’s scholarship encompasses several studies on taxation in South Africa. In a 2002 study titled 'How South African Citizens Evaluate Their Economic Obligations to the State', Lieberman found that attitudes towards the national political community were by far the most important determinants for a tax compliant attitude. Drawing on a 1997 IDASA diversity survey data, these attitudes encompassed a sense of whether respondents felt different from other South Africans and rejected or accepted a sense of belonging to the ‘rainbow nation’ (2002, p. 53). Respondents whose attitudes entailed greater levels of tolerance and a sense of belonging to the national political community were more likely to demonstrate willingness to pay. While Lieberman’s study found that race was not a predictor of tax compliance, he makes important observations about the impact of race chauvinism on determining a sense of belonging to the political community of a nation. For example, Lieberman (2002, p. 51) outlines that ‘[i]t is also interesting to note that perceptions of corruption – which are negatively correlated with inclinations to comply – were themselves strongly associated with race and attitudes about the political community, but not with more 'objective' factors'.

Eschewing rationalist assumptions, a theme in Lieberman's work is that it engages with the boundaries of social identities and how this relates to the willingness to sacrifice financially. Lieberman (2009, p. 115) highlights that a culture of strong tax compliance had arisen in South Africa during Apartheid, when wealthier whites were prepared to make financial sacrifices as an expression of white solidarity with poor whites who would benefit from the state's use of the resources. After the transition to democracy occurred in 1994, he notes that 'white taxpayers were already "in the tax net"' and they had little ability to avoid or evade their tax obligations without relatively easy detection' (Lieberman, 2009, p. 115). Lieberman (2009, p. 117) outlines that among black South Africans, there had been a tradition of boycotting taxes during Apartheid as an expression of protest against the injustice of the system and that after the democratic transition, the tax administration system was initially better geared towards collecting taxes from white South Africans. By the time of writing in 2009, Lieberman (2009, p. 117) noted that tax compliance among black taxpayers had improved significantly.

The notion of 'rainbowism' has been critiqued as having established a group identity that does not sufficiently acknowledge the past and continued effects of racism. Considering Lieberman's findings, when racial cleavages become more pronounced in public discourse, it raises questions about whether taxpayers who regard themselves as outside of a group sense of national community may become less inclined to sacrifice financially and whether that could have implications for the extent of progressivity of the tax system.

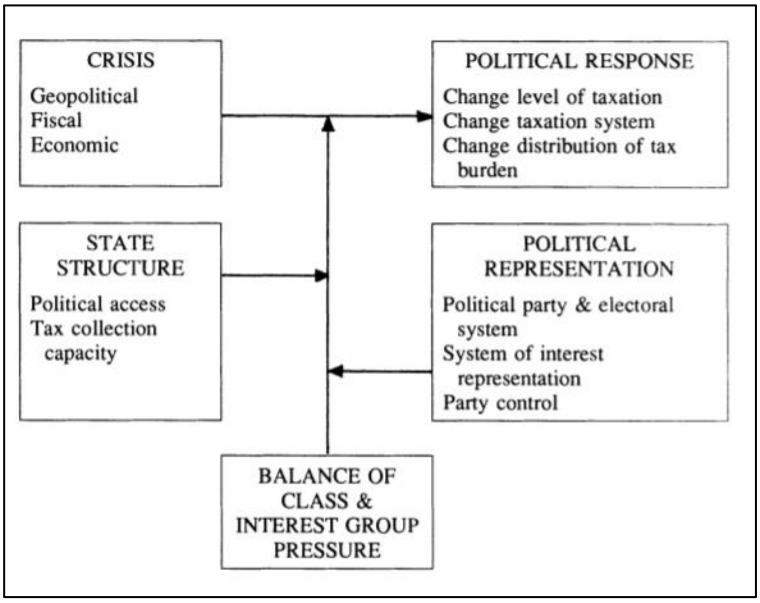
A study by Inchauste, Lustig, Maboshe, Purfield and Woolard (2015, p. 20), found that tax and social spending in South Africa were overall progressive and that VAT is actually slightly progressive in South Africa. The study which made use of the 2010/11 Income and Expenditure Survey for South Africa as the basis for analysis using the Commitment to Equity (CEQ) methodology, measured distribution over both income and consumption. One of the reasons VAT is slightly progressive is because in South Africa, a number of items that low-income and poor households typically consume are VAT zero-rated. However, the study does acknowledge that when compared with consumption taxes, PIT is usually more progressive (Inchauste et al, 2015, p. 4). In public discourse, VAT is regarded as a regressive tax type notwithstanding the evidence that the above mentioned study presents. Tax preferences (zero-rating, exemption) are utilised to make it mildly progressive, but not all on the list of zero-rated items are the items that poor households consume and a VAT rate increase still has an effect of increasing the cost of living. This is why Bös' definition of a crisis of the tax state holds particular interest. Whereas South Africa has had a tradition of being a progressive tax state, when the VAT rate increase happened, a change was occurring. Arguably, with reference to Bös' definition, when VAT was increased in 2018, it signified that some form of crisis in taxable capacity had been reached in South Africa. Fiscal sociology provides a theoretical framework for understanding why that happened.

Decisions concerning both taxation and state expenditure are frequently contested on an ideological basis. This gives rise to an inherent tension. In determining fiscal policy choices, fiscal sociologists have pointed out that different groups end up being either winners or losers, depending on the balance of power in a specific country. In the South African case, the said VAT hike illustrated how this tension played out.

The determinants of tax policy are one of the areas considered by the fiscal sociology literature. Based on an extensive review of fiscal sociology literature, in 1993 John L. Campbell developed a conceptual model of the determination of taxation. Campbell's conceptual model is depicted in Figure 1 below and, as outlined in the introductory chapter, is of central relevance to this study.

Figure 1

A conceptual model of the determination of taxation



Source: Campbell, J. L. 1993, Annual Review of Sociology, pp. 163-185

To elaborate on Campbell's model: it explains the interplay between different variables that result in changes in the level of taxation, the structure of the tax system and the distribution of the tax burden. Campbell (1993, p. 174) expands on his conceptual model, outlining its first premise, which is that tax policy changes are made as a reaction to pressures emanating from some form of geopolitical, economic or fiscal crisis. But, in responding to these pressures, the political elite are also influenced by the balance of class and interest group pressures. Pertinent to this study, Campbell (1993, p. 174) highlights that 'groups have different levels of tax tolerance and interests in different forms of taxation (e.g. progressive or regressive)'. Whichever group holds more power amongst the different lobby groups, influences which tax policy changes political elites choose to implement.

The influence of groups in turn is impacted by systems of political representation. For example, the form of electoral and political party system influences engagement structures where groups are able to promote the particular policies they favour. Campbell (1993, p. 174) also observes that the existence of ‘pluralist or neocorporatist systems of interest representation’ and changes of leadership from one political party to another, have a mediating influence on tax policy decisions. The state structure – the institutional arrangement by which the state is configured – is a final mediating factor in Campbell’s model. How the institutions of the state are configured determines the influence that different interest groups have on political elites. Campbell (1993, p. 174) elaborates that extent that political elites can be influenced by pressure from the public is related to state structure affecting whether they will act in accordance with the ideology held by the majority political party or in accordance with the views of specific class and interest groups. This in turn has an influence on their capacity to collect tax revenue.

While the appeal of a conceptual model is that it succinctly represents a system comprised of concepts, this study sought to adapt the model. Campbell (1993, p. 174) acknowledges that there are other variables and causal pathways that could also be incorporated into the conceptual model. A specific critique of the model is that while Schumpeter’s ‘crisis of the tax state’ contemplates patrimonialism (a system of governance in which power flows from the ruler) through discussing the shifting role in governance that occurred with the transition from a feudal to a democratic capitalist system, Campbell’s model does not incorporate concepts arising from neopatrimonial scholarship. It makes no reference to tax compliance issues (such as tax avoidance and tax evasion) or to corruption. Both of these issues were considered in this study.

The tax gap refers to ‘the difference between what should theoretically be paid and what is actually paid’ (Jansen, Ngobeni, Sithole & Steyn, 2020, p. 1). Two tax gap categories may be distinguished: the compliance gap and the policy gap (Dare et al., 2019, p. 1). Ahmed and Rider (2013, p. 335) characterise the compliance gap as the amount of tax revenue lost as a result of compliance issues including tax evasion, taxpayers underpaying due to poor understanding of tax legislation, tax officials doing bad record-keeping and other mistakes. Tax evasion is illegal. The South African Institute of Chartered Accountants outline that tax evasion ‘has been described by various commentators as the deliberate, dishonest act of suppressing income or inflating expenditure in order to reduce a tax burden’ (Musviba, 2009, p. 1). By contrast, tax avoidance is not illegal.

The second category of the tax gap is the policy gap. It relates to the amount of tax revenue forfeited due to policy choices and includes revenue lost due to tax avoidance and expenditures such as exemptions, special credits, rebates or deductions for medical expenses (Dare et al., 2019, p. 1). These tax expenditures are policy choices typically made to ease the burden on the taxpayer. While not desirable, tax avoidance occurs when taxpayers find legal ways to avoid paying taxes, such as making use of tax loopholes. A 2013 study by Keen on the anatomy of VAT in a subset of European Union countries, found that in most countries, in respect of VAT, the policy gap was significantly larger than the compliance gap (Keen, 2013, p. 3). As mentioned earlier in this critique, Campbell’s model does not include tax compliance and taxpayer culture. However, it does make mention of tax collection capacity to which these concepts have a theoretical link. This study incorporates an examination of the relationship with these factors to determine how they influence the determination of tax policy.

2.4 State Capture in South Africa

Another factor not mentioned in Campbell’s model is that of corruption. In South Africa, the foremost instance of corruption that affects the fiscus has of late been referred to as ‘state capture’. State capture, a form of grand corruption, is a relatively new concept, having been coined by Hellmann and Kaufmann twenty years ago, based on their research of transition economies. In 2000, Hellman and Kaufmann defined state capture as ‘the efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials’ (Hellmann & Kaufmann, 2001, p. 1). They studied twenty-seven countries of the former Union of Soviet Socialist Republics and Eastern Europe after the reunification in Germany in order to understand these countries’ transitions to capitalist democracy (Hellman & Kaufmann, 2018, p. 32). Hellman and Kaufman built their concept upon the work of economist George Stigler who developed the concept of ’regulatory capture’, where specific firms influence formation of regulations related to their industry, but their concept goes further in that it refers ‘more broadly to a wider array of laws, policies and rules that shaped the very contours of the state’ (Hellman & Kaufmann, 2018, p. 33). Hellman and Kaufmann’s examining of a moment of transition to democracy can be likened to Schumpeter’s examination of the transition from feudalism to democracy. It was therefore considered likely to be a good theoretical fit to examine whether state capture can find expression in an expansion of Campbell’s model.

As made explicit by the State Capture Inquiry, state capture theory has found particular application in the South African context. In 1994, South Africa transitioned to democracy when it held its first democratic elections. During this process, South Africa too saw a re-establishment of the regulatory landscape and has experienced state capture. Godinho and Hermanus (2018, p. 3) are critical of moralistic associations of state capture with ‘corruption of state institutions’ where the institutions are assumed to be exemplary in their initial condition. They point out that, prior to the transition, these institutions were a product of a colonial legacy, some had been used to perpetrate human rights atrocities and most were oriented towards serving a small white minority of the population. Godinho and

Hermanus therefore offer the following reconfigured definition that is more relevant to the South African context:

> State capture is a political-economic project whereby public and private actors collude in establishing clandestine networks that cluster around state institutions in order to accumulate unchecked power, subverting the constitutional state and social contract by operating outside of the realm of public accountability. (2018, p. 3)

This definition aptly describes what has occurred in South Africa. As Dassah (2018, p. 473) highlights, state capture entered into the South African public discourse in 2016 after Finance Minister, Nhlanhla Nene, was summarily dismissed from his post on 09 December 2015. It would later emerge in 2016 that former deputy finance minister Mcebisi Jonas had been offered the position of finance minister and a R600 million bribe in October 2015 by Ajay Gupta[1], in an effort by the Gupta family to increase its state capture foothold in South Africa (Cameron, 2018). The book *Shadow State* (Chipkin & Swilling, 2018) which provides a detailed analysis of state capture in South Africa in the decade between 2008 and 2018, offers a pertinent conclusion regarding the impact of state capture on the tax state:

> State capture by shadowy elites has profound implications for state institutions. It destroys public trust in the state and its organs, it weakens key economic agencies that are tasked with delivering development outcomes, and it erodes confidence in the economy. When there is no trust in public institutions there is little incentive to pay tax; large companies sit on cash rather than reinvest profits towards

[1] Ajay Gupta is a businessman from India. He is the eldest of three brothers. The Guptas are implicated in extensive grand corruption in South Africa.

> productive use; criminality proliferates, exploiting weaknesses in intelligence and crime enforcement authorities; and both capital and skills flee the country. The majority of South Africans are bearing the brunt of these corrosive developments. (Chipkin & Swilling, 2018, p. 133)

Minister Nhlanhla Nene’s dismissal precipitated public awareness that state capture is linked to private elites assuming power over the levers of power to manipulate outcomes for their own benefit. The ‘Nenegate’ saga gave rise to concern that the President’s prerogative to appoint and remove ministers had been taken over by the Guptas (Dassah, 2018, p. 473). The Guptas were also alleged to be leveraging their influence over those appointed in order to secure preferential treatment in the awarding of state contracts. The then Public Protector, Advocate Thuli Madonsela, in her capacity as head of the Public Protector’s Office, investigated a number of complaints relating to this matter. One of these allegations was that the Gupta brothers, who at the time were business associates of (then) President Jacob Zuma’s son, Duduzane Zuma, had allegedly offered the position of finance minister to Mcebisi Jonas and had allegedly influenced the removal of (then) Minister Nhlanhla Nene from his position (Public Protector South Africa, 2016, p. 5). Tabled just before Adv. Madonsela’s term as Public Protector ended, her report recommended that a judicial inquiry into state capture be established to probe state capture further.

Following Minister Nene’s removal, MP Des van Rooyen was appointed to the position of finance minister by then President Zuma. However, this was for a mere four days, before pressure from the public and the business sector including major banks saw President Zuma announce that Mr van Rooyen would be replaced by Pravin Gordhan MP as finance minister. In 2017, there would be another late-night cabinet reshuffle, which saw Pravin Gordhan replaced by Malusi Gigaba MP as finance minister (Onishi & Chan, 2017). After repeated motions of no confidence in his fitness for office being brought before Parliament, Jacob Zuma resigned as president on the evening of 14 February 2018, ahead of yet another motion of no confidence debate (*Times Live*, 14/02/2018, Jacob Zuma has resigned). The following day, Cyril Ramaphosa was sworn in as president. Speculation followed about when he would announce a cabinet reshuffle and whether it would include replacing Malusi Gigaba as finance minister.

With only days to go to the budget speech, commentators predicted that Minister Gigaba would be left in place to deliver his bad news budget rather than transferring the duty to a new finance minister who would not have had time to engage meaningfully in the budget process. There was a sizeable budget deficit to deal with: a shortfall of R50.8 billion in tax revenue, the biggest shortfall since 2009. On 21 February 2018, Minister Gigaba would give his maiden (and final) budget speech and it was in this speech that he announced the VAT hike (National Treasury, 2018). The last time the VAT rate had been raised was in 1993, prior to the dawn of democracy. Twenty-five years on, raising the VAT rate was an event that signified a crisis. At that stage, citizens who were to pick up the costs had an initial sense of the degree to which state capture had impacted State Owned Entities (SOEs) and SARS, but the full extent of what had occurred and the implications thereof were still to be revealed.

In May 2018, President Ramaphosa announced that retired Judge Robert Nugent had been appointed to head the Commission of Inquiry into Tax Administration and Governance by SARS (Davis, 2018). The scope of the Terms of Reference of the Nugent Inquiry included examining measures undertaken by SARS to address revenue shortfalls in the two preceding years. In December 2018, the Nugent Inquiry's final report was tabled and submitted to the president (Nugent, 2018).

Returning to Campbell's conceptual model and how it would frame these events, a cursory analysis indicates that the *structure of the state* was being altered through shadowy elites gaining *political access* and usurping the powers officials were meant to wield. (Italics indicate aspects of Campbell's model that are applied). A crisis of the tax state occurred when *revenue collections* were insufficient to meet the demands of growing spending requirements. The response was a *change in the level of taxation* in the form of a VAT rate increase. This *shifted the burden of the distribution of taxation*. The decision was mediated by a *balance of class and interest group pressures*. However, as per the critique of the model, it does not account for state capture / corruption and taxpayer culture as factors influencing the determination of taxation.

2.5 State of Knowledge

Having correlated the 2018 VAT increase event with the conceptual framework for the study, this section provides a review of applicable literature. The state of knowledge is discussed in four parts: regressive tax policy decisions, tax revenue mobilisation, Value Added Tax in South Africa and South Africa's fiscal position over time.

2.5.1 *Regressive Tax Policy Decisions*

Fiscal sociology literature has developed in two streams: state expenditure and taxation (Beckert & Zafirovski, 2006, p. 286). Tax revenue is the main way in which countries fund programme spending (Dare et al., 2019, p. 1). One of the links between fiscal sociology's two main foci is that spending is funded by revenue. The extent to which a country provides welfare support, how much it commits to social spending, which tax measures are used to fund spending and at what level tax rates per tax type are set, are matters of interest included in fiscal sociology literature. In their study '*Toward a fiscal sociology: Determinants of tax regressivity in the American States*' David Jacobs and Don Waldman highlight that because inequality is so dependent on the actions of the state, researchers have developed an interest in 'the conditions that determine when particular economic groups will benefit from political outcomes' (Jacobs & Waldman, 2003, p. 1). Martin and Prasad (2014, p. 331) note that there is consensus in the literature that the states that provide the most welfare depend most on regressive taxes to do so. In other words, spending on pro-poor programmes comes from tax measures that disproportionately affect the poor, the precise constituency that the state is committed to support.

Why do states with generous welfare support tend to rely heavily on regressive taxes to fund them? While Martin and Prasad found that there is not consensus among scholars concerning why this is so, they outline four different reasons contained in the literature: (1) to maintain a tax mix that supports economic growth; (2) because regressive taxes are less threatening in maintaining elites' support for the political consensus for the welfare state; (3) due to progressive taxes having tendencies to result in applying tax preferences; and (4) because of concerns that progressive taxes lead to capital flight.

Supporting economic growth requires an environment which business regards as conducive to business undertakings. It makes sense therefore that businesses may be more favourably disposed towards the VAT rate being raised than, for instance, the CIT rate; whereas with VAT, the costs are passed on to the consumer. The business sector is to some extent receptive of the state's provision of the social wage and welfare, because this aspect of the social compact supports labour, which is indirectly in their interests. This is why if social welfare is funded through regressive taxes like consumption taxes, this arrangement is mostly acceptable to business. However, when it starts driving up company taxes, business elites become less supportive and, in the case of multinationals, may decide not to locate in a specific country, or to withdraw altogether from there. This is an aspect of the capital flight challenge that concerns tax administrators when considering a progressive tax measure.

2.5.2 *Tax Revenue Mobilisation*

To cover its budgeted expenditure, a country's Treasury must assess if its projected tax revenue is likely to be sufficient or whether tax rates need to be raised. A review of relevant literature revealed that a relatively small number of studies contemplate challenges associated with tax revenue mobilisation in South Africa and even fewer studies focus specifically on VAT in the context of tax revenue mobilisation.

A 2015 International Monetary Fund study by Ueda and Thackray on the VAT Gap highlights that the efficiency of tax collection for VAT is higher in South Africa relative to other Sub-Saharan African countries and that South Africa's VAT compliance gap seems low (Ueda & Thackray, 2015, p. 64). When tax compliance is good for one tax type, but poor for another, needing to secure additional revenue within a specific time frame can influence the choice between the two tax types. Dare, du Plessis and Jansen (2019, p. 6) conducted a study on South Africa's personal income tax (PIT) gap. Their findings reveal that in 2005/2006 South Africa's total PIT gap (the total amount of tax revenue lost) was R166 billion in 2017 real terms. Of this, R60.1 billion was due to the compliance gap and R105.9 billion due to the policy gap. In 2010/2011, the authors found that the total tax gap was R159.2 billion in 2017 real terms. In both years, the policy gap accounted for a greater percent of the tax gap; 64% in 2005/2006 and 84% in 2010/2011. The authors therefore observed that the extent of the policy gaps indicated that the state had been forfeiting a lot of tax revenue through its policies that reduced taxpayers' burdens (Dare et al., 2019, p. 5). The revenue lost because of non-compliance was 21.7% of possible tax revenue in 2005/2006 and 8.3% in 2010/2011. Although 8.3% of the potential tax revenue forgone in 2010/2011 was an improvement on the earlier non-compliance, the authors noted that the extent of tax evasion was still significant. They found that non-salaried income tax payers who submit provisional tax returns are responsible for the biggest portion of South Africa's PIT gap (Dare et al., 2019, p. 5).

Ali et al., (2013) undertook a study on factors affecting citizens' attitudes towards tax compliance in Kenya, Tanzania, Uganda and South Africa. They identified that models of taxpayer behaviour usually reflect one of five theories: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; and (5) political legitimacy. Economic deterrence refers to taxpayers thinking they will get caught or fined for not paying taxes, and therefore they are less prone to tax evasion. Fiscal exchange theory holds that if in return for paying taxes, there is good exchange through public goods and services that are provided efficiently, the motivation to be tax compliant is higher. With respect to social influences, if a person perceives that others in their social circle are tax compliant, they too are more likely to be tax compliant. With respect to comparative treatment, if a person perceives that others who are in the same group as them (for example in the same income group, of the same race or education level) are treated in a just manner by government when compared to other groups, it is more likely that they will be tax compliant. Political legitimacy stems from people's trust in government; for example, in government's policies and institutions. If government enjoys political legitimacy because people trust government officials, it is more likely that they will have a tax compliant attitude.

Although Ali et al. do not discuss taxpayer knowledge and non-state service provision as factors possibly affecting taxpayer behaviour, they also test these. The extent to which taxpayers understand taxation and how to determine what they owe has an impact on their tax compliance. If they know how to file their tax returns and when to pay, they are more likely to be tax compliant. When it comes to payment to non-state actors, if there is a protection racket in which business owners have to pay gangs for 'protection', this means that they are less likely to be tax compliant (Ali et al., 2013, pp. 8-9). All of the theories held up except for the social influences theory which was not significant in South Africa. This study replicates that approach. However, where Ali et al. utilised Arobarometer Round 5 data, Round 6 data are used for this study, because of their proximity in time to the VAT increase.

In a 2017 study on tax compliance in Africa, Isbell (2017, p. 1) points out that poor tax compliance impacts on development by hampering the state's ability to invest in development. Looking at 36 African countries, Isbell (2017, p. 1) found that 63% of respondents agree that taxes are necessary for development, with most (72%) saying that tax compliance is a civic duty and 87% saying it is wrong not to pay. While the majority of respondents (63%) support the tax department's legitimacy to require people to pay taxes, significantly fewer respondents (44%) trust the tax department (Isbell, 2017, p. 2). Over a third (36%) of respondents thought most or all tax officials are corrupt. This perception of corruption and lack of trust in tax officials correlate with respondents being less likely to believe that tax compliance is a civic duty and that it is right to pay (Isbell, 2017, p. 2). Examining South African perceptions of tax compliance more closely, 61% of respondents from South Africa said that citizens must pay taxes if the country is to develop (Isbell, 2017, p. 4). This highlights that South Africans regard the linkage between paying taxes to support development outcomes as being important.

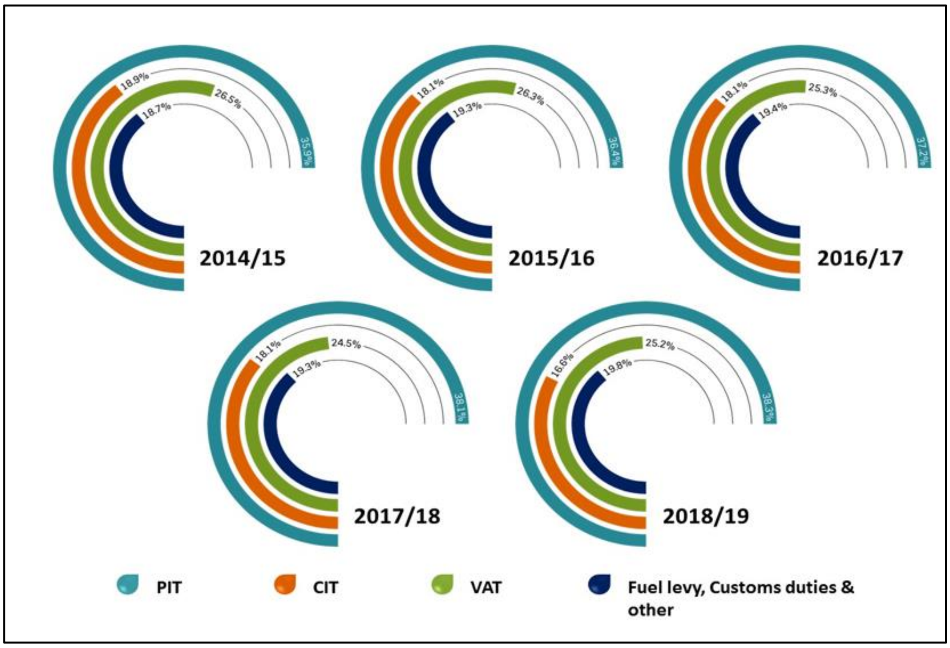
2.5.3 *Value Added Tax (VAT) in South Africa*

VAT is a relative newcomer in terms of available tax types. Tracing the origins of VAT, SARS (South African Revenue Services, 2011, p. 13) notes that VAT was introduced by France in 1954, at first only for large businesses, but over time it was rolled out to all business sectors. In the South African context, VAT was introduced in the early 1990s. It was however predated by General Sales Tax (GST). When GST was introduced under the Sales Tax Act of 1978, it was at a rate of 4% (South African Revenue Services, 2011; Reserve Bank, 2015). By 1989, the GST rate had risen through incremental increases over the preceding decade to 13% (Reserve Bank, 2015, p. 24). In 1991, the Value-Added Tax Act (89 of 1991) brought VAT into existence in South Africa. The initial VAT rate was 10%; however, by 1993, the rate was increased to 14% (Reserve Bank, 2015, p. 24).

While VAT is paid by consumers when purchasing a product or service, they are not responsible to pay it over to the tax authority. The supplier of the goods or services (VAT vendor) pays over the tax levied on the consumer. VAT is therefore classed as an indirect tax. VAT is also regarded as a consumption tax, because it is charged as a levy on the consumption of goods and services (Stiglingh, 2013, p. 1039). The name is derived from VAT being a tax that is levied on the value added during successive stages of production (James, 2012, p. 285).

Of the four tax types that are the main sources of tax revenue in South Africa, VAT is the second largest contributor after PIT. The figure below (Figure 2) depicts the relative composition of South Africa's tax revenue by tax type.

Figure 2



Relative composition of main sources of South African tax revenue

Source: National Treasury and South African Revenue Services, 2019, Tax Statistics

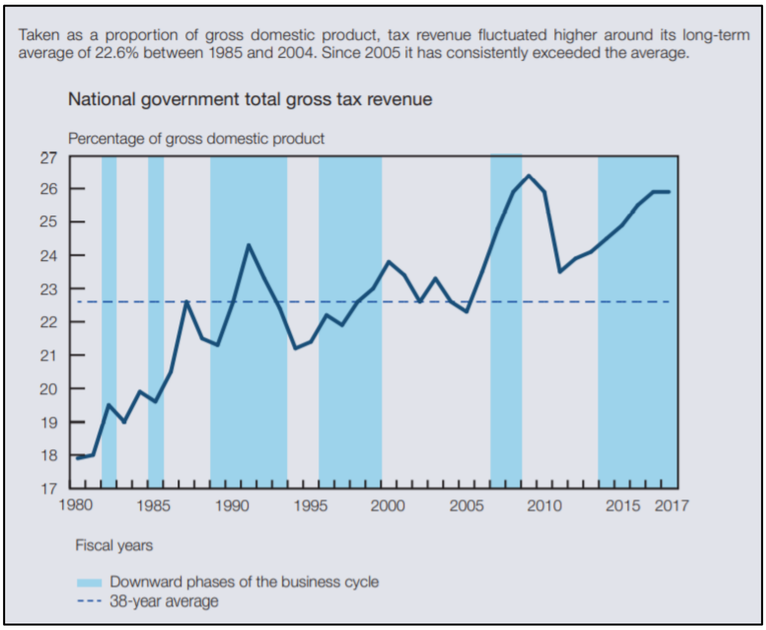
In the 2017/18 financial year, the year that preceded the VAT increase, PIT contributed 38.1% of tax revenue, followed by VAT at 24.5%, fuel levy, customs duties and other taxes at 19.3% and CIT at 18.1%. In 2018/19, the effect of the VAT increase and other tax measures is reflected in the tax statistics. VAT contributed 25.2% in 2018/19 (versus 24.5% in 2017/18) and notably, CIT contributed a reduced proportion: 16.6% in 2018/19 versus 18.1% in 2017/18. The contribution of the fuel levy, customs duties and other taxes increased by half a percent. While changes in the contributions of different tax types may appear banal, they are in fact contested by social stakeholders. Amongst organised labour and civil society, the changes in relative contribution of tax types have given rise to a concern that what Campbell's conceptual framework articulates as changes in the distribution of the burden of taxation, were already occurring when the VAT rate was increased. The perceptions of taxpayers from different class groupings shape debates. Working class and unemployed people's interest groups would oppose a distributional shift that has perceived negative implications for the poor, because people's daily lives are affected by the privations that come from living in poverty.

2.5.4 *South Africa's Fiscal and Socio-Economic Circumstances over Time*

A major international trend concerns rising levels of taxation and public spending. In this regard, Piketty and Saez (2014, p. 839) note that 'total tax revenues and public spending were less than 10% of national income in every country before WWI, and they are now in the order of 30 to 50% of national income in every developed country'. This trend is also evident in the South African context. As Figure 3 produced by the South African Reserve Bank indicates, tax revenue as a percentage of Gross Domestic Product (GDP) has increased over time.

Figure 3

National government total gross tax revenue over time

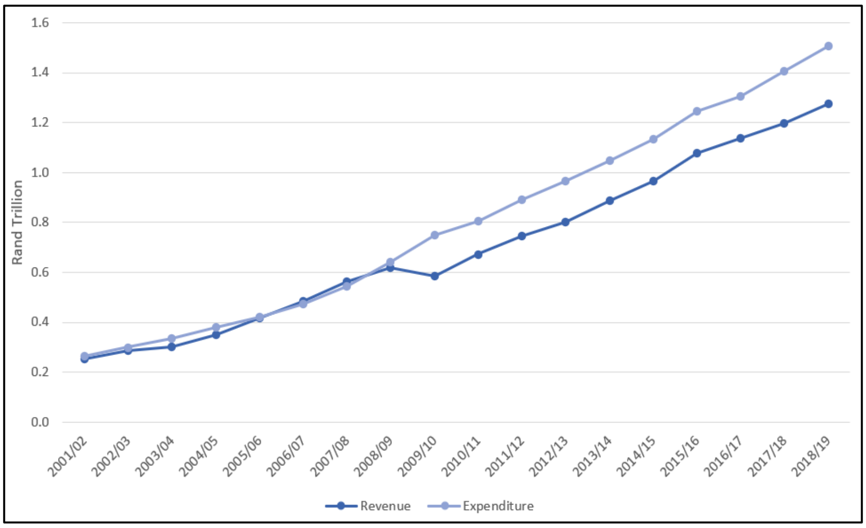


Source: South African Reserve Bank, 2018, Tax Chronology, p.7

Revenue rising as a proportion of GDP does not however imply that the country has a balanced budget, as spending may also be increasing. The figure below illustrates South Africa's main budget revenue and expenditure in nominal terms. While the revenue kept growing, the spending grew faster. As explained previously, when expenditure is greater than revenue, a budget deficit arises. As may be seen below (see Figure 4), from 2009, South Africa incurred a budget deficit.

Figure 4

South African main budget revenue and expenditure



Source: National Treasury time series data, 2020

Unsurprisingly, and as may be seen on Figure 4 above, debt levels have risen since 2008. For a brief period before the 2008 financial downturn, South Africa generated more revenue than expenditure. In 2007 government debt to GDP had been at 28.3%, but by 2018, it was at 56.7% (Tradingeconomics.com). However, as Schumpeter urged Goldscheid, it is important to reach conclusions that take into consideration a broader view, not just the imperatives of a balanced budget. Analysing the figures alone would be to neglect to address socioeconomic conditions.

What was happening on a social level in South Africa? It is widely acknowledged that the continent of Africa is beset by the triple challenges of poverty, unemployment and inequality. The VAT rate hike would have been deliberated in the first quarter of 2018. In that quarter, the unemployment rate was 26,7% in terms of the narrow definition (Statistics South Africa, 2018). Among the youth, the unemployment rate was even higher, at 38.2%, – or, stated differently, one in three youths aged 15 to 34 did not have a job (Statistics South Africa, 2018). Aside from high youth unemployment, a high number of youths are also not in employment, education or training, the so-called NEETs. In the first quarter of 2018, these youths numbered approximately 3,3 million, indicating that they were disengaged from the labour market (Statistics South Africa, 2018).

With millions of the youth and adult populations faced with few prospects of getting a job or securing an income, the issue of structural unemployment is a sizeable challenge that is hampering participation in the economy. While there has been an increase in labour force participation in the country since the transition to democracy, there is a high number of discouraged work seekers. Sluggish growth is resulting in too few new jobs being created to absorb those entering the job market, while an additional factor contributing to unemployment is a skills mismatch. Poor education outcomes affect the South African youth, keeping very many of them stuck in a poverty trap. Only 8% of youths between the ages of 18 to 24 go to college or university (Branson, Hofmeyer, Papier & Needham, 2015). Not every job requires a university education; however, the most appropriate pathway to a technical vocation for those wanting to take that path is difficult to choose. In too many instances the training offered in whichever higher education and training route taken in South Africa does not adequately prepare those exiting for the world of work.

With regard to poverty: in 2017, Statistics South Africa released a poverty trends report which revealed that poverty in the country had worsened between 2011 and 2015. In 2015, over half of the population (55.5% or 30,4 million persons) were living in poverty (Statistics South Africa, 2017). Of these, 13.8 million were living in extreme poverty, which is below the 2015 food poverty line of R441 per person per month (Statistics South Africa, 2017). The report also highlighted the gendered and racial dimensions of poverty, with the findings revealing that ‘the most vulnerable to poverty in our society are children (aged 17 or younger), females, black Africans, people living in rural areas, those residing in Eastern Cape and Limpopo, and persons with little or no education’ (Statistics South Africa, 2017).

The Inequality Trends in South Africa Report (2019) reports that South Africa's national Gini coefficient in 2015 was 0,65 – a slight improvement from 0,67 in 2006 (Statistics South Africa, 2019, p. 33). While the slight drop is an improvement, the 2015 Gini coefficient still indicates an extreme level of inequality, when using the Gini coefficient as the measure. In a country that is one the most unequal countries in the world, and in a context of competing class interests, a change that threatened to exacerbate inequality would be keenly opposed.

While the country has an acknowledged small tax base, there is a great deal of pressure on the fiscus for increased social spending to support residents with little to no income to meet basic needs. While social spending is growing as outlined before, so too is the population size. Therefore, even as the demand is growing, increases in spending are not necessarily translating to more per capita spend. Despite the significant amount South Africa spends on the social wage in comparison to other countries, for close to 14 million people living in extreme poverty, their daily reality includes severe privations including hunger, malnutrition and poor health. While the social wage alleviates these social circumstances to some extent, service delivery has been beset with challenges. Among the social wage interventions, social grants in South Africa play a notably important role in alleviating certain aspects of poverty and also in income redistribution (Bosch et al., 2010). However, as the Taylor Committee of Inquiry into a Comprehensive Social Security System for South Africa Report (2002) problematises, the social grant system does not offer income support to the unemployed between ages 18 to 59 (Taylor, 2002). Stuck in structural unemployment and faced with an inadequate quality of services, a high number of people living in poor and low-income households suffer dire socio-economic circumstances on a daily basis with limited to no social safety net.

An increase in the VAT rate makes goods and services on which VAT is levied more expensive. When VAT goes up, people who purchase goods from the formal sector can buy less; they have less purchasing power. People living in extreme poverty who had no disposable income to start with and who rely on formal suppliers (that levy VAT, as opposed to informal suppliers that do not charge taxes) feel these effects much more keenly than the middle classes and wealthy.

3 Methodology

3.1 Research Design

A mixed methods research methodology was selected as the design for this study. A mixed methods research methodology combines both quantitative and qualitative data in the same study (Creswell & Plano Clark, 2007, p.1). The rationale for a mixed methods approach is that it provides better insight than if either form of data had been used in isolation (Creswell & Plano Clark, 2007, p.7). It became apparent in this instance that studying either qualitative data or quantitative data alone would not have provided a complete picture of the factors that brought about the VAT rate increase in 2018. Patton (2002, p.14) highlights that qualitative methods largely support depth of understanding whereas quantitative methods support breadth of understanding. The benefit of utilising both is that breadth and depth can be achieved.

Mixed methods research is commonly associated with the pragmatism paradigm in research. Pragmatism was an excellent match for this study because it emphasises the consequences of an action (here, the decision to increase the VAT rate) in a specific context; in this instance, South Africa. By tracing which factors brought about the VAT increase, the study was clarifying hypotheses about what these factors are. The research questions were drawn from Campbell's model as outlined in the literature review. However, due to the ambiguities inherent in universal laws, Campbell's conceptual model was not treated as a universally applicable model. Rather, it was treated as a hypothesis to be clarified and a point of reference for the study to develop its own conceptual model that explained what occurred in the South African context to cause the VAT increase. This understanding was derived from studying the content of news articles, blog posts and opinion pieces that provided explanations of why the VAT increase came about, and from examining quantitative data.

An explanatory design was selected for this research. The explanatory mixed methods design is a two-phase design where the qualitative data builds on quantitative results from the first phase (Creswell & Plano Clark, 2007, p.72). In this design, qualitative data helped to explain the findings emerging from the quantitative analysis.

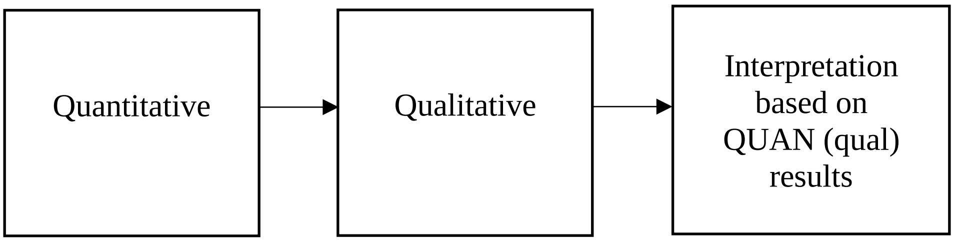
The purpose of explanatory research is to explain the reason events occur and expand or test theory (Neuman, 2014, p.40). Research can have multiple purposes simultaneously (Mason 2002, p.21); not only can research advance theoretical understanding and expand knowledge, it can also address the effects of context, such as the political and economic context, on phenomena. The goals of explanatory research include determining which of several explanations is best: supporting or refuting explanations/predictions; enhancing a theory's explanation; and linking an explanation to a general principle (Neuman, 2000, p.22). An explanatory research purpose was well-suited to explain the factors leading to the VAT increase and determine which of the explanations had most relevance, as well as the relationships between them. The study did so by examining the effects of the context. A further goal supported by the explanatory research purpose was that the study was able to enhance Campbell's conceptual model, thereby contributing to fiscal sociology theory.

3.2 Type of Mixed Methods Research Design

This study employed an explanatory mixed methods design; specifically, a two-phase design sequential analysis approach was taken where the quantitative research was completed before the qualitative research. The mixed methods design chosen can be visually depicted in Figure 5 as follows:

Figure 5

Explanatory mixed methods research design



Source: Creswell, JW & Plano Clark, VL. 2007, p.73.

A binary (or binomial) logistical regression analysis was used as the method for the quantitative analysis. Content analysis was used as the method for the qualitative analysis. The qualitative data were analysed and organised into a timeline that explains what happened when and into categories that explain different factors that brought about the 2018 VAT rate increase. The interpretation of results was written up based on answers to the research questions which drew on both the quantitative and qualitative research. A conceptual model was developed that explains the reasons for the VAT increase in the South African context.

The primary research question of the study was: What factors led to the 2018 VAT increase in South Africa? Secondary research questions were developed to support the answering of this question, as illustrated in Table A1.

3.3 Quantitative Research Design

The study used quantitative data drawn from a public opinion survey named Afrobarometer. Afrobarometer is a pan-African survey conducted every two years (Afrobarometer, 2020). The survey measures public attitudes on society, economic conditions, governance, politics and democracy. It is conducted in over thirty African countries, including South Africa. The Institute for Justice and Reconciliation (IJR) is the research partner responsible for conducting the survey rounds in southern Africa, including in South Africa (Afrobarometer, 2020).

Following the method used by Ali et al. (2013) to explore the factors that determine citizens' tax compliance behaviour in Kenya, Tanzania, Uganda and South Africa, the quantitative research made use of a logistical regression analysis using public attitude data from Round 6 of the Afrobarometer survey. Ali et al. conducted a binary logit regression but whereas they focused on Round 5 Afrobarometer data from 2011/12 and looked at four African countries including South Africa, this study focused only on South Africa and made use of Round 6 Afrobarometer data from 2015. Ali et al. (2014, p.3) identified that models of taxpayer behaviour, including the decision whether or not to pay taxes, usually reflect one of five theories that can be referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatment; and (5) political legitimacy. Based on these theoretical models, they then analysed country data collected in the Afrobarometer survey to determine what was affecting tax compliant behaviour in the four countries.

The quantitative analysis entailed constructing a bivariate logistic regression model to assess the association between specific variables and a tax compliant attitude ('think it is ok not to pay taxes versus think it is wrong not to pay taxes'). Chi-square tests were run on the categorical variables to ascertain whether the chi-square test was significant ($p<0.05$). If significant, adding the independent variables would be likely to enhance the model's predictive ability. Independent sample t-tests were performed on the continuous variables to determine if they were significant ($p<0.05$). Variables that were found to be significant in the univariate analyses were entered into a logistic regression model (see Table A3 for unadjusted coefficients). The logistic regression model was utilised to test various factors that predict a tax compliant attitude while controlling for other factors. This is discussed further under data analysis.

3.4 Quantitative Data Source

This study made use of Afrobarometer Round 6 survey data and is therefore a secondary study as it used an existing dataset. Seven rounds of Afrobarometer surveys have been conducted from 1999 to 2018. Round 7 data released was released late in 2019. In Round 6, surveys were conducted in 36 African countries (Afrobarometer, 2016:1). Round 6 data were selected because it is the closest year in which Afrobarometer data were released prior to the 2018 VAT increase. The study did not compare changing attitudes from one round to the next. Therefore, the analysis undertaken in this study is cross-sectional as opposed to longitudinal.

Afrobarometer was considered an ideal data source due to respondents' attitudes being surveyed, amongst other things, on a range of taxation-related questions. Afrobarometer (2016, p.1) outlines that:

> The survey data is obtained by Afrobarometer conducting face-to-face interviews in the language of the respondent's choice with nationally representative samples, which yield country-level results with a margin of sampling error of +/-2% (for a sample of 2,400) or +/-3% (for a sample of 1,200) at a 95% confidence level.

3.5 Quantitative Data Analysis

A backwards logistic regression was utilised to test various factors that predict a tax compliant attitude while controlling for: (a) trust in the tax department; (b) satisfaction with government's handling of fighting corruption; (c) satisfaction with the president's performance; and (d) difficulty in avoiding paying taxes. The outcome (dependent) variable is a dichotomous variable where there are only two possible outcomes: being tax compliant/being tax noncompliant.

In terms of the predictor (independent) variables, variables were selected that fit with four existing theories that predict tax compliant attitudes, namely: (1) fiscal exchange; (3) social influences; (3) knowledge of taxes; and (4) political legitimacy. These variables were: (1) handling improving basic health services; (2) ease of finding tax information; (3) interviewee living in an urban or rural area; (4) tax compliance of others; (5) satisfaction with democracy; (5) performance of the MP/National assembly; and (6) addressing educational needs. Table A2 indicates how the variables were mapped to theories about tax compliant attitudes. Handling improving basic health services and handling addressing educational needs were mapped to fiscal exchange theory. Whether interviewees lived in an urban or rural area was also mapped to fiscal exchange theory on the basis that better services tend to be more readily available in cities than in rural areas. Tax compliance of others was matched to social influence theory. Ease of finding tax information was mapped to the theory that knowledge about taxes improves tax compliance. Satisfaction with democracy and performance of members of parliament/ national assembly representatives was mapped to political legitimacy theory. Some modifications to the Ali et al. study method were necessitated because some questions asked in Round 5 were not asked in Round 6 of the Afrobarometer.

3.6 Qualitative Research Design

This section provides an outline of the research framework for the qualitative research. It begins by setting out the conceptual framework that was utilised for the study. The qualitative analysis entailed a desk review and the literature obtained through the desk review was analysed using content analysis as the data analytic method. Background on content analysis is therefore provided together with an explanation of why content analysis was a good match for the qualitative data analysis.

The conceptual framework that this study makes use of is Campbell's conceptual model for the determination of taxation. As previously discussed, Campbell developed the model (depicted in Figure 1) after reviewing fiscal sociology literature. This conceptual model depicts the underlying determinants to which fiscal sociology literature ascribes changes in the tax system. During the qualitative research process, Campbell's conceptual framework provided a broad analytical framework for the content analysis; however, the analysis was done with an openness to finding or not finding additional determinants contained in the literature to explain South Africa's 2018 VAT rate increase. The content analysis enabled a historical review of how and why the VAT increase came about. A conceptual framework specific to the South African context was developed as an output of the study.

Content analysis is used in various fields such as history, political science, journalism, communications, nursing, education and psychology. To define content analysis, it is 'a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding' (Stemler, 2001, p.1).

The content being analysed can be contained in texts such as documents, books, essays, mass-media content, newspaper articles and other forms of communication. Content analysis supports the identification of themes contained in communications. Applying different approaches to content analysis, a researcher may focus on the manner that the theme is treated or how often the theme arises (Spencer et al., 2014, p.271). With content analysis, both the content and context can be studied, which is what was needed to describe the factors that brought about the VAT increase. That content analysis enables the clustering of themes contained in communications into categories, was another reason it was a good match, because it meant that the data could be synthesised in a manner that answered the research questions.

3.7 Qualitative Data Collection

The source of the data for the content analysis was online resources, accessed through structured searches. Sixty-one documents were collected in this manner. The documents largely comprised news articles and analysis by accounting, legal and auditing firms and academics. The documents that dealt with the impact of the VAT increase were listed in a separate table. The effects of the VAT increase list contained nineteen items outlining the impact of the VAT increase.

3.8 Content Analysis

Content analysis is used to ‘explore, describe and infer characteristics of messages’ (du Plooy, 2009, p.213). To elaborate on the levels of meaning, there are two levels of content: latent and manifest. Both latent and manifest content may be examined by content analysis. The manifest content comprises the visible, obvious components that the text conveys, whereas the latent content entails the implicit meaning of the text (Kondracki et al., 2002). In this study, the manifest level of content was examined.

With content analysis, messages contained in communications are the unit of analysis and this study applied the same principle. Within the messages, thematic units were studied to determine what ideas were repeated regarding the factors that brought about the 2018 VAT rate increase.

To conduct a content analysis, the following steps are those commonly used (Neuman, 2014; Harris, 2001; Erlingsson & Brysiewicz, 2017):

1. Develop a research question.
2. Decide on the unit of analysis.
3. Prepare a sampling plan.

4. Determine what texts or communication are to be examined.
5. Construct coding categories and generate a coding scheme.
6. Test the coding scheme by doing a sample study.
7. Amend the categories and coding scheme where required.
8. Check if there are ways in which reliability and validity can be enhanced.
9. Collect the data and analyse.
10. To do the analysis, divide the text into meaning units and condense further by assigning codes to them.
11. Group the coded text into categories.
12. Once the analysis has been completed, assess validity and reliability.
13. Present the findings of the analysis in the form of graphs, diagrammes or charts.

The outcome of a successful content analysis is that the coded text is reduced to categories or concepts that describe the research phenomenon in order to create 'a model, conceptual system or conceptual map' (Elo & Kyngäs, 2008). Having described the steps in a content analysis, the next section describes how these steps were applied.

3.9 Qualitative Data Analysis

A central research question was developed. Five sub-research questions were then developed (see Research Questions section). These questions are aligned to the research framework that emerged from the literature review and were adopted: i.e. that the determination of taxation is related to reasons that are fiscal, economic, geopolitical and linked to state structure.

The selection of an appropriate sampling strategy was the next step in the process. The particular sampling method used to select the texts to be examined was purposeful sampling. Purposeful sampling is often used in qualitative research because it supports researchers to obtain information-rich cases that are relevant to the research topic (Palinkas et al., 2015, p. 2). There is a range of purposeful sampling strategies including criterion-i purposeful sampling, and this was the one that was selected.

The aim of criterion-i as a sampling strategy is to ’identify and select all cases that meet some predetermined criterion of importance’ (Palinkas et al., 2015, p.17). The approach of using Google searches to obtain the most prominent news articles and analysis was adopted as a convenient manner to obtain the texts for the content analysis. These texts represent the most read items in the public discourse.

Broad coding categories of fiscal reasons, economic reasons, geopolitical reasons, structure of the state and other reasons were developed. This was based on the research framework and allowed for more specific actual reasons to be coded as subsets of the categories as they emerged, as well as making allowance for new categories which might emerge. By reading the documents obtained in the data collection process, an initial coding scheme was developed. The coding scheme offered a summary description of what a specific reason entails. The coding for the said scheme was carried out using comments and also by making notes regarding the reasons. After coding ten documents in this manner, reasons were being repeated by authors and it was deemed that the coding scheme was ready for use.

During the process of data collection, articles that offered reasons for the VAT increase, but which actually provided anticipated effects of the VAT increase, were identified. Effects were dealt with separately. A separate coding scheme was developed for the articles dealing with effects.

The software Discourse Network Analyzer (DNA)[2] was used to do the analysis. Each document collected through the data collection process was opened in the order in which it was collected and pasted into the DNA software. Articles that did not specifically mention reasons for the VAT increase, but listed its effects, were listed in a separate table.

Making use of DNA, the researcher then read the content and coded each article. The statements of the different actors in the textual sources were coded. Where an actor offered a reason for the VAT increase, the reason was coded. Where there was an event or process that had occurred, it was identified in DNA and if a date was available, that was also recorded.

Messages were the unit of analysis. Within the messages, thematic units were studied to determine what ideas emerged repeatedly about the factors that brought about the 2018 VAT rate increase. The themes emerging in the content were clustered under the conceptual framework categories, with specific provision being made for unexpected themes to emerge.

During the process of analysing the data, notes were made about ways in which the reasons or categories could be linked. By coding the reasons, unstructured data had been converted into structured data using DNA software. This structured data were then imported into another software program called Visone[3] in order to generate a visual representation of the analysis. The result was a mapping of each of the reasons and effects. Next, using the visual analysis from Visone, the reasons for the VAT increase were systematically clustered into the different categories of reasons (economic, fiscal, geopolitical, structure of the state, other reasons) based on the research framework. The mapping of the effects or anticipated

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[2] Discourse Network Analyzer (DNA) is software developed for content analysis by Philip Leifeld as part of his PhD project on ‘Discourse Networks and German pension politics’. DNA is available here: https://github.com/leifeld/dna/

[3] Visone is a software project initiated at the University of Konstanz and which has since evolved to include collaborators from additional universities. Visone enables visual representation of social networks. Visone can be accessed here: http://visone.ethz.ch/index.html

effects of the VAT increase were also clustered into a table.

The categories in both tables were then examined to determine if there were any duplicated reasons listed within the categories, in order to establish if they might be merged or if they could be subcategorised. The tables were also reviewed in order to check if the reasons and effects had been categorised in a sound and logical manner.

Because the dates of the events occurring and leading up to the VAT increase were mentioned in the articles and coded during the analysis process, a timeline could be produced as an analysis output. Some of the events mentioned in the analysed articles did not have associated dates and these dates were sourced.

3.10 Validity

Validity and reliability are important considerations for social research. In this study, the mixed methods design enhances both the validity and reliability of the research results.

Maxwell (2005, p.106) notes that a key concern for validity is the ways in which the researcher may be wrong because there are alternative explanations or ‘rival hypotheses’ that need to be ruled out. In order to address threats to validity, it is necessary to develop strategies to rule out the threats (Maxwell, 2005, p.106). This study’s strategy to ensure validity was that the research questions were answered using both qualitative and quantitative research methods. Through the approach to the content analysis, the examination of the texts specifically made provision for possible alternative explanations for the 2018 VAT increase.

Drost (2011, p.108) refers to reliability as ‘consistency of measurement over time or stability of measurement over a variety of conditions’. In order to improve reliability during the content analysis, two additional researchers were asked to read a selection of the texts in order to test the coding scheme and to determine that the coding of the reasons for the VAT increase could be reliably replicated. This was done in order to ensure intercoder reliability in the qualitative research.

Round 6 of the Afrobarometer survey was used. As the questionnaire has been refined over the course of the various rounds, the Afrobarometer survey data has a high degree of validity and reliability. It has been used repeatedly by researchers as the basis for studies. For the purposes of this study, construct reliability was important. A choice was made when operationalising questions as variables and matching them to theories concerning tax compliance. The Ali et al. study was emulated in this regard because it was successful in matching the specific questions to the same constructs utilised in this study.

3.11 Ethical Considerations

The research design of this study offered a specific avenue for ethical guidance. Preissle et al. (2015, p.144) highlight that multimethod and mixed methods research inquiry offer a range of tools for addressing ethical concerns in real-world contexts (2015, p.144). They observe that among the ethical approaches that the mixed methods researchers are urged to use are reflexivity and transparency (Preissle et al., 2015, p.144). Reflexivity entails ‘the researcher being aware of his/her effect on the process and outcomes of research’ (Steedman, 1991, p.53). Transparency relates to how researchers report their procedures and how they arrived at conclusions. This is particularly relevant to mixed methods research which entails a degree of complexity and where researchers may be tempted to gloss over the procedures they followed and how they arrived at their conclusions.

This study did not require institutional ethical clearance as it did not involve direct interface with participants. The content analysis drew on data already in the public domain (newspaper articles) and quantitative analysis made use of the Afrobarometer Survey for which ethics approval had already been received from the University of Cape Town.

Reflexivity was particularly relevant during the coding of the content from the texts during the content analysis and the interpretation. Since the focus of this content analysis was on the manifest rather than latent underlying meanings, it was fairly straightforward to achieve reflexivity.

4 Results

4.1 Introduction

This chapter sets out the study's main findings. It first outlines the quantitative results and then the qualitative results. The quantitative results provide an explanatory model and are presented in two parts. The qualitative results are organised according to thematic categories and present a historical review of what brought about the VAT increase. To answer the research sub-questions, the quantitative and qualitative results are combined and discussed. The chapter concludes with a summary of the key findings.

4.2 Explanatory model using public opinion data and tax data

4.2.1 *Predictors of tax compliance attitude: Logistic regression analysis*

A backwards logistic regression was utilised to determine significant predictors of tax compliance attitudes, while controlling for (a) trust in the tax department; (b) satisfaction with government's handling of fighting corruption; (c) satisfaction with the president's performance; and (d) difficulty in avoiding paying taxes. Four hypotheses about tax payer culture were tested. Potential predictor variables corresponding to these hypotheses were entered in the model: (1) handling improving basic health services; (2) ease of finding tax information; (3) interviewee living in an urban or rural area; (4) tax compliance of others; and (5) satisfaction with democracy.

As discussed previously, the variables included in the model were mapped to four existing theories about taxpayer culture: fiscal exchange theory; social influence theory; knowledge about taxes; and political legitimacy, as discussed in the methodology chapter.

The final model was significant, $\chi2(9, N =1658) = 146.86$, $p < .001$, Nagelkerke R2 =.116. This model accurately predicted someone's tax compliance attitude 67.8% of the time.

The results for the individual predictor variables are presented in Table 1 below.

Table 1

Logistic regression results

Predictors of tax compliance attitude (1 = think it's wrong not to pay)	**Odds Ratio**	***P***	**95% CI**
Q52d. Trust in the tax department	**1.25**	<.001**	1.13-1.39
Q66k. Handling fighting corruption	1.002	.979	0.88-1.14
Q68a. Performance of president	1.04	.595	0.91-1.18
Q70b. Difficulty in avoiding paying taxes	0.98	.702	0.87-1.10
Q66g. Handling improving basic health services	**1.18**	.008*	1.04-1.33
Q70a. Difficulty to find out what taxes to pay	**0.83**	.003*	0.74-0.94
Q115. Urban (1 = urban)	**0.46**	.001*	0.29-0.73
Q26e. Tax compliance of others (1 = others always comply)	**1.98**	<.001**	1.57-2.48
Q41. Satisfaction with democracy (1 = yes)	**1.45**	.001*	1.16-1.83
Constant	1.22	.585	-

Note. *p < .01. **p < .001.

After controlling for the abovementioned covariates, significant predictors of tax compliance attitude in the final regression model (see Table 1) included: handling improving basic health services (OR = 1.18; C.I. = 1.04-1.33); difficulty of finding out what taxes to pay (OR = 0.83; C.I. = 0.74-0.94); interviewer living in an urban or rural area (OR = 0.46; C.I. = 0.29-0.73); tax compliance of others (OR = 1.98; C.I. = 1.57-2.48); and satisfaction with democracy (OR = 1.45; C.I. = 1.16-1.83). During the backwards stepwise logistical regression, removal testing was done. Variables that were not included in the final regression model because they were not significant were: satisfaction with performance of members of parliament/National Assembly representatives and handling educational needs.

Those who were more satisfied with health services were more likely to have a tax compliant attitude. Respondents who were more satisfied with health services were 1.18 times more likely to be tax compliant. That is, higher levels of satisfaction with health services were associated with greater levels of compliance. Those who found it difficult to find out what taxes to pay were less likely to have a tax compliant attitude. Respondents who found it difficult to find information about what tax to pay were 0.83 times less likely to be tax compliant. Those who lived in urban areas were 0.46 times less likely to have a tax compliant attitude than those who lived in rural areas. Those who thought others were tax compliant were 1.98 times more likely to have a tax compliant attitude themselves. Those who were satisfied with democracy were 1.45 times more likely to have a tax compliant attitude compared to those not satisfied with democracy. These results are robust even when controlling for trust in the tax department, how satisfied respondents were with government's handling of corruption, satisfaction with the president's performance and whether there is deterrence where strict law enforcement effectively deters tax evasion. Each of the four hypotheses examining taxpayer behaviour were confirmed in the South African case. Table A4 summarises the findings.

Respondents' satisfaction with the performance members of parliament and their satisfaction with how government is handling addressing educational needs were not predictors of a tax compliant attitude. It is understandable that satisfaction with performance of members of parliament would not play a role in a respondent's tax compliant attitude, as the general public would not necessarily consider how well members of parliament are performing when thinking about paying taxes. Whereas perceptions about the handling of health services were significant, perceptions about handling of education were not predictors of a tax compliant attitude. This can be explained in the sense that all respondents require health services but mainly only those who have children in schools or universities would find satisfaction with educational services to be relevant to their tax compliant attitude.

In this section, the quantitative results of the logistic regression analysis were reported. The next section presents the analysis of budget data and tax statistics that address the fiscal, economic and geopolitical factors (sub questions 1 to 3).

4.2.2 *Analysis of budget data and tax statistics*

From 2015, SARS missed projected revenue targets set by National Treasury (National Treasury, 2014-2019). In 2007, South Africa was in a satisfactory fiscal position where its tax revenue exceeded its spending and a budget surplus was being achieved. In 2007, government debt to GDP had been brought down to a manageable level of 28.3% (Tradingeconomics.com). However, after the 2008 global financial crisis, this changed and spending began to exceed revenue, such that government debt began to rise. By 2018, when the decision to increase the VAT rate was made, debt to GDP was at 56.7% (Tradingeconomics.com). The debt-to-GDP ratio had doubled in the course of ten years.

Using National Treasury time series data (National Treasury, 2020), it was possible to determine what was happening to consolidated spending. In the space of the same decade during which public debt was rising, consolidated government spending increased by 46% between 2007/08 and 2017/18 in 2017/18 real terms.[4] As the figure below (see Figure 6) demonstrates, spending types depicted had risen in real terms. Education, social protection and health spending have all risen in real terms. Spending on economic affairs has also risen; however, it has a more uneven trajectory, with peaks and troughs.

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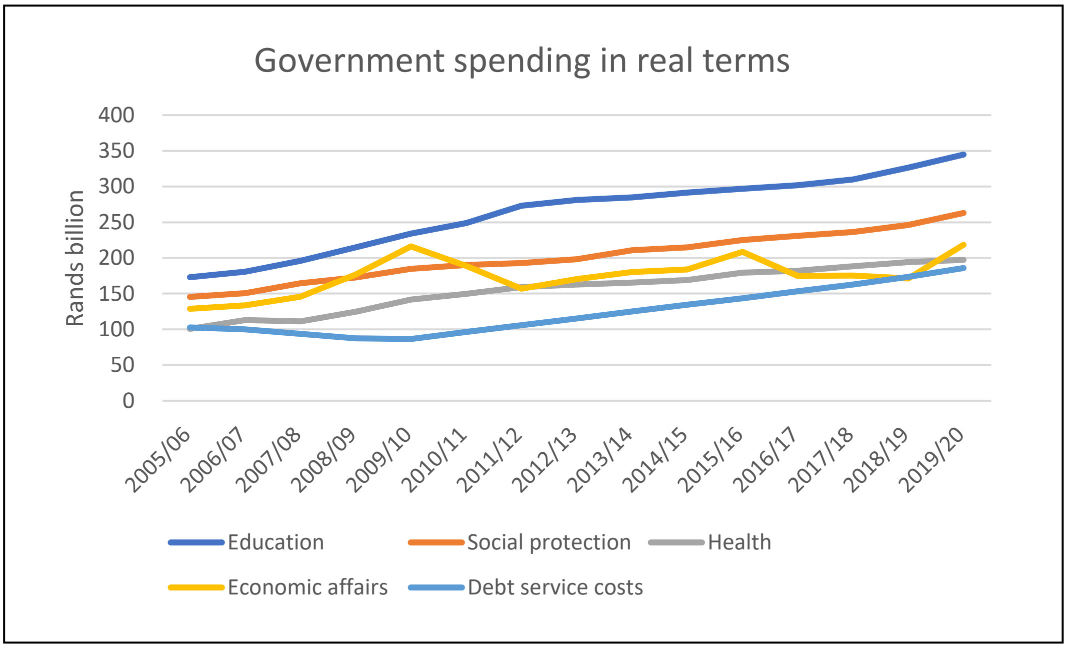
[4] Own calculations based on National Treasury time series data. The data in nominal terms were deflated using Consumer Price Index data to determine spending in 2017/18 real terms. Thereafter the percentage change in real terms was calculated.

Figure 6

Public spending over time in real terms

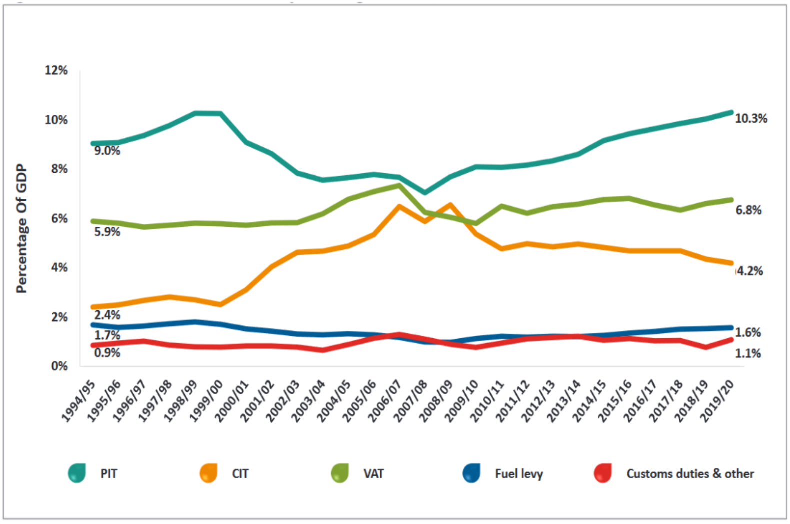


Source: National Treasury, own calculations

The main sources of tax revenue for South Africa have consistently been PIT, VAT and CIT. Since democracy, the order in which these top three tax types contribute to overall tax revenue has largely been PIT, then VAT and then CIT (see Figure 7). For a brief time in 2008/09 CIT as a percentage of GDP exceeded VAT as a percentage of GDP. It is significant that PIT's contribution as a percentage of GDP has been rising since the global economic downturn. VAT's contribution as a percentage of GDP was on a decline prior to the VAT rate increase. CIT as a percentage of GDP declined after the global economic downturn

Figure 7

Main revenue sources as a percentage of GDP, 1994/95 – 2019/20

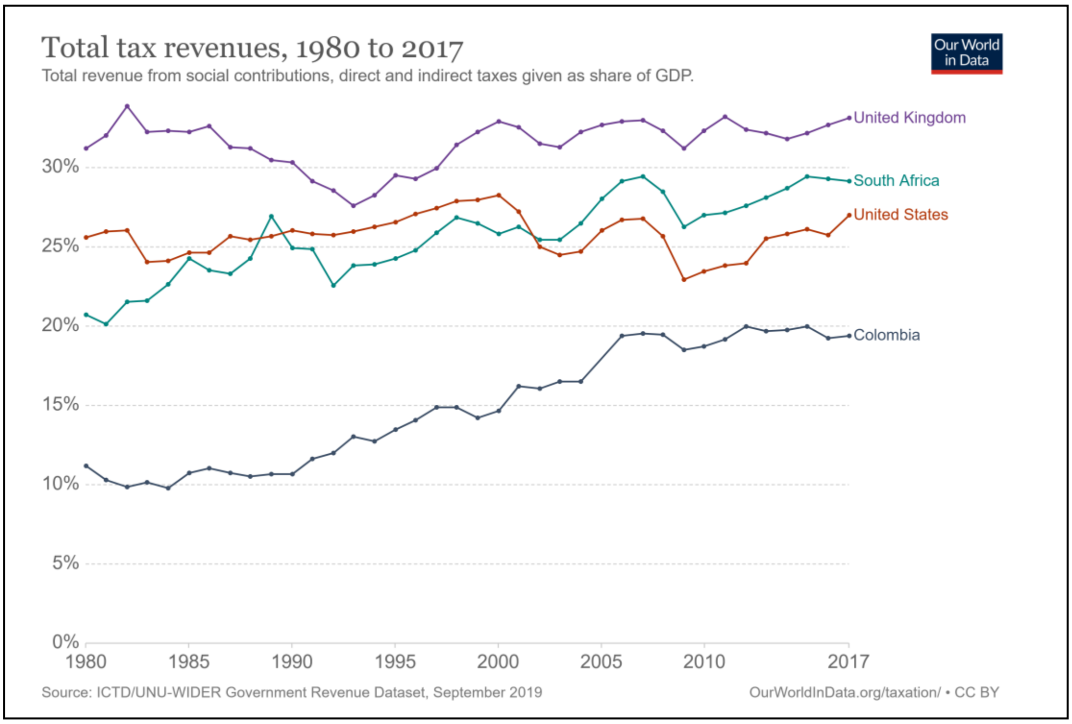


Source: SARS, Tax Statistics 2020, p. 11

Looking at South Africa's total tax revenue as a percentage of GDP compared to that of other countries provides a relative sense of whether South Africans are subject to a high tax burden compared to the citizens of other countries (refer to Figure 8). The changes over time in the relative tax revenues have a similar trajectory. This could be attributed to the countries being subject to similar fluctuations in the global economy and to adhering to similar tax policy decisions. Some of the variations can be attributed to tax policy decisions and variations in the domestic economies of the countries.

Figure 8

Total tax revenues as a share of GDP, 1980 - 2017

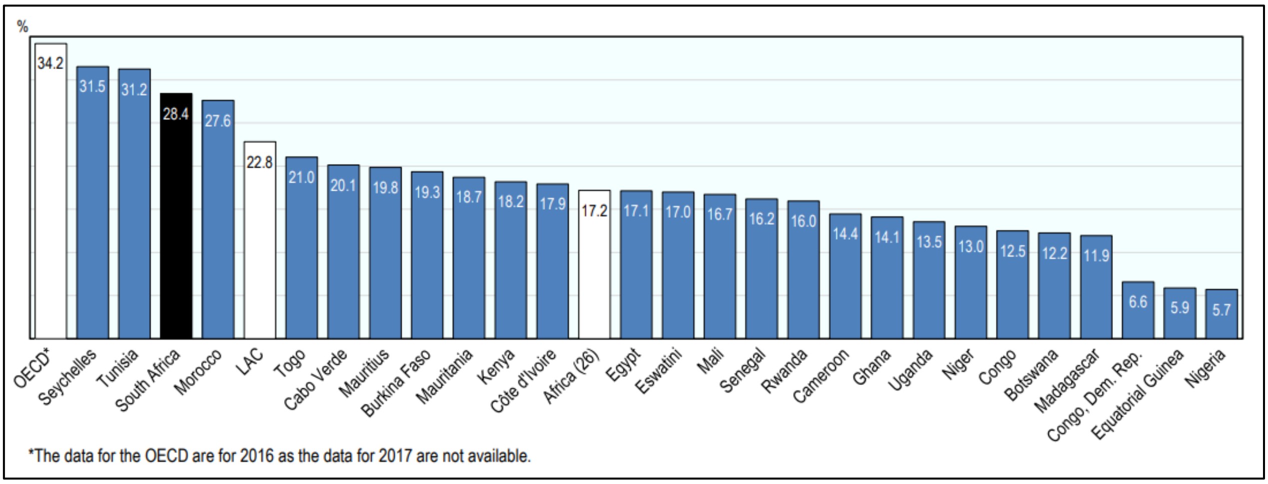


Source: OurWorldInData.org, 2020

In 2017, prior to the VAT increase, South Africa's tax-to-GDP ratio was 28.4% (OECD/ATAF/AUC, 2019, p. 1). As Figure 9 shows, this was higher than most African countries and closer to the average for Organisation for Economic Co-operation and Development (OECD) countries (34.2%) than to the average for Latin America and Caribbean (LAC countries) at 22.8%.

Figure 9

South Africa's tax-to-GDP ratio



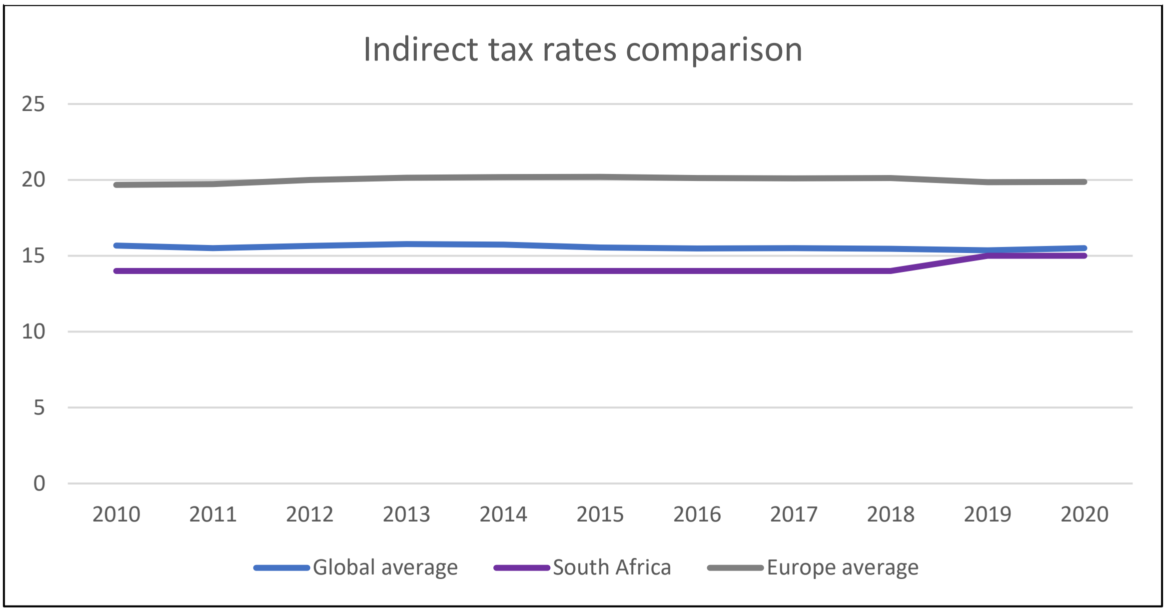
Source: OECD/ATAF/AUC, 2019, Revenue Statistics in Africa 2019

Turning to the results of analysis of tax statistics that pertain to the economic and geopolitical reasons cited for the VAT increase, the figures below provide a comparison of tax rates for different tax types; indirect taxes, corporate taxes and individual taxes. The choice of data series analysed in the figures relates to testing the contention that South Africa’s tax trends are influenced by a corporate tax race to the bottom and that this trend is arising out of following global trends, which are influenced by Europe.

VAT is an indirect tax. South Africa’s average tax rate for VAT was below the global average prior to the VAT increase, as the figure below shows. In alignment with the contention that European trends influence global trends, the European average for indirect taxation is higher than the global average, and the trend lines are similar. It can be seen how South Africa’s indirect tax rate has increased, moving towards the global average.

Figure 10

Indirect tax rates comparison, 2010 - 2020



Source: KPMG, own graph

South Africa's corporate tax rate is above the global average and quite far above the average for Europe (see Figure 11). In the figure, it can be seen how South Africa has moved towards the global average. It can also be seen that the trendline for the global average and European average are similar with the corporate tax rate in Europe being lower than the global average.

Figure 11

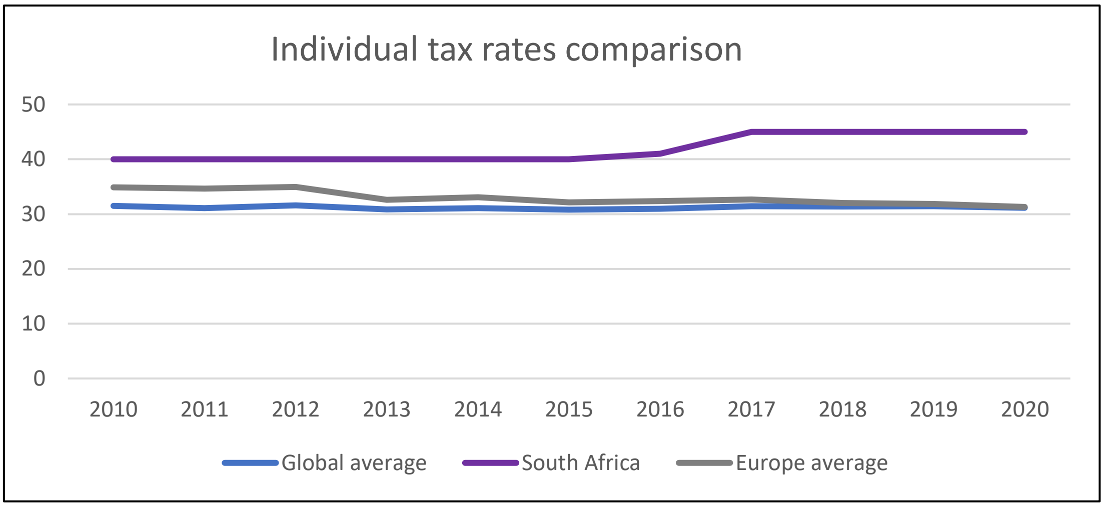
Corporate tax rates comparison, 2010 - 2020

Source: KPMG, own graph

South Africa's individual tax rate is notably higher than the global average. As Figure 12 below shows, the average individual tax rate for Europe is similar to the global average.

Figure 12

Individual tax rates comparison, 2010 - 2020



Source: KPMG, own graph

South Africa's spending levels and debt levels have been rising since 2008. Public spending has been increasing in real terms. Tax revenue is from three main sources; PIT, VAT and CIT. In South Africa, total tax revenue as a percentage of GDP has been rising. This is in line with global trends. South Africa has a high tax-to-GDP ratio compared to other African countries. Prior to the VAT increase, South Africa's VAT rate level was lower than the global and European averages. CIT levels were higher than the global average. The data does show that the global CIT trend is similar to the European trend, with the European average corporate tax rate being below the global average corporate tax rate.

4.3 Historical review of tax processes and the VAT increase

This section presents the qualitative analysis. First, it discusses what was stated as the reasons in public utterances by the Minister of Finance and Treasury officials. Thereafter it discusses the fiscal, institutional, economic and geopolitical reasons that emerged in the content analysis. It then provides an overview of reactions to the announcement and the anticipated effects and effects. The measures to mitigate the effects are outlined briefly. Finally, a timeline of events leading up to the VAT increase is provided.

4.3.1 *February 2018 budget speech: the VAT rate increase announcement*

In the February 2018 budget speech, Finance Minister Malusi Gigaba made a range of announcements. The announcement that received by far the strongest reaction was the VAT rate increase. When delivering the part of the speech in which he indicated that the VAT rate would increase, Minister Gigaba said:

> Firstly, new tax measures raise an additional R36 billion in 2018/19, mainly through a higher VAT rate and below-inflation adjustments to PIT brackets. Secondly, the expenditure ceiling has been revised down marginally from what was presented in October. However, the small revisions are underpinned by large reductions and reallocations. (2018 p. 10)

He proceeded immediately afterwards to announce that the spending framework would include ‘expenditure reductions approved by Cabinet amounting to R85 billion’ and ‘an allocation of R57 billion for fee-free higher education and training’ (Gigaba, 2018, p. 10). Among other major spending announcements were additional allocations of R4.2 billion to the NHI over the medium-term (three years); R2.6 billion to social grants; and R6 billion for drought relief and infrastructure investment in 2018/19 (Gigaba, 2018, p. 15-17). While these were sizeable additional items of spending, they were dwarfed by the R57 billion allocation to fee-free education.

Aside from the VAT rate increase, additional tax measures included that excise duties on luxury goods were raised from 7% to 10%; the fuel levy was increased by 52 cents per litre; the estate duty tax rate was raised to 25% for estates valued above R30 million; and alcohol and tobacco excise duties were increased by 4% (Gigaba, 2018, p. 11).

4.3.2 *Reasons for the increase*

Analysis of the reasons for the VAT increase showed that the main causal factors that led to the increase were fiscal factors, institutional reasons and taxpayer culture, with economic factors and geopolitical factors also playing a role (see Table A5). This is consistent both with what Treasury officials would provide as the reasons and with what emerged in the analysis of the commentary on the announcement.

4.3.2.1 Reasons provided in public utterances by the Finance Ministry and Treasury Officials

This section identifies what the Finance Ministry and Treasury officials said the reasons for the VAT increase were. It also identifies what reasons they did not explicitly communicate.

Explaining the VAT rate increase in his speech, Gigaba offered three main reasons:

> In developing these tax proposals, government reviewed the potential contributions from the three major tax instruments which raise over 80 per cent of our revenue; personal and corporate income tax and VAT.
>
> We have increased personal income tax significantly in recent years, particularly at the higher income bands, and our corporate tax is high by international standards.
>
> We have not adjusted VAT since 1993, and it is low compared to some of our peers.

> We therefore decided that increasing VAT was unavoidable if we are to maintain the integrity of our public finances. (2018, p. 11)

The first of Gigaba's reasons (relating to PIT) is a fiscal reason. The comparison of South Africa's CIT and VAT rates to other countries can be categorised as a geopolitical reason. Maintaining the integrity of public finances is a fiscal reason. Gigaba (2018, p. 10) also said: 'We dare not borrow irresponsibly, leaving it to future generations to repay'. This is an additional fiscal reason in that it implied that borrowing levels were considered but rejected as an option as this would raise public debt to an unsustainable level.

Turning to what Treasury officials offered as reasons, Ismail Momoniat, the Treasury's head of tax policy said after the budget speech: 'We are in desperate times, so it really required some exceptional measures. It was clear that VAT was the least worst' (Cohen & Gumede, 2018). This 'least worst', pragmatic reason can be considered a fiscal reason in that it involves weighing up different options and finding this tax policy option to be undesirable but still offering it as a solution. In August 2018, Treasury Director-General, Dondo Mogajane, testified at the Nugent Inquiry that: 'This year we had to increase VAT, because there was significantly less revenue than what we needed' (ENCA, 2018). At the Nugent Inquiry, Treasury officials would also testify about the strained relationship with former SARS commissioner, Tom Moyane, and the impact that this had on preparations ahead of the budget being tabled.

Returning to the time of the budget speech, Treasury had an Acting Head of Budget Office then, because the former Head of Budget Office, Mr Michael Sachs, had quit in December 2017. While the National Treasury media release at the time was silent on the reasons for his departure, it was reported in the media that it had to do with the budget process being undermined and was linked to the fee-free tertiary education announcement which occurred at the time of his resignation. While Treasury officials did not explicitly offer the fee free tertiary education announcement that came late in the budgeting process as a reason for the VAT increase, the resignation of the former Head of Budget Office was considered by commentators to be an action that spoke volumes. Economist Dr Thabi Leoka was among those who identified the fee-free tertiary education spending requirement as a causal factor that led to the VAT rate increase. In an opinion piece published in Business Day, Leoka (2018, para. 2) wrote:

> The unexpected announcement of fee-free education, which will cost the state about R56bn over the medium term, together with a rising debt-to-GDP ratio of 53.3%, left the Treasury with very little choice but to cut expenditure and increase taxes, including value-added tax (VAT).

The reasons offered by the Finance Ministry and Treasury officials for the decision to raise VAT were mainly fiscal, state structure/institutional and geopolitical. Tax levels were benchmarked against other countries' levels and these were used to inform their choice.

4.3.2.2 Fiscal Reasons

The commentary centred around several key themes in terms of fiscal reasons (see Table A5). These were that there was a budget deficit stemming from a tax revenue shortfall. The extent of the budget shortfall (the difference between spending and revenue) was considered to be a fiscal crisis that needed to be addressed. Borrowing levels were already high and increasing public debt levels even further was not desirable. Therefore, a spending side and tax policy solution was preferred. However, at the same time as trying to decrease spending (by making cuts to spending programmes), there were policy choices that gave rise to increased spending requirements, further exacerbating the budget deficit. Various tax policy options were weighed up and VAT appeared to be the most effective option and a necessary measure to restore fiscal balance. However, there was a strong critique of the claim that there was no other choice but a VAT increase and several commentators listed possible alternatives. Among the range of alternatives that were offered included addressing Base Erosion and Profit Shifting, addressing illegal imports, an enquiry into what occurred at SARS, rectifying the harm done to SARS, raising company taxes, increasing PIT for the wealthy, introducing a yearly net wealth tax, implementing estate and inheritance tax, taxing luxury goods more, raising capital gains tax, introducing a solidarity tax, increasing property taxes and levying more tax on financial transactions. (COSATU, 2018; Isaacs, 2018). Over forty civil society organisations and trade unions put out a joint statement that rejected the VAT increase and called for increased taxes to the wealthy instead. The key alternatives listed in that statement were increasing company taxes, introducing carbon tax and raising 'sin' taxes (Alternative Information & Development Centre, 2018). However, due to the manner in which tax decisions in South Africa are deliberated on and announced, public participation and the Parliamentary processes to pass the decision into law are conducted subsequent to the announcement. Therefore, when the Finance Minister made the announcement, there was little real chance of the alternatives that were suggested being considered. Treasury did however outline that it had considered a variety of alternatives and explained in the budget review and media briefings which options would not work, largely due to the effects it would have on the economy and the timing in which the revenue needed to be raised. New tax types take time to implement on an administrative level, so some of the alternatives would not generate the required revenue in the timeframe in which it was needed.

In terms of the inter-related fiscal reasons, the need to contain the budget deficit was a primary driver. With borrowing already high, it was thought irresponsible to borrow more, particularly as debt service costs were growing and crowding out spending on developmental programmes. With shrinking borrowing space and a need to stabilise debt, officials looked elsewhere for a solution. Although they tried to address the budget deficit using spending side measures, these were not sufficient to address the extent of the gap. And there were additional, unexpected spending requirements that had arisen in the form of fee-free tertiary education and spending requirements for implementing the National Health Insurance (NHI). Some commentators articulated it as increased taxation necessitated by increased expenditure.

Revenue-related reasons that were offered blamed the revenue shortfall on under-collection of revenue. In order to provide a buffer for these revenue shocks, there was a need to weigh up different tax types. In doing so, there was a common contention that because CIT was already high, CIT would be passed on to the consumer. Some of the commentary noted that PIT and CIT revenue collection levels were strained.

4.3.2.3 Institutional Reasons / State Structure

As highlighted in the previous section, there was a budget deficit arising from a revenue shortfall. This fiscal reason links to reasons of state structure (or institutional reasons) which Campbell's model articulates. This section draws the linkages between what was occurring inside SARS as an institution and how institutional changes affected tax morality and consequently tax revenue collection.

At the stage at which the VAT increase was announced, the Nugent Commission findings were not yet available. However, in alignment with what the report would later document, immediately after the VAT increase several commentators cited governance issues including 'internal corruption' (or state capture) at SARS as playing a causal role. Concerns about how illicit financial flows were negatively impacting tax revenue collection levels were also highlighted. Repeatedly, commentators blamed SARS for the VAT increase because of a tax shortfall. Gunstons Attorneys (2018, p. 1) articulated that the revenue shortfall is the first and most immediately apparent reason for the increase. Judge Dennis Davis, Chair of the Davis Tax Committee, testified to the Nugent Commission that ‘the causes for the SARS under collection are complex and a decline in economic growth in recent years as well as a slippage in tax morality − caused by broader levels of corruption − not just allegations at SARS, were partly to blame’ (Niselow, 2018).

These inter-related factors together gave rise to a budget deficit. The budget deficit was a fiscal crisis that required a solution, and this resulted in the decision to increase the VAT rate.

Delving into the institutional factors, the Nugent Commission of Inquiry report (Nugent, 2018) outlined the following about the restructuring of SARS:

> The transition of SARS from what it was to what it became was brought about by events that are shocking. We think what occurred can fairly be described as a premeditated offensive against SARS, strategized by the local office of Bain & Company Inc, located in Boston, for Mr Moyane to seize SARS, each in pursuit of their own interests that were symbiotic, but not altogether the same. Mr Moyane’s interest was to take control of SARS. Bain’s interest was to make money. This was not a plan for mere succession in public service. (p. 27)

Several units in SARS were disbanded, IT modernisation was put on hold and effective managers shifted into positions that entailed no real job descriptions (Nugent, 2018, p. 91). Generalists who were not adequately capacitated to deal with complex tax matters and persons who did not demonstrate integrity were appointed. This had a detrimental impact on enforcement of tax compliance and the prevention of tax evasion. Among the disbanded units was SARS’s Large Business Centre where large businesses could interface more easily with SARS because various types of experts were housed in one unit (Nugent, 2018, p. 91). The

Nugent Inquiry heard in testimonies from tax experts about how the disbanding of the Large Business Centre had led to frustration on the part of large businesses and the negative effect this had had on taxpayer morality. Professor Nel of the South African Institute of Tax Practitioners told the Inquiry that there was ‘increased pressure on the tax practitioners to leave out income and to claim expenses that are risqué’ (Nugent, 2018, p. 53).

Judge Nugent’s report outlined the effect that the ‘turnaround’ at SARS had on debt enforcement. The restructuring process introduced additional layers of sign-off and bureaucracy which meant that in order to pursue tax debt, the signatures of between eight to twelve signatories were required (Nugent, 2018, p. 54). Since SARS was hampered from ensuring that taxpayers paid the taxes that they owed to SARS on time, this resulted in tax revenue that was due not being paid on time or at all – in other words increased non-compliance with tax obligations occurred due to the restructuring.

The Nugent Commission report (2018, p. 3) outlined that the Commission concluded that: ‘What SARS was, and what it has become, is sufficient proof in itself that integrity and governance failed on a massive scale’. The Commission also concluded that this was brought about by at least reckless mismanagement by the then SARS Commissioner, Mr Tom Moyane, who ‘arrived without integrity and then dismantled the elements of governance one by one’ (Nugent, 2018, p. 4).

Following the publication of the Nugent Commission's report, Bain & Company issued a media release in December 2018 in which it acknowledged serious failings in respect of the organisational restructuring work done at SARS. It also acknowledged that Mr Massone had met numerous times with former President Zuma and that Mr Massone met with Mr Moyane in 2013, knowing prior to his appointment that he was to be appointed as SARS Commissioner (Bain & Company, 2018). Mr Moyane, who described Bain putting out a media release as being unfortunate, testified to the State Capture Commission that he was appointed to the position of SARS Commissioner by former President Jacob Zuma in September 2014 and that he was aware of the President's intention to appoint him to the position approximately a year prior to his appointment (Gauteng Transcribers, 2021, p 136).

Bain acknowledged that its participation in the procurement process to do the organisational restructuring at SARS may have been irregular. As a form of amends, Bain repaid the fees received plus interest to SARS (Bain & Company, 2018).

4.3.2.4 Taxpayer culture

In this study, it was found that there are linkages between what was happening at SARS on an institutional level and how that affected taxpayer culture. Taxpayer culture is one of the main factors that explain the VAT increase.

In July 2016, two years prior to the Nugent Commission's report, the Minister of Finance requested the Davis Tax Committee to undertake a study on Tax Administration. The Terms of Reference for the study entailed three areas: (1) assessing the appropriateness of the governance and accountability model of SARS, (2) determining whether the structure and operations of SARS at the time were configured effectively for dealing with Base Erosion and Profit Shifting, assisting Small and Medium-sized Enterprises and collection of corporate tax and tax from high net worth individuals and (3) evaluating the mechanisms in place at SARS for dealing with illicit flows (Davis Tax Committee, 2017, p. 2). The request to prepare a report assessing these areas is indicative of serious concerns governance at SARS and linked to it, taxpayer compliance, were presenting at that juncture.

The report highlighted that:

Failure to explicitly identify and manage risks associated with the SARS' Operating

Model Review Programme has the potential to significantly affect the organisation's transformation and achievement of its goals going forward. This could lead to major uncertainty for employees and taxpayers, and cause serious disruption to service. (p. 46).

The causal linkage between the institutional changes at SARS and declining taxpayer morality is unequivocally stated in the Nugent Commission report. The Nugent Inquiry found evidence of falling taxpayer compliance which affected tax revenue collection levels (Nugent, 2018, p. 122).

The Nugent Commission report (2018, p. 121) highlights that at every stage of revenue collection, oversight is important. Prior to the restructuring process, the units and divisions at SARS had good oversight of the tax collection process (Nugent, 2018, p. 57). However, that oversight was systematically dismantled and the effect was that combined with other factors, it negatively impacted on revenue collection. Mr Cecil Morden, former Chief Officer: Economic Tax Analysis at the National Treasury testified that in the 2017/18 financial year alone – the year the VAT rate was increased – 'under-collection was in the region of R49 billion' (Nugent, 2018, p. 121). In an analysis prepared for the Nugent Commission, Dr Randall Carollisen, former Group Executive responsible for research at SARS, quantified the effects further: 'tax buoyancy (the relationship between revenue collected and GDP) retreated from an average of 1.2 prior to 2016 to 1, taxpayer compliance continued to slip, the debt book grew from 2015 from about R85 billion to about R135 billion, the credit book moved from R40 billion in 2013 to R70 billion' (Nugent, 2018, p. 122). Tax experts demonstrated in numbers to the Nugent Commission what the effects of the damage to SARS had been and how this in turn negatively affected taxpayer culture.

4.3.2.5 Economic reasons

The economic reasons centred around two core themes: that a stagnant economy was affecting tax collection levels resulting in a tax revenue shortfall; and arguments about the best choice among different tax types to preserve the economy.

First, in terms of the reason that a weak economy was affecting tax revenue levels, a number of commentators with a business background explained that low business confidence was stalling growth and the economy was stagnating. Structural reasons also played a role in economic performance. The Nugent Inquiry report is worded in a manner that did not assert that what occurred at SARS was the single reason for revenue collection being down; however, what occurred internally at SARS does appear to have played a significant role which some who testified regarded as more pertinent than economic circumstances in explaining why there was a tax revenue shortfall. For example, Dr Cecil Morden held the view that 'only part was attributable to the shrinking economy, the remainder being attributable to inefficiencies at SARS' (Nugent, 2018, p. 122). The Nugent Enquiry report states that the evidence detailing how taxpayer compliance was declining supports that view (Nugent, 2018, p. 122).

Second, the consensus of opinion around a choice between tax types and their impact on the economy was that taxes other than VAT would negatively affect growth and investment. So, a choice was required that would not result in capital flight, would protect economic growth and prevent a ratings downgrade. VAT was the option that would be least harmful to the economy. Critiquing this line of argument, Dr Seán Muller, Senior Economics lecturer at the University of Johannesburg, said this idea was debatable (Muller, 2018). The implication being that the argument represents a misunderstanding about how the economy actually functions. Raising the VAT rate does increase businesses input costs and reduce consumers' disposable income. So, it is a choice that also affects the economy negatively, but nevertheless is the economic reason that was advanced.

4.3.2.6 Geopolitical Reasons

Geopolitical reasons related to South Africa's VAT and CIT rate levels as compared to other countries were advanced as a consideration for a VAT increase by the Minister of Finance. While these did play a role in shaping the choice, as the Minister indicated, they were however not a very strong causal driver for the VAT increase. Whereas there was a concern that ratings agencies would downgrade South Africa's sovereign credit rating to sub-investment grade ('junk' status), they were not placing heavy pressure on South Africa to increase VAT per se. To improve investor confidence, ratings agencies typically prefer not to see tax increases and burgeoning spending.

Following the announcement, the most prevalent type of position from business commentators was not to reject the percentage point increase but to accept that it was unavoidable; however, no business commentator embraced this fully. What the content analysis revealed is that businesses are inconvenienced by a VAT increase and experience some detrimental effects. Administrative systems changes are required to respond to a change in the VAT rate, there are added costs in the supply chain and consumers have less disposable income to spend on goods and services. Given these effects, business would not exert pressure to increase VAT and neither would the investors who invest in businesses or the ratings agencies. However, if it were a choice between increasing VAT and CIT, businesses would favour VAT and may have applied pressure or lobbied for that outcome. Relating this to Campbell's conceptual model, the geopolitical factors in the 2018 VAT increase decision were inter-related with the balance of class and interest group pressure.

4.3.3 ***Timeline of events leading to VAT hike***

This section contains a timeline of the major events that led to the VAT increase. A timeline is presented in the figure below (see Figure 13) and explained in the text that follows.

In the Medium-Term Budget Policy Statement speech that was given on 25 October 2017, then Finance Minister Malusi Gigaba highlighted that a R50.8 billion tax revenue shortfall was anticipated (Gigaba, 2017, p. 16).

Each year, a similar budget process is followed. In November, deliberations on the Medium-Term Expenditure allocations are finalised. In 2017, cuts needed to be made to address the tax revenue shortfall and the resulting budget deficit, so that the budget would balance.

On 13 November 2017, the Commission of Inquiry in Higher Education report was released. The Heher Commission found that the state did not have the financial capacity to make tertiary education completely free to all (Heher, 2017a, p. 3). On 16 December 2017, then President Jacob Zuma, in contradiction to the Heher Commission report recommendations, announced that fee-free higher education for poor and low-income families would be implemented. The decision to implement fee-free higher education gave rise to a large spending requirement.

On 21 February 2018, Malusi Gigaba delivered the budget speech. In this speech he announced that an additional R57 billion would be allocated over the medium-term (three financial years) to higher education and training. He also announced the VAT increase in this speech.

Figure 13

Timeline of 2018 VAT increase in South Africa

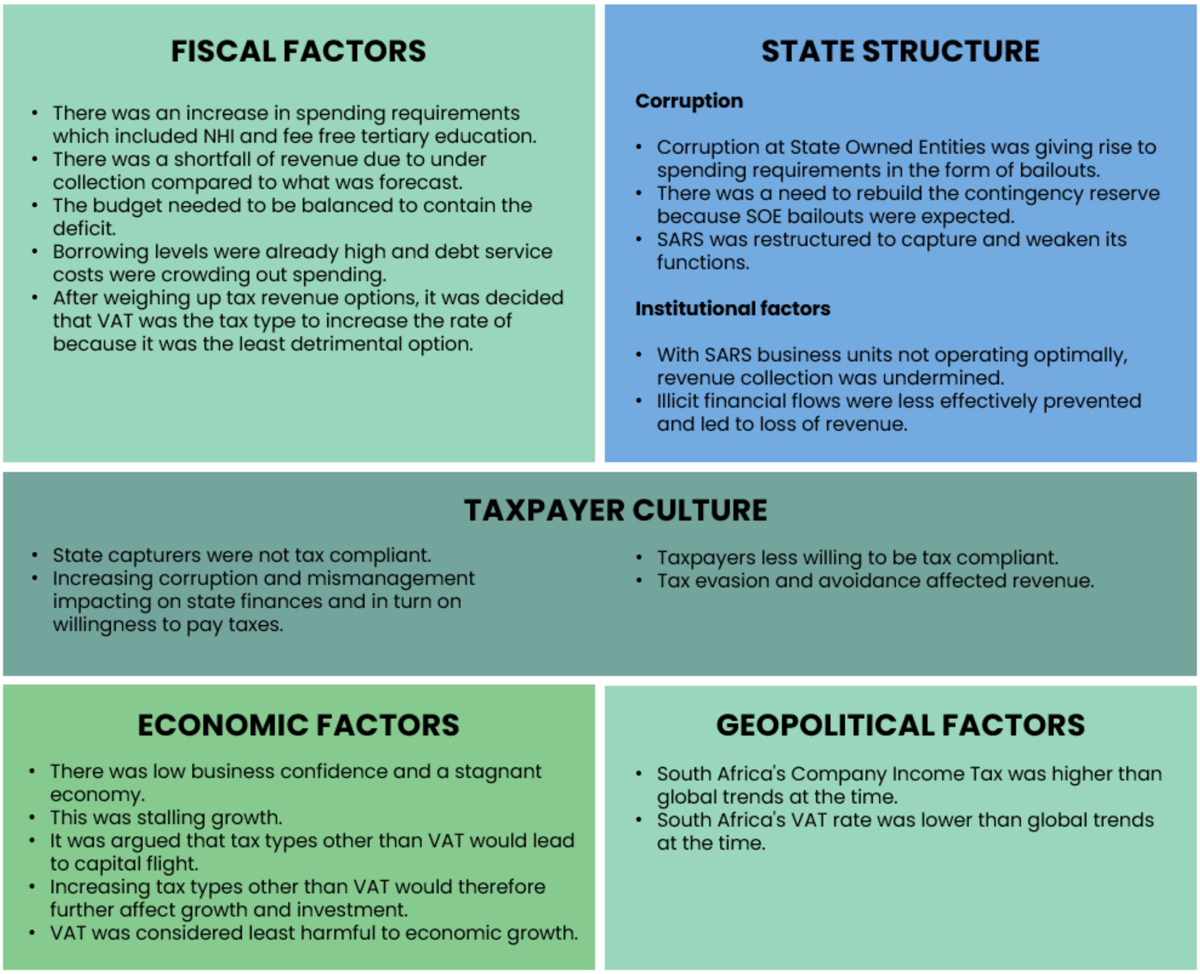
On 13 November 2018, Parliament's Finance Committee accepted the VAT increase; however, the committee was aware of the gravity associated with this step and that civil society was almost unanimously opposed to the VAT increase. The committee therefore accepted it reluctantly due to an acknowledgement of the implications for the poor, but noted that additional revenue was needed (Molafo, 2018, p. 1).

4.3.4 *Synthesis of reasons for the increase in the VAT rate*

When the reasons are viewed together, it becomes apparent why the VAT rate specifically was increased. Figure 14 below contains a synthesis of the reasons based on the content analysis.

Figure 14

Synthesis of reasons for the VAT increase



Source: Own analysis based on content analysis of reasons

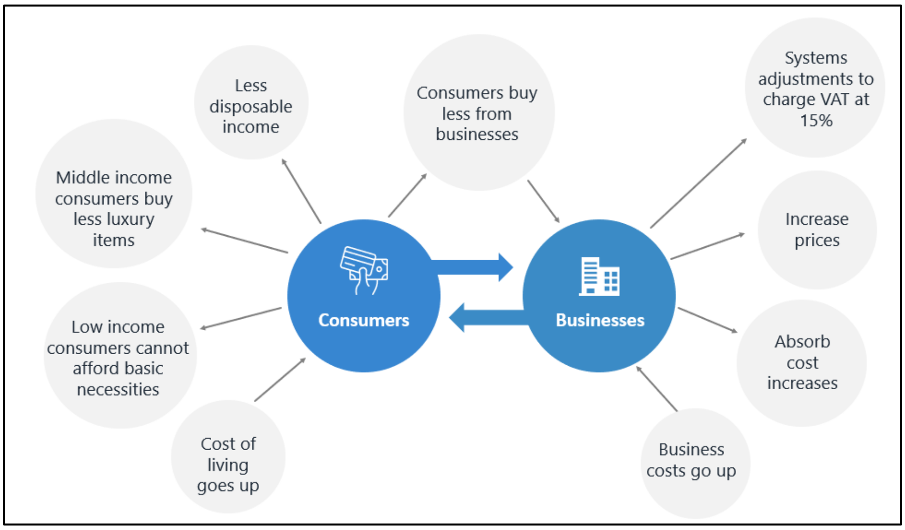
4.3.5 *Anticipated Effects and Effects*

The anticipated effects and effects contemplated in the articles analysed demonstrate why raising the VAT rate was regarded as a very serious matter. The anticipated effects and actual effects are discussed together in this section (refer to Table A6). Where the analysed articles showed that an effect was confirmed by evidence or was not confirmed, this is indicated. However, it was not in the scope of this study to go as far as obtaining evidence for whether these anticipated effects actually occurred.

Among the anticipated effects on consumers were price increases on goods and services which would increase the cost of living, in turn eroding spending power and affecting the standard of living. For middle-income consumers, the likely response would be to curtail spending on luxuries. For low-income consumers, it would impact on their ability to afford food and other basic necessities. With consumers under pressure, the aggregate demand would be dampened. Businesses would be compromised when consumers bought less. Figure 15 illustrates this.

Figure 15

Anticipated effects of VAT increase



Source: Own analysis based on content analysis of anticipated effects

For businesses, their response to the VAT increase would require that they change their accounting systems to reflect the altered VAT rate. Because of the VAT rate increase, business costs would go up. Most businesses would pass on the increase to consumers; some would absorb some of the costs and pass on others to the consumer, while others still, would use the opportunity to raise prices beyond the VAT increase (Rossouw, 2018). When passing on the costs to the consumer, inflation becomes a risk. A monetary policy response was one of the anticipated effects – the possibility of increases to interest rates to manage inflation was mentioned.

The response by the markets after the announcement was favourable. The rand strengthened. And some commentators were of the opinion that it may help stave off a ratings downgrade. Despite the motivating rationale that VAT was the best option to protect the economy, there were those who did not agree, and contended that it would not lower the budget deficit.

It was clear in the discourse surrounding the VAT increase that the effects would be felt across South African society, but there was concern that some groups would feel the effects more heavily than others. The segments of society that would be most seriously impacted by the VAT increase and who came up most frequently in the articles analysed were small businesses, consumers and a variety of vulnerable groups. Those who it was anticipated would experience the most detriment included: black women, the elderly, pensioners, girls, young children and the infirm.

Many commentators said that the impact on food prices would be among the most significant concerns. As it turned out, there were other dynamics besides the VAT increase at play which produced unexpected outcomes when it came to food prices. Statistics SA Consumer Price Index (CPI) release data which showed that ’[a]nnual food inflation continues to slow despite April’s rise in value added tax (VAT). In fact, some food items are actually cheaper than they were a year ago’ (Statistics South Africa, 2018, para. 1). Some of the additional concerns about food affordability were that increasing VAT would affect food security and possibly have negative impact on efforts to reduce non-communicable diseases like diabetes and obesity. Besides the impact on food prices, additional goods that received attention were concerns that the cost of school uniforms and sanitary pads would go up.

To ameliorate the impact of increased prices, governments can opt to zero-rate certain items consumed mostly by poor and low income households to decrease the cost of these items. The next section focusses on what was done to mitigate the effects of the VAT increase.

4.3.6 *Mitigating the Effects of Raising VAT*

One of the arguments offered about raising the VAT rate was that the effects on lower income consumers would be mitigated by zero-rating a list of basic goods, and by increasing social grant amounts. In response to the announcement, aside from initially rejecting it, many civil society organisations and unions called for the list of products upon which VAT is not charged to be expanded with further basic goods. Despite calling for the expansion of the list, there were those who were dubious about whether the zero-rating of items would actually mitigate the effects of a VAT increase. Reasons for this included a contention that increasing social grants would not help, because the increase would barely be above the inflation rate.

Following pressure from civil society organisations and unions, an expert panel was set up to look into measures to ameliorate the impacts of the VAT increase. After a consultative process, the expert panel made recommendations to the Finance Ministry and National Treasury. As a result, three products (cake flour, white bread flour and sanitary pads) were added to the list of zero-rated items and there was also a decision to provide free sanitary pads to learners (Molafo, 2018, p. 1).

4.4 Discussion of Results

4.4.1 *Fiscal Factors*

Fiscal factors were among the key factors explaining the reason for the VAT increase. In the decade between 2008 and 2018, consolidated government spending in real terms increased by 46%. The biggest spending areas are general public services, education and social protection. Despite rising, the spending does not meet the full extent of the need of a growing population afflicted by unemployment, poverty and inequality as well as a quadruple burden of disease in the form of maternal, child health and nutritional conditions; HIV and TB; violence and injuries; and non-communicable diseases like diabetes (Groenewald, Bradshaw, Day & Laubscher, 2017, p.264).

It was in this context that in October 2017, during the Medium-Term Budget Policy Statement speech, it was announced that a tax revenue shortfall of R50.8 billion was expected (Gigaba, 2017, p. 16). This was the biggest shortfall since 2009 and would give rise to a budget deficit. There would not be enough tax revenue to cover the forecasted spending requirements in the next financial year. In short, the country had a fiscal crisis that needed to be addressed.

The Finance Ministry, Treasury and SARS would have needed to determine how to address the shortfall. The choices at their disposal would have been to decrease spending, find a way to increase tax revenue or to borrow the money. A combination of these choices could be used after which they had to decide from which spending programmes it would be best to make cuts and whether tax revenue could be raised without raising the levels of specific tax types or the rate of the chosen tax type. When looking at borrowing, officials consider how much money has previously been borrowed and if it makes sense to borrow more.

The main sources of tax revenue for South Africa in order of contribution to overall revenue are: (1) PIT; (2) VAT; and (3) CIT. Since 2008, PIT's contribution as a percentage has been rising, whereas CIT has declined. While the VAT rate had remained at a constant level of 14% since 1993, VAT's contribution to tax revenue as a percentage of GDP was on an upwards trajectory overall since 2008, but had declined in the financial years immediately prior to the VAT rate increase. PIT had already been increased in recent financial years.

Government debt levels doubled from 28.3% in 2007 to 56.7% in 2018, just before the decision to increase the VAT rate was made. Borrowing levels were at a level that Treasury officials regarded as high. Interest on borrowings was rising and was crowding out spending on programmes. In light of this, increasing public debt levels even further was considered undesirable.

Because increasing debt levels was not a desirable option, a spending side and tax policy solution were preferred. Treasury engaged government departments during the budget process about reducing their programme spending compared to what they had been planning. When that process had been completed, an additional spending requirement arose when fee-free tertiary education was announced, which went against the recommendations of the Heher Commission of Inquiry tasked to look into its feasibility. This unexpected and large spending requirement gave rise to an additional budget shortfall on top of an already significant budget shortfall arising from the reduced tax revenue collection which had just been addressed during the budget process. In December 2017, with a mere two months to go before the annual budget speech was due to be made in parliament, the fiscal crisis was suddenly exacerbated. With extremely limited fiscal space, the choices at hand once more were to cut spending, increase revenue through tax measures or borrow the money – or a combination of these options. While making these choices, officials needed to determine how best to restore fiscal stability.

4.4.2 *State structure / Institutional factors*

Among the key factors that explain the VAT increase were institutional factors. Institutional changes at SARS in the form of a restructuring process designed to enable state capture (grand corruption) affected tax morality. Increased tax avoidance and tax evasion in turn affected tax revenue collection levels, partly explaining how the budget shortfall that led to the fiscal crisis had arisen in the first place, necessitating a fiscal policy response. Contributing to the spending requirements were State Owned Entities that had been subjected to state capture and required bailouts, making it necessary to rebuild the contingency reserve (government's 'rainy-day' fund).

Among the units at SARS that were disbanded was the Large Business Centre, which had operated as a one-stop centre for large businesses to interface with SARS. Disbanding the Large Business Centre was a source of frustration for large businesses who could no longer easily obtain expert tax advice from experts in one unit. This had a negative effect on taxpayer morality. The study found a clear linkage between institutional factors and taxpayer culture as explaining the reasons for the VAT increase. This finding in the qualitative research is also borne out by the quantitative research findings, which indicate that those who found it more difficult to find information about paying taxes were less likely to have a tax compliant attitude.

The restructuring of SARS also had an effect on tax debt enforcement. It added layers of bureaucracy which meant that it was much slower to follow up with tax defaulters and testimony at the Nugent Inquiry revealed that a significant amount of tax revenue was lost in this manner. Units involved in enforcement were affected by the restructuring too and tax evasion was being enforced less robustly than it had been in the previous structure. Various experts identified illicit financial flows (a form of tax evasion) as a challenge affecting revenue collection levels. There is a causal link between institutional and fiscal reasons in that the revenue collection shortfall resulted in a fiscal crisis that needed a fiscal policy solution.

4.4.3 *Taxpayer culture*

Taxpayer culture is one of the main factors that explain the VAT increase. As mentioned previously, there was a causal linkage between the institutional changes at SARS and the declining taxpayer morality. The Afrobarometer public opinion analysis revealed that people's perceptions play an important role in predicting their behaviour. These account for motivations that explain what drives taxpayer culture in South Africa.

The Nugent Inquiry concluded that there was evidence of falling taxpayer compliance and that this impacted on tax revenue collection levels (Nugent, 2018, p. 122). First, it became more difficult for taxpayers to interface with SARS and this affected their tax compliance, because it became more challenging to obtain expert guidance from SARS. Second, monitoring of compliance and enforcement was compromised by the restructuring process so it became easier for citizens to avoid and evade paying their taxes.

Turning to factors that do predict tax compliance; when people are more satisfied with democracy and health services, their tax compliance attitude improves. This finding − that satisfaction with health services motivates people to want to pay their taxes − is in line with fiscal exchange theory which says that if people are satisfied that their tax contribution represents a good exchange it increases their motivation to pay their taxes. However, satisfaction with educational services does not affect tax compliant attitudes. This raises a consideration about the impact of chosen policy priorities on revenue generation.

Additionally, peer/social influences also play a role because when people see that others are tax compliant, they are more likely to have a tax compliant attitude themselves. SARS should try to make the process of paying tax as easy and informative as possible and find ways to improve the reach of its taxpayer education. People in urban areas are less likely to have a tax compliant attitude than those living in rural areas. This implies that SARS could implement geographically prioritised taxpayer education, enforcement or other interventions.

4.4.4 *Economic factors*

Economic factors played a role in constraining revenue collections and additionally in providing the motivating rationale for the decision as to which of the different tax types should have their levels raised. It had to be borne in mind that raising CIT, for example, could lead to capital flight and if businesses decided to relocate, it would further harm revenue collection levels.

The economy was stagnating due to structural reasons and low business confidence which in turn was affecting growth rates and consequently tax revenue. However, revenue forecasts make allowances for a weak economy. The Nugent Inquiry, having satisfied itself that there was ample evidence that detailed how taxpayer compliance was declining, concurred with expert evidence that ’only part was attributable to the shrinking economy, the remainder being attributable to inefficiencies at SARS’ (Nugent, 2018, p. 122).

The second category of economic factors relates to the effect of raising different tax types on the economy as motivating the decision to raise the VAT rate. In the literature review, it was pointed out that among the reasons for states relying on regressive taxes to fund welfare support is the importance of maintaining a tax mix that supports economic growth and because of concerns of capital flight. Whereas South Africa’s social grants system has been widely studied as a redistributive measure that alleviates poverty, it cannot be said that since democracy increases in VAT have been used to expand social grant coverage. The argument for the choice of VAT as the tax type to be increased, did however rely on the latter concern that raising other tax types would lead to capital flight. There was a contention that taxes other than VAT would affect growth and investment more. When announcing the VAT increase, the Finance Minister acknowledged that while the measures announced would improve the integrity of the public finances, they would cause some economic discomfort (Gigaba, 2018, p. 10). In the content analysis it was apparent that there were two broad schools of thought on the matter; some whose post-budget analysis was that the move was the least harmful to the economy and would prevent a ratings downgrade; and others who cautioned that there would be a dampening of aggregate demand and inflationary effects.

4.4.5 *Geopolitical factors*

Like economic factors, geopolitical factors helped to provide the motivating rationale for deciding which of the different tax types to raise. The Finance Minister specifically mentioned when announcing the VAT rate increase, that 'our corporate tax is high by international standards' (Gigaba, 2018, p. 11). Whereas some commentators disputed this, South Africa's CIT rate was and remains above the global and European averages. Whether the global average and emerging market averages are at a desirable level or not is a separate and pertinent debate. This comparison of tax rates to other countries when making the choice is considered a geopolitical reason because countries try to attract foreign direct capital by offering a conducive environment for doing business, including considerations of the levels of their corporate tax rates. This can lead to what is termed 'a global tax race to the bottom' resulting from the way globalisation shapes economic affairs.

In terms of Campbell's model, the balance of class and interest group pressure affects decisions which have to be made after a crisis. In this case, there was no geopolitical crisis such as a war, but the geopolitical aspect influenced the motivating rationale for the decision that was made, with business interests offering commentary that functioned as a form of interest group pressure in advance of the announcement.

4.5 Summary of Findings

This chapter has reported and discussed the results of the study. The results of the quantitative and qualitative aspects of the mixed methods research were reported separately. Both were used to answer the research question and were integrated in the discussion of results to answer each of the research sub-questions (refer to Table A1 for how the research methodology addressed the research sub-questions).

Drawing the qualitative and quantitative research outcomes together has provided an explanation for how a fiscal crisis came about in South Africa in 2018. Schumpeter articulated that a crisis of the tax state occurs when the demand for growing social spending poses a threat to the future of the tax state in that these demands may bring about a crisis it cannot weather (Musgrave, 1992, p. 92). The R57 billion spending requirement that arose due to the decision of President Jacob Zuma to subsidise free higher education came at a very late stage in the budget process – in December 2017 when the budget was due to be tabled in February 2018. At this juncture, the National Treasury and officials from government departments had already discussed the budget allocations of each department. These engagements had been completed and entailed decisions to cut spending in the forthcoming year, necessitated because of a budget deficit that had become apparent in October 2017. This came after a period during which SARS had undergone a restructuring process that destabilised its operations, dismantling units within SARS that had played a key role in keeping tax evasion in check. The Nugent Inquiry concluded that the motivations for the restructuring process were to capture power at SARS and for the purposes of private gain.

Because the engagements about the spending side of the budget were already complete and had already entailed tough negotiations that required departments to tighten their belts, further spending side cuts alone were not enough to plug the new deficit arising from the fee-free higher education decision. With rising public debt levels at a debt-to-GDP ratio that exceeded the comfort level of Treasury officials, a tax policy (revenue side) solution as part of how the budget deficit would be plugged presented itself as a logical option. Officials would then have to weigh up which tax type would be best to increase. Treasury officials understood the gravity of a decision to raise the VAT rate and after the budget speech, described it as a 'least worst' option.

5 Discussion and conclusion

5.1 Introduction

This chapter reflects on the core findings emanating from the study. This study focused on the reasons for the VAT increase. It found that fiscal and institutional factors and taxpayer culture are key explanations for the VAT increase, with economic and geopolitical factors also playing a role. By studying the VAT increase through a fiscal sociology lens, a conceptual model for the 2018 VAT increase in South Africa was developed as a research outcome. In addition, changes to Campbell's model for the determination of taxation are proposed as a specific outcome of the research.

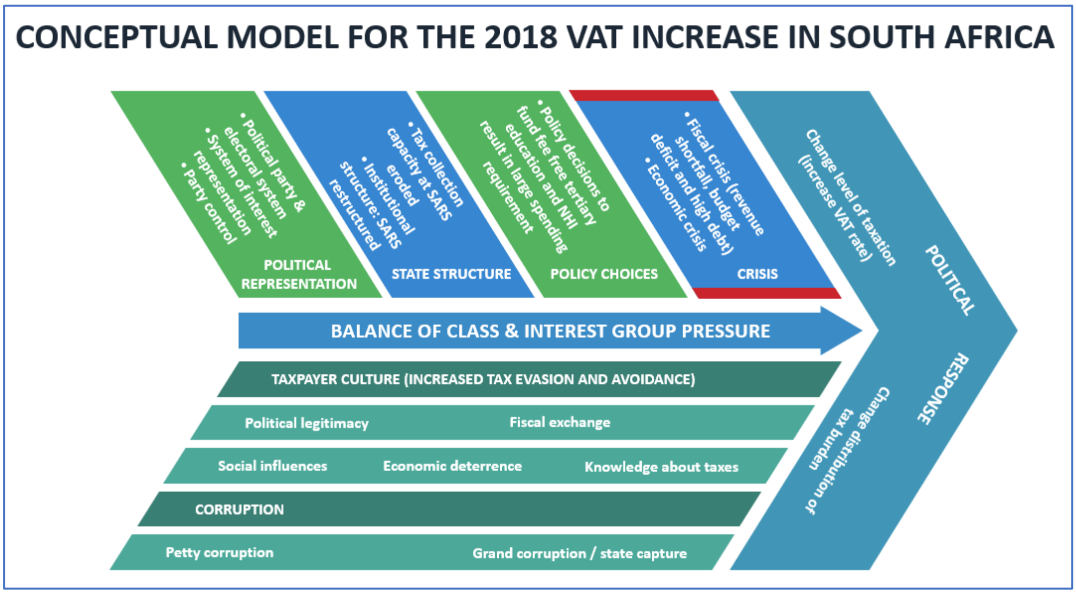
5.2 Overall research outcomes

As highlighted in the literature review, a Crisis of the Tax State occurs when the state cannot collect sufficient revenue from taxpayers to meet growing spending requirements, resulting in a crisis. This study determined that the VAT increase, a tax policy decision widely regarded as a regressive decision, occurred because of a 'crisis of the tax state' in 2018 that was precipitated by a confluence of fiscal and institutional factors and taxpayer culture. Economic and geopolitical factors also played a role.

Relating the study outcomes to the theory, the conceptual model below (Figure 16) builds on Campbell's model for the determination of taxation to explain the reasons for raising VAT in South Africa in 2018.

Figure 16

Conceptual model explaining 2018 VAT increase in South Africa



To explain the 2018 VAT increase using the conceptual model; there is a political and electoral system that comes with a system of interest representation through which a ruling political party is elected into power. State structure is about how the state is structured to deliver services including the election promises that saw the ANC voted in as South Africa's ruling party. A pertinent facet of state structure that came into focus in the case of the 2018 VAT increase was how the institutional structure of the country's revenue services (SARS) was deliberately altered. In essence, the country's revenue service was systematically undermined as an institution through a restructuring process which hampered its ability to collect revenue and enforce tax compliance.

The state capture (grand corruption) at SARS affected taxpayer culture, giving rise to a tax collection shortfall and causing a budget deficit and a fiscal crisis. This necessitated choices about whether to decrease spending, increase borrowing levels or raise tax rates. These choices were mediated by the balance of class and interest group pressure. While these choices were being made in the budget process, an additional, large spending requirement arose due to the announcement of fee-free tertiary higher education in a move regarded by some as a populist political choice by the outgoing President who was under pressure to step down. This gave rise to an additional budget deficit at a very late stage in the budget process, when spending side solutions were already largely exhausted.

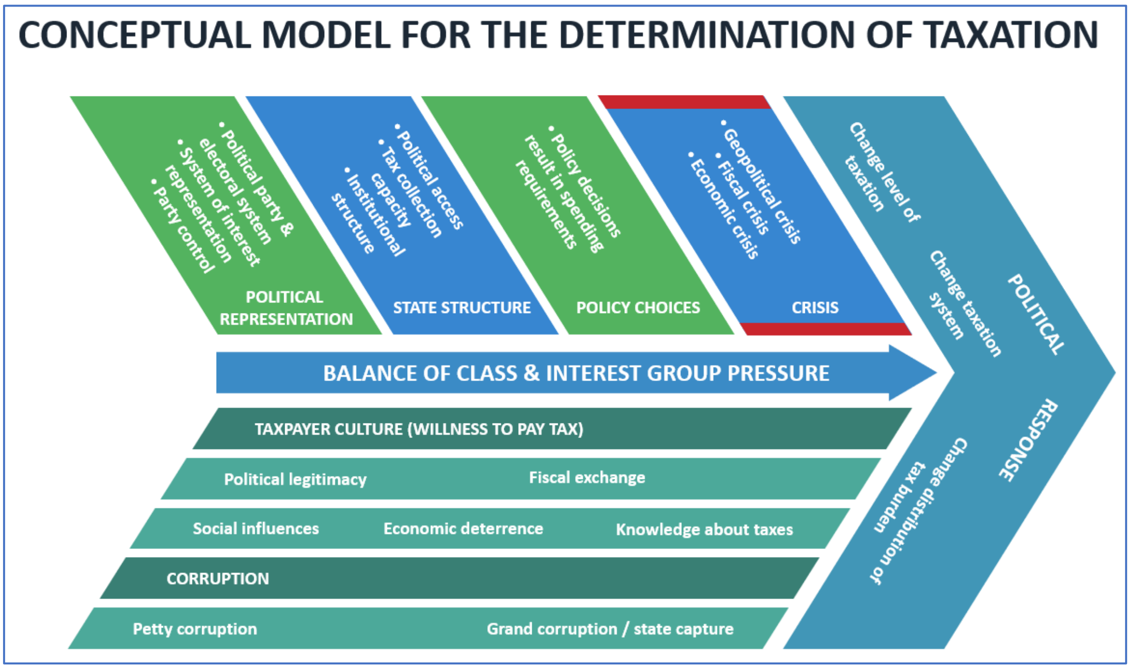
The balance of powers between different interest and lobby groups played a mitigating role in the choice of which of a range of tax types to raise the rates of. The result of the timing of events leading up to the 2018 budget speech, is that multiple factors converged to give rise to a crisis to which the political solution was to raise the VAT rate. This was widely critiqued because it was a tax policy choice that entailed changing the distribution of the tax burden in an already highly unequal society.

5.3 Specific Research Outcomes

One of the critiques of Campbell's model earlier in this study was that it did not include the factors of corruption and taxpayer culture. After understanding how this worked in the context of the South African 2018 VAT increase, the insights garnered enabled the creation of an updated conceptual model that is an outcome of this research (see Figure 17). The updated model includes these taxpayer culture and corruption factors, as depicted below. This general conceptual model may be of use in other contexts, subject to empirical validation.

Figure 17

Conceptual model for the determination of taxation



An overview of the model is as follows. Each country has a form of political representation such as direct or proportional representation. The political party and electoral systems of a country determine how interests are represented. Which party is the ruling party is determined by the electorate through their vote in a constitutional democracy. Voters weigh up the policies of various political parties and cast their ballot. Which party comes into power can be contested along the lines of class interests. Class and interest group pressures play a mitigating role in the model, wherein the balance of interests may sway arrangements in the direction of the preferences of whichever class or interest group that holds more power.

The policies of whichever party is elected the ruling party are implemented through the machinery of the state and there is an interface between politicians and career public servants. The institutional structure of the state needs to be organised in a manner that enables it to deliver public services and on election promises. To deliver public services requires funds and therefore in among the institutional arrangements will be structures to enable revenue collection – typically a country's revenue service. Policy choices that are determined by political leaders give rise to spending requirements. Tax revenue enables the delivery of public services.

Corruption can interfere by reducing the amount of funds available to be spent on goods and services. Taxpayer culture (willingness to pay taxes) can also play a role in revenue collection levels. Taxpayers are influenced in their decision to pay taxes by whether they regard a political system and its leaders to be legitimate, whether they get good fiscal exchange from paying taxes, by their knowledge of taxes, whether they think those in their social peer group pay taxes and whether there is a deterrent (punishment) for not paying.

If there is a crisis such as an economic, geopolitical or fiscal crisis, it can affect revenue levels. A response is required to address the crisis. A political response to a crisis can be to change the level of taxes, change the tax system or to change the distribution of the burden of taxes. Which political response is chosen depends on the juncture in the political cycle and the balance of interests.

A specific research insight that emerged was connected to Schumpeter's analysis that the reasons for the state's initial genesis was essentially to prevent finances intended for the common good from being misused for the wrong priorities. This goes back to the era of kings spending lavishly on their courts and the consequent attempts of the gentry who had contributed to costs for armies and protection of the realm to ensure that the money was not wasted. In the contemporary context, state capture essentially collapses that boundary between the public and private spheres, because shadowy elites want to use the levers of power to enrich themselves using public money. State capture subverts the separate public sphere and the common good. State capture has an impact on institutions often reshaping their structure to assume power over these institutions, as the case of the 2018 VAT increase demonstrates. It can have far-reaching implications for public finances and so adding it to the conceptual model constitutes a significant contribution of this study.

Taxpayer culture is a further addition to the model. It appears proximal to balance of class and interest group pressure as an intended feature of the updated conceptual model. Taxpayers being unwilling to pay taxes to the extent of engaging in illegal methods intended to evade pay taxes is a Tax evasion is a widespread global phenomenon. It is largely elites who have the means to make use of tax havens and elaborate company structures to disguise beneficial ownership, so that they can illegally not pay what is due to a specific country's revenue service. Forms of tax evasion like Base Erosion and Profit Shifting undermine the centuries old social compact and threaten the survival of the tax state.

5.4 Limitations

The variable of whether respondents lived in an urban or rural area was tested, with the hypothesis being related to fiscal exchange theory. The result was the opposite of what had been expected; people living in urban areas (where the services could be expected to be better than in rural areas) were not more likely to have a greater tax compliant attitude. This can be explained in the sense that living in an urban area does not automatically secure better services than in rural areas. Urbanisation is however a global trend and it may be worthwhile to study hypotheses about urbanisation and tax compliance further.

The study did not determine whether anticipated effects of the VAT rate increase did in fact occur. As the increase was quite recent, long term effects are impossible to measure at the time of the study. This suggests a need for further research that tests whether the effects materialised. Further research on the costing and prioritising of policy imperatives in the context of constrained fiscal space would be valuable. Future studies could empirically test the conceptual model for the determination of taxation.

5.5 Implications

The effect of reprioritising spending on education was, that aside from a tax policy decision which labour and civil society regarded as a regressive choice with negative implications for poor and low income households, further budget cuts were necessitated. This money was found in the budgets of other spending areas; for example, in the Basic Education budget. This demonstrates that policy decisions with large spending requirements can have an impact on tax policy and implications for rights realisation.

Due to limited fiscal space, each time a large spending requirement arises in South Africa, there is a risk that it would create another fiscal crisis and that the solutions to the crisis would undermine developmental outcomes and rights realisation. Funding tertiary fee-free education for poor and working-class students came at the expense of spending areas that support poor and working-class students’ families and triggered the use of a regressive tax policy instrument. In order to achieve better management of public finances, improved prioritisation of policy imperatives and costing thereof would avert repeated fiscal crises.

The NHI, which is government’s commitment to ensuring health care for all, and fee-free tertiary education are both policy choices that have sizeable spending requirements. The NHI implementation has been proceeding at a slower than hoped for pace due to availability of funds. The study’s findings that related to fiscal exchange theory were particularly interesting. Satisfaction with government’s handling of improving basic health services affects taxpayer compliance attitudes, however, satisfaction with government’s handling of education does not. This suggests that it needs to be acknowledged that policy choices that have large spending requirements and which are introduced at the same time, can undermine each other. There is a need to engage in better planning, co-ordination, costing and prioritisation in South Africa.

Real and perceived concerns about corruption could increasingly impact on the willingness to pay tax. Further studies could look particularly at whether tax payers that do not have a strong sense of belonging in the South African national political community have become less tax compliant.

It is also necessary to address the massive issue of state capture that caused the fiscal crisis. The Inquiry into State Capture will do this to some extent and will make recommendations. These will still need to be implemented. Whereas there has been some progress in repairing the damage done to SARS, many of the positions that officials were pushed out of remain unfilled and SARS lost many skilled and experienced personnel. This is yet to be addressed and while budget constraints remain an issue, it is in the interests of fiscal stability to prioritise such efforts.

5.6 Contribution to the field

In terms of the consequences for theory, this study has provided a revised conceptual model for the determination of taxation. The example of the 2018 VAT increase demonstrates the pressures that occur when there is limited fiscal space and a crisis of the tax state occurs. The need for policy measures that address worsening poverty and inequality levels applies beyond the South African case. The debate that concerned Schumpeter and Goldscheid post World War One about the crisis of the tax state is increasingly pertinent, although it was arguably never settled satisfactorily. Schumpeter asked whether capitalism could survive. His question was not necessarily because he wanted to see it fail, but because he had identified how it was inherently prone to crisis. With the global economy experiencing a series of downturns in current times, fiscal space is diminishing in a number of countries. The inherent structural issues attendant in capitalism's arrangements become pronounced. Among other challenges, the potential of the fourth industrial revolution to aggravate unemployment makes establishing an effective new paradigm a matter of urgent global concern. This study has sought to add to the body of fiscal sociology literature. Though fiscal sociology is not widely known, it has the potential to be applied to the challenges of contemporary global economic arrangements.

5.7 Conclusion

The main aim of this study was to investigate the circumstances leading to the 2018 VAT rate increase in South Africa. The VAT rate increase was brought about by a confluence of factors, the result of which was a tax policy decision widely perceived as being regressive. This study concludes that fiscal and institutional factors and taxpayer culture are key explanations for the VAT increase, while economic and geopolitical factors also played a role.

As the 2018 VAT increase in South Africa demonstrated, tax evasion has serious implications for development outcomes and fiscal policy and can give rise to a ‘crisis of the tax state’. Combating tax evasion requires a global effort.

The implications of the findings for policy making in South Africa is that there needs to be a considerably more robust process to cost and sequence the implementation of policy imperatives. Robust discourse is required about whether current policy choices are actually supporting the country’s developmental goals and what that implies for fiscal policy. There need to be trade offs that get made at a political level and which are translated in government’s spending programmes. When introducing a new policy choice that has a significant spending requirement, there must be consideration of what socio-economic impact it will have and how it will affect the delivery of other services. Some existing programmes are not delivering good results and need to be re-evaluated. These measures are necessary to set the country on a more inclusive economic trajectory and for progressive realisation of rights to be protected.

To confront the country’s sluggish economic trajectory, it is necessary to address the structural factors that are impinging on broader participation in the economy. Effective measures to address concentration, bolster employment and to support small and medium sized firms need to be implemented.

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[5] The published article includes these typos.

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Appendices

Table A1

How the Research Methodology Addressed the Research Sub-Questions

Question	Research Method
1. What fiscal factors help explain the VAT increase?	Largely through qualitative research with supplementary quantitative data (tax statistics)
2. What economic factors help explain the VAT increase?	Largely through qualitative research with supplementary quantitative data (economic indicators)
3. What geopolitical factors help explain the VAT increase?	Largely through qualitative research with supplementary quantitative data (country comparative tax statistics)
4. What factors related to state structure help explain the VAT increase?	Both qualitative and quantitative (logistical regression)
a. What aspects of political access impacted on the structure of the state?	
b. What institutional factors impacted on revenue collection capacity?	
5. What factors related to taxpayer culture impacted on revenue collection?	Largely quantitative (logistical regression) with qualitative research

Table A2

How the variables were mapped to tax compliance theories

Predictors of tax compliance attitude	Theory	What the theory entails
Q66g. Handling improving basic health services	Fiscal exchange theory	If government is efficient at spending taxpayer money on providing citizens with public services that they are satisfied with and want, it may motivate increased tax compliance as citizens are satisfied that paying taxes represents a good exchange. (Cowell & Gordon, 1988; Levi, 1988)
Q66H. Satisfaction with handling addressing educational needs	Fiscal exchange theory	
Q115. Urban (1 = urban)	Fiscal exchange theory	
Q26e. Tax compliance of others (1 = others always comply)	Social influence theory	If a taxpayer perceives that their peers do or do not pay taxes, the social norms that they perceive among others may affect their compliance (Ali et al, 2014).
Q70a. Difficulty to find out what taxes to pay	Knowledge about taxes	If taxpayers know how to do their taxes and how taxation works, it has an impact on their tax compliance (Ali et al, 2014).
Q41. Satisfaction with democracy (1 = yes)	Political legitimacy theory	Political legitimacy arises out of trust in political institutions, the performance of those who hold public office and satisfaction with decisions contained in policies and laws that are enacted (Ali et al, 2014). Greater political legitimacy positively affects taxpayers' compliance attitude.
Q68B. Satisfaction with performance of MPs/National assembly	Political legitimacy theory	

Table A3

Univariate logistic regression

Continuous variables	**Tax non-compliant: thinks it is okay not to pay**	**Tax compliant: thinks it is wrong not to pay**	**t/χ^2**	**P**
Age[a]	37.64 (13.86)	39.14 (14.53)	-2.45	.014*
Wealth index[a]	72.05 (25.60)	69.44 (26.25)	2.31	.021*
Difficulty in avoiding paying taxes[a]	3.06 (.88)	3.03 (.93)	.55	.586
Satisfaction with handling reducing crime[a]	1.70 (.89)	1.77 (.91)	-1.63	.103
Satisfaction with handling improving basic health services[a]	2.30 (.96)	2.55 (.92)	-6.16	< .001**
Satisfaction with handling educational services[a]	2.46 (.96)	2.61 (.92)	-3.66	< .001**
Satisfaction with provision of water and sanitation services[a]	2.40 (.97)	2.44 (.95)	-.79	.428
Satisfaction with handling corruption[a]	1.59 (.84)	1.72 (.918)	-3.24	.001**
Satisfaction with handling providing reliable electricity supply[a]	2.20 (.94)	2.29 (.95)	-2.29	.022*
Satisfaction with handling and maintaining roads and bridges[a]	2.29 (.98)	2.42 (.96)	-3.09	.002*

Continuous variables	Tax non-compliant: thinks it is okay not to pay	Tax compliant: thinks it is wrong not to pay	t/χ^2	P
Ethnic group treated fairly[a]	.84 (.97)	.74 (.98)	2.30	.022
Trust tax department[a]	1.67 (1.07)	2.03 (.99)	-7.81	< .001**
Satisfaction with performance of the president[a]	1.98 (.91)	2.13 (.98)	-3.67	< .001**
Satisfaction with performance of MPs/national assembly representatives[a]	2.12 (.85)	2.33 (.90)	-5.409	< .001**
Satisfaction with performance of local government councillors[a]	2.12 (.89)	2.18 (.91)	-1.38	.167
Difficulty in finding out what taxes or fees to pay[a]	2.42 (.90)	2.26 (.90)	3.74	< .001**

Categorical variables	Tax non-compliant: thinks it is ok not to pay Number (%)	Tax compliant: thinks it is wrong not to pay Number (%)	Chi-sq value	P-VALUE
Urban[b]			41.05	< .001**
Urban	832 (40.3%)	1235 (59.7%)		
Not urban	40 (18.72%)	180 (81.8%)		
Satisfaction with democracy[b]			52.86	< .001**
Yes	328 (30.2%)	757 (69.8%)		

Categorical variables	Tax non-compliant: thinks it is ok not to pay Number (%)	Tax compliant: thinks it is wrong not to pay Number (%)	Chi-sq value	P-VALUE
No	526 (45.1%)	640 (54.9%)		
Gender[b]			3.94	.047*
Male	412 (36.1%)	729 (63.9%)		
Female	460 (40.1%)	686 (59.9%)		
Self-employment[b]			1.82	.177
Not self-employed	653 (38.4%)	1047 (61.6%)		
Self-employed	108 (34.4%)	206 (65.6%)		
Tax compliant attitude of others[b]			75.75	< .001**
Never or if they choose	368 (51.2%)	351 (48.8%)		
Always - good	504 (32.1%)	1064 (67.9%)		
Employment[b]			1.11	.293
Unemployed	450 (37.1%)	762 (62.9%)		
Employed	421 (39.3%)	651 (60.7%)		
Education[b]			10.89	.283
No formal Schooling	18 (35.3%)	33 (64.7%)		
Informal schooling only	5 (55.6%)	4 (44.4%)		
Some primary Schooling	47 (34.3%)	90 (65.7%)		
Primary school completed	55 (43.0%)	73 (57%)		

Categorical variables	Tax non-compliant: thinks it is ok not to pay Number (%)	Tax compliant: thinks it is wrong not to pay Number (%)	Chi-sq value	P-VALUE
Some secondary school	254 (40.9%)	367 (59.1%)		
Secondary school completed	271 (37.8%)	446 (62.2%)		
Post-secondary qualifications other than university	122 (35.4%)	223 (64.6%)		
Some university	23 (28.4%)	58 (71.6%)		
University completed	56 (41.2%)	80 (58.8%)		
Post-graduate	21 (33.9%)	41 (66.1%)		

Table A4

Summary of findings

Taxpayer Behaviour Theory	What the Theory predicts	Actual finding
Fiscal exchange theory	If government is efficient at spending taxpayer money on providing citizens with public services that they are satisfied with and want, it may motivate increased tax compliance as citizens are satisfied that paying taxes represent a good exchange. (Cowell & Gordon, 1988; Levi, 1988)	If respondents were more satisfied with health services they were more likely to have a compliant attitude towards paying taxes. People in urban areas are less likely to have a tax compliant attitude – this is the opposite of what was expected.
Social influence theory	Social norms: if a taxpayer perceives that their peers do or do not pay taxes, their perceptions may affect their compliance (Ali et al, 2014).	Respondents perceiving that their peers pay their taxes were more likely to have a tax compliant attitude.
Knowledge about taxes	If taxpayers know how to do their taxes and how taxation works, it has an impact on their tax compliance (Ali et al, 2014).	Respondents perceiving it to be difficult to do their taxes are less likely to have a tax compliant attitude.

Taxpayer Behaviour Theory	What the Theory predicts	Actual finding
Political legitimacy	Political legitimacy arises out of trust in political institutions, the performance of those who hold public office and satisfaction with decisions contained in policies and laws that are enacted (Ali et al, 2014). Greater political legitimacy positively affects taxpayers' compliance attitude.	Respondents who were respondents who were satisfied with democracy were more likely to have a tax compliant attitude.

Table A5

Content analysis: Reasons for VAT increase

FISCAL CONSIDERATIONS	**ECONOMIC CONSIDERATIONS**
Balance the budget	Capital flight
Budget shortfall	Economic efficiency
Constraints on budget	Low business confidence stalling growth
Contain budget deficit	Other taxes would affect growth and investment
Narrow deficit	Prevent ratings downgrade
Borrowing	Previous credit ratings downgrades
Borrowing already high	Protect Economic Growth
Cannot borrow irresponsibly	Stagnant economy
Debt service costs	VAT least harmful to economic growth
Shrinking borrowing space	Weak economy
Stabilise debt	
Tackle rising debt	**STATE STRUCTURE**
Unsustainable debt levels	
	Governance issues
Expenditure	Corruption at SOEs
Provide for unforeseen spending	Illicit financial flows
Increasing expenditure	Internal corruption at SARS
Better medical treatment	Rebuild contingency reserve as SOE bailouts expected
NHI expenditure increase	
Fund-free tertiary education	SARS revenue collection undermined by state capture
Increased taxation because expenditure rose	
Revenue-related reasons	
Revenue shortfall	
Under collection of revenue	
Buffer for revenue shocks	**TAX PAYER CULTURE**
Weighing up different tax types	State capturers not tax compliant
CIT would be passed on to consumer	State finances affected by corruption and mismanagement
CIT high	
PIT and CIT strained	Tax evasion and avoidance
PIT collection down	
PIT increased recently	**GEOPOLITICAL FACTORS**
PIT not an option	
VAT not increased since 1993	Global CIT trends
Wealthy taxpayers contribute most VAT	SA VAT rate low
VAT zero-rating limits impact on poor house-	

holds
Effect on lower income consumers mitigated
Broad base
Administrative costs
Indirect taxes unavoidable by consumer
Least worst option
Maintain integrity of public finances
Most effective option
No other choice
Restore fiscal stability

Table A6

Content analysis: Effects

IMPACT ON CONSUMERS	**IMPACT ON THE**
Decreases disposable income Puts consumers under enormous pressure Increases the cost of living Negatively affects standard of living Erodes spending power Consumers spend less on luxuries Increases cost of groceries Taxes people into poverty	Increases the social and economic burdens of the poor Affects quality of diets Decreases access to nutritious and quality food Leads to buying/eating unhealthy foods Negatively affects work to reduce non-communicable diseases like diabetes and obesity
INCREASES THE PRICE OF GOODS AND SERVICES	**FOOD-RELATED EFFECTS**
Makes basic goods more expensive Increases cost of school uniforms Affects access to sanitary pads Increases some products' prices dramatically May raise tour package prices	Impacts food security negatively Increases food production costs Inflates food prices Actually reduces prices of some food products
CAUSES OTHER SPENDING REQUIREMENTS	**MITIGATIONS WILL NOT WORK**
Necessitates a proportional increase in social grants and wages	Increasing social grants will not help because increase is barely above inflation Already zero-rated items will not limit impact on poor
IMPLICATIONS FOR RULING PARTY VOTER SUPPORT	**DEVELOPMENTAL IMPACTS**
Could cause supporters of the ruling party to respond negatively at voting booths	Poverty exacerbated Inequality increased

EFFECTS ON BUSINESSES

Businesses absorb cost of VAT increase by cutting back costs

Business systems have to be changed with added costs

Businesses have to adjust accounting systems by date of increase

Cashflow implications

Impact on businesses' ability to pay their debts

Unbudgeted price increases affect ability to buy essential products and services

Unplanned increases in operational expenditure

Decrease in spending by customers

Business costs raised

Growth of hospitality industry threatened

Already low business confidence could worsen

Growth stifled by increasing taxes

INFLATIONARY EFFECTS

Increase to customers passed on through price increases

Price increases above rate of increase in VAT

Higher inflation

POSSIBLE MONETARY POLICY RESPONSE

Possible increases to interest rates to manage inflation

IMPACT ON ECONOMY

Pressure on the economy

Will not lower the budget deficit because of effects on economy

RESPONSE BY MARKETS

Favourable response in markets

Ratings downgrade possibly averted

Currency volatility after announcement

Rand strengthened after announcement