



Full length article

# The Cost of Tax Compliance for Small, Medium and Micro Enterprises in South Africa

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## ABSTRACT

High tax compliance costs are associated with larger informal sectors, more corruption and less investment. As no study to date provides a comprehensive baseline for small, medium and micro enterprises' (SMMEs) tax compliance costs in South Africa, determining whether these costs have increased or decreased over time will be impossible and the impact of reforms introduced by government will not be measurable. This study thus sought to suggest a baseline by employing a quantitative research design using data collected from an online survey conducted among SMMEs registered with the South African Revenue Service. This assessment is vital because these costs can affect SMMEs and the economy negatively if they are high and the underlying factors giving rise to this are not addressed and/or if appropriate reforms are not introduced to mitigate these factors.

## 1. Introduction

Small, medium and micro enterprises (SMMEs<sup>1</sup>) are internationally acknowledged as the life-blood of modern economies, so the importance of these enterprises to the industrialised world cannot be overemphasised (Antony et al., 2005; Bureau for Economic Research, 2016; OECD, 2017; Robu, 2013; Ungureanu & Ungureanu, 2020; Van Wyk & Venter, 2023). The reasons for SMMEs' importance to the economy is found in their role as an essential job provider (Cusmano et al., 2018; Erdin & Ozkaya, 2020) and small and medium enterprises (SMEs)

<sup>1</sup> The literature often refers interchangeably to small enterprises as Small and Medium Enterprises (SMEs) or Small, Medium and Micro Enterprises (SMMEs) (Abrie & Doussy, 2006) or Micro, Small and Medium Enterprises (MSMEs) (Kushnir et al., 2010). In this article, the term SMME is used as an encompassing term to describe the entities that the research focuses on. However, where applicable, reference is made to SMEs when the literature reviewed uses the respective term.

generate significant taxable revenue in most economies (Muller et al., 2019; OECD, 2020), since governments tax the profits of SMMEs in the form of income tax. In addition, individuals employed by SMMEs pay some form of payroll-related and/or other related taxes, resulting in considerable revenue from the largest employer group in those economies. SMEs also contribute to indirect taxes such as value-added tax (VAT) – all this implies that SME growth increases government income (Steering Group, 2011).

In South Africa, the Department of Small Business Development (DSBD) was established demonstrating the government's commitment to placing SMMEs at the centre of economic growth and job creation. The DSBD's mandate is "to lead and coordinate an integrated approach to the promotion and development of entrepreneurship, Small, Micro and Medium Enterprises (SMMEs) and Co-operatives, and to ensure an enabling legislative and policy environment to support their growth and sustainability" (DSBD, n.d.). In addition, due to the revenue-raising potential and economic importance of SMMEs, South Africa, similar to other countries across the globe, introduced special tax incentives or reliefs to help SMMEs prosper (Dixon et al., 2019). These incentives or reliefs include the small business corporation (SBC) regime introduced in 2001 and the turnover tax for micro businesses from 1 March 2009 in terms of section 12E and the Sixth Schedule to the Income Tax Act respectively (Income Tax Act 58 of 1962, 1962). The South African government has thus demonstrated that the development and advancement of SMMEs form part of its plans to promote and achieve economic growth for the country.

Given the importance of SMMEs in the economy, it is a concern that this sector faces several challenges to grow and create jobs. The DSBD (2017) has identified six critical areas that hinder the promotion and development of SMMEs: access to finance, access to markets, technology, infrastructure, management and technical skills, and, specifically, the regulatory environment (regulations). The Organisation for Economic Co-operation and Development (OECD) (2003) defines "regulation" as the diverse set of instruments by which governments set requirements on businesses and citizens. These requirements fall into three categories: economic, social and administrative regulations (OECD, 2003). Taxation is one of the regulations that SMMEs have to contend with. Whilst taxation falls under the economic regulations category, the collection of taxes and the administrative burden regarding the collection of taxes falls under the administrative regulations category (OECD, 2003). In an online survey conducted by the DSBD, SMMEs indicated that the following fundamental business problems (barriers) were of serious concern to them: cash flow concerns, capital or access to funding, marketing and sales, infrastructure and, finally, tax requirements (DSBD, 2017). Botha et al. (2020) also confirm that SMMEs struggle to comply with regulations (including administrative tax regulations) and note that these barriers differ between micro, very small, small and medium enterprises.

The collection of taxes by governments is as old as history itself (Winer et al., 2014). Governments require economic resources to provide a safe refuge and services for the population, and imposing taxes in one or other form is necessary to fund such obligations. Thus, irrespective of the challenges faced by the SMME sector, collecting tax from SMMEs as essential role players in the economy is still critical, and most governments have no option but to collect tax from SMMEs. However, from the business sector's perspective, the collection of taxes by revenue authorities imposes a heavy burden on businesses (Coolidge et al., 2009). According to Evans (2008), the tax burden is made up of three elements, namely the taxes themselves (taxes on the profits, products or employees of the taxpayer), efficiency costs (the excess burden or deadweight costs) and the operating costs of the tax system. The operating costs of the tax system, consist firstly of the costs to the government (ultimately

borne by taxpayers) of administering and collecting the taxes (administrative costs) and secondly of the costs expended by taxpayers in complying with the tax laws, commonly referred to as tax compliance costs.

According to the OECD (2016), tax compliance costs are one of SMEs' main challenges in maintaining their viability and growth. Therefore, the efficiency of a tax regime – one of the four criteria set out in the maxims of a fair tax system, according to a seminal work on taxation, Smith's ([1776] 2007) book entitled '*An inquiry into the nature and causes of the wealth of nations*' – should be assessed by reviewing quantifiable data from tax compliance costs surveys, because policymakers need to know which measures are potential causes for most of the tax compliance burden experienced by businesses. This information may assist in lowering tax compliance costs for SMMEs, resulting in higher profits for the taxpayer, improved voluntary compliance levels, and ultimately augmenting a country's economy (Gupta & Sawyer, 2015; Mansor, 2017). Although several studies touching on aspects of tax compliance costs have been conducted in South Africa (FIAS, 2007; Govender & Citizen Surveys, 2008; Matarirano et al., 2019; Smulders et al., 2012), an analysis of these studies shows that none of them have attempted to measure SMMEs tax compliance costs. These studies were limited to small businesses with a turnover of R14<sup>2</sup> million or less. No publicly available South African study has been found that measures the tax compliance costs (in Rand values) for medium sized businesses. This study, therefore, focuses on small and medium businesses to address this research gap because medium enterprises (like micro, small and large enterprises) form an integral part of the "ecosystem of enterprises" in the economy (Ciani et al., 2020) and because the successful growth of an SMME (from micro to small and from small to medium) could increase employment creation (Sulla & Zikhali, 2018). Furthermore, no research could be identified where post-filing tax compliance costs (for example, costs related to following up on tax refunds, reviews, audits, objections and appeals, etc.) were measured as part of the total tax compliance costs burden for SMMEs. Therefore, this research sought to fill this gap by estimating the pre- and post-filing tax compliance costs for all SMMEs in South Africa. The remainder of this article is set out as follows. Section 2 deals with the literature on tax compliance costs for SMMEs, Section 3 explains the research methodology adopted, Section 4 presents the results and Section 5 concludes on the results and provides areas for future research.

## 2. Literature

One of the main challenges in assessing tax compliance costs for SMMEs is that there is no universal definition of the term SMME that can be used as a reference by all economies, statistical agencies or researchers (Ardic et al., 2011; Berisha & Pula, 2015). Establishing a definition for an SMME for this study was achieved by examining the international economic perspective of these businesses and the local South African economic and taxation perspective of an SMME. After this review, it was thought appropriate to use turnover to determine whether a business qualifies as an SMME for the current study. Accordingly, turnover categories were established for the micro, small and medium segments of SMMEs, namely R1 million or less for micro entities, more than R1 million but not exceeding R20 million for small entities, and more than R20 million but not exceeding R250 million for medium-sized entities.

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<sup>2</sup> At the end of August 2024 the exchange rate for the US dollar to the South African rand was approximately R17.85.

Tax compliance costs were based on Sandford's (1995) comprehensive definition of "...the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. They are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax; costs which would disappear if the tax was abolished". There is, however, some debate in the literature on the costs that should be included in any measurement of tax compliance costs (Adam & Yusof, 2018; Evans, 2008; Wu & Tran-Nam, 2017; Yesegat et al., 2017). Notwithstanding this uncertainty, the literature does recognise that the following costs undeniably form the basis of tax compliance costs: the cost of time spent by taxpayers on tax compliance activities, the cost of expertise to assist taxpayers in tax compliance activities, and any incidental costs incurred by taxpayers in fulfilling their tax compliance activities (Evans, 2008). Therefore, tax compliance costs can be broadly categorised into internal and external compliance costs, with non-labour costs as the last element.

Internal costs include the value of time spent on tax activities by a business owner, employees (a manager/internal bookkeeper/accountant/other employee handling taxes), and/or the value of the time spent by an unpaid friend or relative, and/or the time taken to obtain documents and data to complete a tax return (Evans, 2008; Klun & Blažić, 2005; Turner et al., 1998). The second element (external costs) consists of the costs of purchasing the expertise of a professional tax adviser to assist with tax-related activities and obligations (Evans, 2008; Klun & Blažić, 2005). Finally, the third element (non-labour costs) refers to incidental expenses incurred in conducting tax activities by employees of a business, including expenses such as computer software packages, stationery, postage, telephone calls, relevant literature, seminars and travel (Evans, 2008; Turner et al., 1998).

The literature review also highlighted that tax compliance costs are regressive and high and have a significant impact on SMMEs (Evans, 2019). Because of the high levels of tax compliance costs and the impact of these costs on SMMEs, continuous research in the area of tax compliance costs is recommended by researchers (Adam & Yusof, 2018; Gupta & Sawyer, 2015; Mahangila, 2017; Mansor & Ferdjani, 2017). This study, therefore, endeavours to measure the tax compliance costs of SMMEs in South Africa.

### **3. Methodology**

A positivist research philosophy was followed (Saunders et al., 2019). Combined with the regulatory perspective, this research falls within a functionalist paradigm (Saunders et al., 2019), as the study is concerned with measuring the tax compliance costs for SMMEs and the quantitative method was selected to measure these costs. Furthermore, an online survey was chosen as the best available technique to collect the data because online surveys are cost effective when accessing a large sample over a wide geographical area (Cooper & Schindler, 2014); they allow quantitative data to be collected for statistical analysis purposes and previous studies on tax compliance costs in South Africa have successfully adopted this technique (FIAS, 2007; Smulders et al., 2012).

#### **3.1 Survey Instrument**

The design of the measuring instrument, an online questionnaire, was based on local and international best practices to ensure comparability where possible. Best-practice questionnaires were adapted and expanded to suit the South African context and this study's research objective. The questionnaire was used to collect data

regarding five broad components, namely background information on the responding SMME, external tax compliance costs, internal tax compliance costs, non-labour costs related to tax activities incurred by SMMEs, and finally, the interaction of SMMEs with the South African Revenue Service (SARS) for the financial year ending between 1 April 2018 and 31 March 2019. For purposes of this article, only the data gathered related to the measurement of the tax compliance costs for SMMEs were considered.

In the absence of a comprehensive baseline for SMMEs' tax compliance costs, the data were useful to calculate the tax compliance costs of SMMEs at a specific point in time and thereby establishing a baseline for SMMEs' tax compliance costs which includes medium businesses in South Africa as well as pre- and post-filing tax compliance costs. This baseline, adjusted for inflation, can be used for comparison purposes in future tax compliance costs studies to determine if SMMEs' tax compliance costs have increased or decreased and/or what further reforms are needed to reduce these costs where applicable.

The internal tax compliance costs were quantified by first establishing the time (in hours) taken internally (per tax type, tax compliance activity and type of employee) to comply with tax legislation. These hours were then multiplied by externally verified rates. This multiplication provided the Rand values of the internal tax compliance costs for SMMEs. In addition, if an SMME formed part of a group structure and incurred internal tax compliance costs because of this relationship, these costs were added to the abovementioned cost. The non-labour costs were measured by asking respondents to indicate the costs they incurred in respect of the following items for tax personnel: office space and or parking at the office; furniture, fixtures and fittings; tax software; utilities; staff travel and tax conferences. Finally, external tax compliance costs consisted of the costs of a professional tax adviser (fees paid to accountants/lawyers/auditors) to assist with tax-related activities and obligations.

To detect weaknesses in the design of the questionnaire and the procedures and protocols used during the data collection process, pilot studies were initiated and completed before sending out the link to the final questionnaire to the respondents, as advocated by Saunders et al. (2019). The initial pilot study involved the use of academics. An e-mail containing a letter explaining the purpose of the research and the link to the survey platform hosting the online questionnaire was sent out to the various local academics and two international academics actively involved in tax compliance cost research. The second pilot study involved SARS's internal personnel. A detailed list of their comments was mailed to the researchers, and their comments and suggestions were attended to. Changes were made where necessary to the questionnaire. After this, SARS sent the link to the updated questionnaire to 90 randomly selected SMME taxpayers in the final pilot study. The only concern raised was the length of the survey, but due to the research objective, it was decided not to remove any questions. As a final remark, all ethical considerations associated with the study and internet-mediated research were adhered to in this study.

### ***3.2 Responses received and number of usable responses***

The target population was SMMEs in South Africa registered with SARS for tax purposes, and for which SARS had an e-mail address when they distributed the questionnaire. Since the whole database (described above) was selected, a census approach was followed by sending an e-mail containing the link to the questionnaire to the entire database, obviating the need to use any statistical sampling techniques. A reminder e-mail was sent a week later. The number of responses added up to 4 557, representing a response rate of 3.06%. For this study, fully completed surveys were needed to achieve the research objective of calculating the tax compliance costs

of SMMEs. Consequently 771 of the responses were usable after data cleaning, which represents a response rate of 0.51%. Even though the response rate is lower than the 1.46% obtained by Schoonjans et al. (2011), it is higher than the 0.33% obtained by Blaufus et al. (2019) and the 0.36% obtained by Klun and Blažić (2005), and is thus deemed reasonable in the context of international tax compliance costs studies. Even though Eichfelder and Hechtner (2018) found no significant correlation between the response rate and the tax compliance cost estimate, it was deemed prudent to establish whether non-response bias affected the survey results. Therefore, differences between early and late respondents were tested using an independent-sample t-test and a non-parametric test. Even though the last wave of respondents did show a higher tax compliance cost estimation than the first wave, there was no significant difference between the two groups. Therefore, assuming that late respondents can be used as a proxy for non-respondents in line with previous research (Tran-Nam et al., 2016), the results suggest the absence of non-response bias, implying that the results are not biased in this respect.

### **3.3 Measurement criteria**

All compliance costs and times were calculated using the 5% trimmed mean, rather than the ordinary mean (average) to compensate for unusually high or low values being recorded in the responses to most of the questions. The trimmed mean methodically removes the worst distortions that can arise from a small number of extremely high or low values and delivers results that are more helpful in detecting change over time than non-trimmed means (Field, 2018). The use of the 5% trimmed mean (hereafter referred to as the trimmed mean) also aligns with other research on tax compliance costs (Colmar Brunton Social Research Agency, 2005; Evans & Tran-Nam, 2014; KPMG, 2018; Smulders et al., 2012).

## **4. Analysis of results**

### **4.1 Internal tax compliance costs**

The initial phase of measuring internal tax compliance costs consisted of considering the time spent per tax type, per tax activity and per category of person that performs the activity for an SMME. The persons who performed these activities were grouped as owners (directors of companies, members of close corporations (CCs), sole proprietors or partners), paid employees, and unpaid helpers or friends of the SMME. After establishing these hours, the hours were converted to a Rand value, using an applicable hourly rate per category of person that performs the activity to estimate the internal tax compliance costs for an SMME. These hourly rates were obtained by validating the rates provided by the respondents against various external rates to ensure they were realistic.

Before the internal tax compliance hours could be estimated, the internal time spent on core accounting activities was first estimated to separate time spent on accounting activities from tax-related activities. Time spent by individuals on accounting and other record-keeping functions must be clearly separated to distinguish between core accounting activities (for example, processing customer invoices, following up on debtors etc.) on the one hand and activities performed solely for tax compliance purposes on the other. This is necessary because a taxpayer might use accounting software to generate customer invoices, issue statements to debtors and other accounting activities, for example, and then use the same information to prepare a VAT submission

report for tax compliance purposes. In this article, the results of the time spent on core accounting activities will not be discussed as the focus is on tax-related activities.

#### 4.1.1 Internal time spent on different tax types

Respondents were requested to indicate which tax types they had to report on during the relevant financial year. The following five options were provided in the survey: income tax (including provisional tax, capital gains tax, turnover tax and SBC tax); VAT; employment-related taxes (pay as you earn, unemployment insurance fund (UIF), skills development levy and the employment tax incentive); withholding taxes (on dividends, royalties, foreign entertainers and sport persons, immovable property sold by non-residents); and customs and excise duties. The selections made by the respondents pre-populated the tax type columns in a further question, where respondents were asked to estimate the time spent by individuals in the business on tax-related activities per tax type for the financial year. This pre-population was done to minimise the effect of survey fatigue by removing columns where the respondent would not have had any responses if the tax type did not apply to that taxpayer.

The tax-related activities described in the rows of the matrix in the above question were based on the processes and procedures that an SMME must follow to be tax-compliant in any one tax year – that is, after registration. These activities included time spent on pre-filing activities for tax returns (for example, record-keeping) and post-filing activities (such as time spent preparing and submitting objections/appeals). Table 1 summarises the internal hours spent on different tax types by business size (micro, small and medium) and the results for SMMEs overall. The results show that the amount of time spent internally on tax-related activities depended on a business's size. As the turnover of businesses increased, so did the internal time spent on tax-related activities, with the exception of “customs and excise” where micro businesses were found to spend more time on this tax than small businesses. An increase in time spent on tax-related activities as a business gets bigger is to be expected. Generally, the bigger a business gets, the more information is produced, and the more time is needed to comply with tax compliance requirements. From a customs and excise perspective, the reason that micro businesses spend more time on these taxes could possibly be because they do not have the requisite knowledge or the systems in place for this tax when compared to small businesses. Further research would be needed to confirm this.

Table 1: Annual internal hours spent on different tax types by business size

Size		Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise	Total all taxes
Micro	5% Trimmed mean	60.5	55.5	34.8	14.3	49.0	82.4*
	n	315	112	94	7	10	347*
	Total hours	26 800	8 538	4 873	125	686	41 022

	% of total time	65.33%	20.81%	11.88%	0.30%	1.67%	100%
Small	5% Trimmed mean	105.7	124.6	60.8	21.1	47.0	330.6*
	n	241	226	214	40	39	247*
	Total hours	46 356	46 563	19 683	1 135	2 456	116 193
	% of total time	39.90%	40.07%	16.94%	0.98%	2.11%	100%
Me- dium	5% Trimmed mean	147.7	276.1	128.5	30.2	79.3	608.3*
	n	105	98	93	26	27	109*
	Total hours	27 181	39 499	21 265	1 287	4 489	93 722
	% of total time	29.00%	42.15%	22.69%	1.37%	4.79%	100%
SMMEs	5% Trimmed mean	84.7	119.9	66.8	23.7	50.3	209.2*
	n	661	436	401	73	76	703*
	Total hours	100 338	94 600	45 821	2 547	7 631	250 937
	% of total time	39.99%	37.70%	18.26%	1.01%	3.04%	100.00%
* Not calculated as the sum of the row, but obtained from the 5% trimmed mean data set							

During the relevant financial year, individuals working for the business spent on average 209.2 hours (trimmed mean) to deal with tax-related activities.

Almost 40% of the time was spent on income tax (84.7 hours), followed by VAT (37.7%, 119.9 hours), employment-related taxes (18.26%, 66.8 hours), withholding taxes (1.01%, 23.7 hours) and customs and excise (3.04%, 50.3 hours). Table 1 further shows that the amount of time spent internally on tax-related activities depended on a business's size. As the turnover of businesses increased, so did the internal time spent on tax-related activities. Other than for the micro businesses, VAT is the tax type on which SMMEs spent, on average, most of their internal time. For micro businesses, income tax took more time than VAT. This phenomenon may be explained by the fact that most micro businesses did not deal with VAT, as they are not registered for VAT, because businesses with a turnover of R1 million or less are not obliged to register for VAT in terms of section 23 of the Value-Added Tax Act (1991).

It appears that the rate (trend line – see Figure 1 below) at which the hours spent on VAT increased as the size of the business increased was much higher (the trend line is steeper) than the increase in time spent on the other types of taxes. The trend line for withholding taxes is less steep than for the other taxes, indicating that the time taken to comply with this tax was, relatively speaking, unrelated to the size of the business. By contrast, for VAT, it is possible that, as the business increased in size, so did the number (and possibly the types) of transactions,



resulting in more hours being spent to comply with VAT. Income tax and employment-related taxes also displayed an increase in the number of hours spent per business size, but not at the same increase level as VAT.

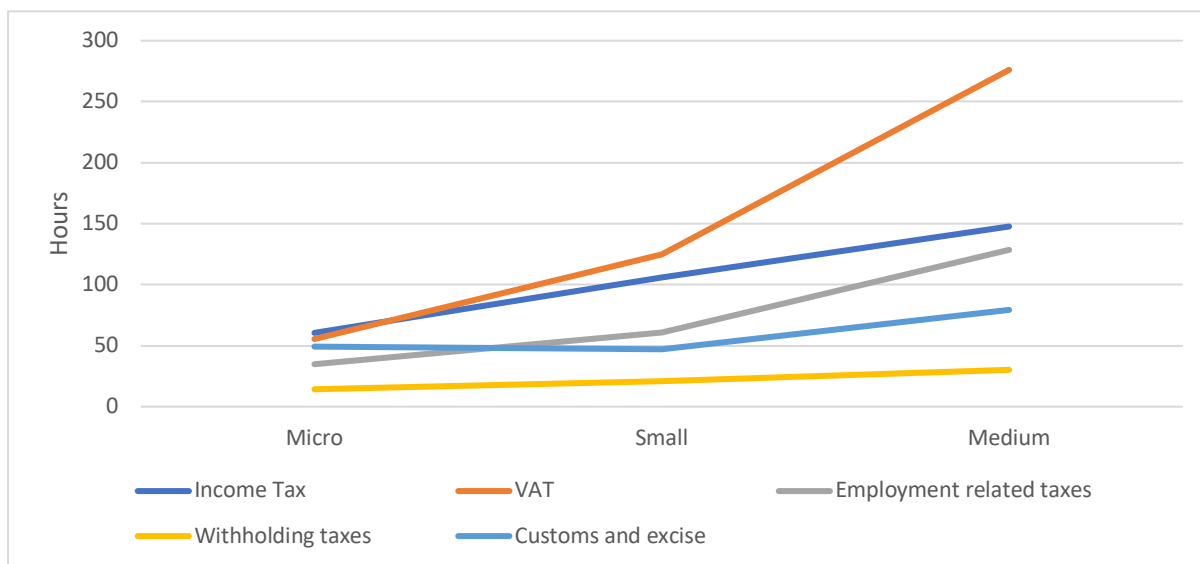


Figure 1: Trend lines for annual internal hours spent on tax-related activities per tax type and business size

As mentioned above, an increase in time spent on tax-related activities as a business increases in size is to be expected. Generally, the bigger a business gets, the more information is produced, and the more time is needed to comply with tax compliance requirements. This time spent, however, was regressive if it was taken as a percentage of turnover. Table 2 presents the annual internal hours spent on tax-related activities as a percentage of the three sizes of SMMEs. These results confirm the findings in previous research that the tax compliance burden weighs heavier on small businesses than on larger businesses (Matarirano et al., 2019; Smulders et al., 2012; Vaillancourt et al., 2013; Yesegat et al., 2017).

Table 2: Annual internal hours spent on tax-related activities as a percentage of turnover bracket

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
Total Hours	41 022	116 193	93 722
Turnover Mid Value	R500 000	R10 500 000	R135 000 000
Total hours as % of Turnover	8.20%	1.11%	0.07%
Proportion of sample	49.4%	34.5%	16.1%

<b>Weighted % Turnover *</b>	<b>4.05%</b>	<b>0.38%</b>	<b>0.01%</b>
* To compare the internal hours spent as a percentage of turnover per turnover group, the total hours were divided by the mid-point of the turnover group. This result was then weighted by the proportional contribution of each turnover group to the total sample.			

The results indicate that a micro business faces a much higher tax compliance burden than a small or medium-sized business. Some comparisons in terms of the average hours spent by individuals in the business on tax-related activities, as discussed above, can be made to a previous study by Smulders et al. (2012). It must be noted that their study only dealt with small businesses with a maximum gross income of R14 million (the previous maximum turnover for a business to qualify for the SBC tax concession as provided for in section 12E of the Income Tax Act). However, this threshold was subsequently increased to R20 million for years of assessment ending on or after 1 April 2013 (Rates and Monetary Amounts Amendment of Revenue Laws Act 23 of 2013, Taxation Laws Amendment Act 25 of 2015). Therefore, for comparison purposes, in the current study, a micro and small business group (businesses with a turnover of R0 to R20 million) was created to be compared to the small business results from Smulders et al. (2012). The result of this comparison is presented in Table 3.

Table 3: Annual internal hours spent on different taxes by micro and small businesses: Compared to Smulders et al. (2012)

		<b>Income Tax</b>	<b>VAT</b>	<b>Employment related taxes</b>
Current study	5% Trimmed mean	75.7	96.9	51.8
Smulders et al. (2012)	5% Trimmed mean	69.9	98.9	83.2

From Table 3, it is evident that the hours reported in the current study and by Smulders et al. (2012) with regard to income tax (75.7 and 69.9 hours, respectively) and VAT (96.9 and 98.9 hours respectively) were comparable, indicating that the internal time spent by micro and small businesses on these tax types has not substantially increased or decreased since the 2012 study. However, the comparison did indicate a substantial difference in the hours spent regarding employment-related taxes. The current study's average internal hours spent complying with employment-related taxes displayed a decrease by 31.4 hours from the hours in the 2012 study. Reasons for this need to be investigated; it may possibly be attributed to improved technology and payroll software, better communication and education from SARS, and the introduction of the electronic easyfile system. Another reason may be that businesses decided to outsource their payrolls to external tax practitioners. Hours spent on withholding taxes were not reported on in Smulders et al.'s (2012) study, and customs and excise levies were reported on separately by Smulders et al. (2012). It was, therefore, not possible to compare the results regarding withholding taxes and customs and excise.

4.1.2 Internal time spent on different tax compliance activities

After establishing the number of hours spent on the different tax types, it was necessary to identify on which tax-related activities respondents spent most of their time. Specific tax compliance activities were provided in the questionnaire, and respondents were requested to report the time spent on each of these activities per tax type per year. The question was based on the taxonomy of tax activities used by Smulders et al. (2012) to elicit information on the time spent on different tax activities per tax type. To ensure that no compliance activities were overlooked, an "other activity" category was provided in which the respondents could describe and insert the hours spent on these activities. Table 4 sets out the above tax compliance activities along with the trimmed mean of time spent by the respondents on each activity and the number of respondents. Other activities mentioned by the respondents included obtaining tax clearance certificates and standing in a queue at SARS offices. However, the time spent on these activities was insignificant, as shown in Table 4.

**Table 4: Time spent by individuals on different tax compliance activities**

Activity		Income tax	VAT	Employment related taxes	Withholding taxes	Customs & Excise	Total*
Recordkeeping	5% Trimmed mean	36.6	59.0	29.0	6.0	18.8	97.2
	n	659	436	401	73	76	
Calculating tax, completing tax return and paying tax	5% Trimmed mean	10.9	17.3	11.5	3.0	8.8	28.0
	n	661	435	401	73	76	
Dealing with SARS	5% Trimmed mean	3.1	3.6	1.7	0.1	3.2	7.4
	n	660	436	401	73	76	
Dealing with your external tax adviser	5% Trimmed mean	10.6	6.9	5.3	6.3	2.4	21.8
	n	408	336	318	62	61	
Obtaining refund from SARS	5% Trimmed mean	0.5	1.2	0.0	0.0	0.6	1.6
	n	659	435	400	73	76	
Tax planning on international tax issues	5% Trimmed mean	0.1	0.0	0.0	0.0	0.1	0.2
	n	661	436	401	73	76	
Tax planning on local tax issues (including tax opinions and advance tax rulings)	5% Trimmed mean	1.2	0.5	0.3	0.2	0.2	1.8
	n	660	436	401	73	76	

Collection and submission of information for SARS queries, inspections or audits	5% Trimmed mean	8.9	49.1	2.6	0.0	0.0	66.5
	n	12	12	11	5	3	
Preparation and submission of objections	5% Trimmed mean	0.0	20.0	2.7	0.0	0.0	22.7
	n	4	5	4	3	2	
Preparation and submission of appeals	5% Trimmed mean	0.0	8.3	0.0	0.0	0.0	6.7
	n	4	5	3	3	2	
Information technology requirements relating to tax matters	5% Trimmed mean	1.1	1.1	0.9	0.1	0.5	2.5
	n	660	436	401	73	76	
Tax risk management, strategy and governance	5% Trimmed mean	0.7	0.3	0.2	0.0	0.1	1.1
	n	661	436	401	73	76	
Tax related training	5% Trimmed mean	1.2	0.7	0.6	0.0	0.6	2.3
	n	660	435	400	73	75	
Third party returns	5% Trimmed mean	0.7	0.2	0.4	0.0	0.2	1.1
	n	659	435	400	72	76	
Other tax related functions or activities required in terms of South African domestic law not listed above	5% Trimmed mean	0.0	0.0	0.0	0.0	0.0	0.1
	n	660	434	400	73	76	
* Not calculated as the sum of the row, but obtained from the 5% trimmed mean data set							

From an activity perspective (using the trimmed mean), record-keeping was the most time-consuming activity (97.2 hours). Other time-consuming tax compliance activities included collecting and submitting information for SARS queries, inspections or audits (66.5 hours), calculating tax, completing a tax return and paying the tax

(28.0 hours), preparation and submission of objections (22.7 hours) and dealing with an external tax adviser (21.8 hours). These activities were particularly time-consuming for VAT compliance, with the notable exception of the "dealing with your tax adviser" activity, where income tax compliance reported higher hourly values. This outcome is possibly due to income tax being an annual tax and not a routine tax, like VAT and employment-related taxes.

Previous studies on tax compliance costs did not address all the tax compliance activities reported in this study; however, some comparisons in terms of annual hours spent by individuals on different tax compliance activities can be made to Smulders et al.'s (2012) study. As in Section 4.1.1, a "micro and small businesses" group was created to compare to the small business results from Smulders et al. (2012) (see Table 5).

Table 5: Trimmed mean annual hours spent by individuals on different tax activities for micro and small businesses – comparison to Smulders et al. (2012)

<b>Activity</b>	<b>5% Trimmed mean</b>	<b>Income tax</b>	<b>VAT</b>	<b>Employment related taxes</b>
Recordkeeping	Current Study	31.43	45.16	22.74
	Smulders et al. (2012)	31.49	64.78	35.31
Completing tax return	Current Study	9.87	15.34	9.56
	Smulders et al. (2012)	11.32	13.77	18.50
Dealing with SARS	Current Study	3.01	3.02	1.34
	Smulders et al. (2012)	6.22	6.50	10.62
Dealing with your external tax adviser	Current Study	9.74	6.96	5.01
	Smulders et al. (2012)	8.18	5.14	5.48
Other tax related functions or activities required in terms of South African domestic law not listed above	Current Study	0.05	0.05	0.00
	Smulders et al. (2012)	0.00	0.00	0.00

Several specific activities were dealt with in the current study and by Smulders et al. (2012). From Table 5, it is evident that record-keeping for income tax yielded similar results in both studies, while VAT and employment-related taxes in the current study displayed a decrease in time spent. Although a decrease of 31.4 hours in total time spent concerning employment-related taxes was reported in the current study, a slight difference of 2 hours was reported regarding the total time spent on VAT (see Table 3). Therefore, it is submitted that even though the time spent regarding record-keeping decreased in the current study, additional time was spent on other tax compliance activities.

Time to complete a tax return in the current study displayed a slight decrease regarding income tax but a small increase for VAT, however, a substantial decrease in time spent on employment-related taxes was reported. Possible reasons for this have already been discussed in Section 4.1.1. Dealing with SARS displayed a substantial decrease in time spent across all three tax types. By contrast, time spent dealing with an external tax adviser in the current study increased for income tax and VAT but showed a slight decrease in time spent on employment-

related taxes. This result indicates that less time was spent with SARS officials, but more time was spent with external tax advisers. Reasons for this may be improved communication from SARS, resulting in less time spent at SARS, and/or it may be that SMMEs instead use external tax advisers to deal with SARS on their behalf. Alternatively, or in addition to the latter, a possible lack of communication from SARS could force SMMEs to go to advisers to help them with their tax submissions.

#### 4.1.3 Internal time spent per type of employee in the business on tax activities

Having established the hours spent internally on various tax compliance activities per year, it was necessary to determine how much this time is costing the business. To glean this information, it was necessary to determine who in the business performed these tax compliance activities, as the value of the time spent depends on the individual performing these activities. This approach was used because splitting the time spent on various tax compliance activities by different categories of persons improves estimates of tax compliance costs (Sullivan, 2005). The three types of employees performing tax compliance activities in the business used in the current study were identified in a previous study (Smulders et al., 2012), namely owners (members of CCs, directors of companies, sole proprietors or partners in partnerships), paid employees, and unpaid helpers or friends.

Respondents were required to indicate the percentage of the total time spent on tax compliance activities related to the different tax types by each type of employee mentioned above (owners, paid employees, unpaid helpers or friends). This approximation was asked for rather than the actual number of hours spent by each person because it was assumed that the respondents would find it easier and faster to give an estimate of how the hours are shared between the different types of employees rather than to calculate an annual number of hours per person per activity. The trimmed mean hours spent by each type of employee on tax compliance activities are reported in Table 6.

Table 6: Annual hours spent per type of employee on tax compliance activities

Size		Unpaid Help-ers/Friends	Paid Em-ployees	Owners	Total
Micro	5% Trimmed Mean	2.5	6.5	63.4	82.4*
	n	347	347	347	
	Total Hours	3 289	6 597	31 136	41 022
	% of Total time	8.02%	16.08%	75.90%	100.00%
Small	5% Trimmed Mean	0.4	126.6	133.5	330.6*
	n	247	247	247	
	Total Hours	3 690	60 553	51 951	116 193
	% of Total time	3.18%	52.11%	44.71%	100.00%
Medium	5% Trimmed Mean	0.0	433.9	110.3	608.3*
	n	109	109	109	
	Total Hours	1 414	73 653	18 655	93 722
	% of Total time	1.51%	78.59%	19.90%	100.00%
SMMEs	5% Trimmed Mean	1.3	73.1	89.8	209.2*
	n	703	703	703	

	Total Hours	8 392	140 803	101 741	250 937
	% of Total time	3.34%	56.11%	40.54%	100.00%
* Not calculated as the sum of the row, but obtained from the 5% trimmed mean data set					

The trimmed mean results indicate that for SMMEs in total, most internal time spent on tax compliance activities was spent by the owners, who spent, on average, 89.8 hours on tax compliance activities, while paid employees spent 73.1 hours, and unpaid helpers or friends spent 1.3 hours. After analysing the results for the three different business sizes, it is clear that in micro businesses, most of the tax compliance activities were performed by the owner(s), in contrast to medium businesses, where paid employees performed most of the activities. Regarding small businesses, a slight difference was reported between the hours spent on tax compliance activities by paid employees and owners. Unpaid helpers or friends' assistance with tax compliance matters occurred almost exclusively on the micro business level (2.5 hours). An insignificant number of hours were reported for such assistance on the small and medium business level. These findings can be compared to those of a study done in Australia, which found that while the owners of micro businesses tended to be responsible for most of the internal time spent on tax compliance activities, the responsibility shifted to paid employees as the size of the business increased (Lignier & Evans, 2012). This result is confirmed by the current study, which found that the internal time spent on tax compliance activities was mainly attributed to owners in the case of micro businesses (75.90%) and to paid employees in the case of small (52.11%) and medium (78.59%) businesses.

Specific data comparisons were made to the data reported by Smulders et al. (2012) after creating a combined micro and small business group (as described above) which are presented in Table 7.

Table 7: Percentage of time spent on tax compliance activities by type of employee, micro and small businesses – comparison to Smulders et al. (2012)

		<b>Unpaid Help-ers/Friends</b>	<b>Paid Em-ployees</b>	<b>Owners</b>	<b>Total</b>
% of time spent by type of em-ployee	Current study	4%	43%	53%	100%
	Smulders et al. (2012)	3%	34%	63%	100%

Table 7 indicates that in this study, 53% of internal time spent on tax compliance activities was attributed to owners, followed by 43% to paid employees and only 4% to unpaid helpers or friends. Even though the current study's results indicated an increase in time spent by paid employees and a decrease in the time spent by owners, compared to the results of Smulders et al.'s (2012) study, most of the tax compliance activities were still performed by owners.

Knowing who undertakes the various tax compliance activities and the time spent by them, assigning a Rand value to the time spent to quantify the internal tax compliance costs is now possible.

#### 4.1.4 Valuation of internal time spent

The respondents were asked to provide an hourly value for owners (members, directors, sole proprietors or partners) and paid employees who performed tax compliance activities in the business. The values obtained from the respondents varied considerably, so it was decided to implement the trimmed mean as a basis for the

valuation. Using this mean, the hourly rate attributable to owners amounted to R492.03 and R129.28 for paid employees. The hourly rate for owners was the highest – this is justifiable as an SMME owner's time may be more valuable than the time of employees, as the owner could instead be engaged in the operations (for example, sales, marketing, production) of the business rather than in tax compliance activities.

To eliminate, where possible, any bias that might be included in these values and to ensure that they were reasonable, an alternative valuation of the type of employee time was undertaken. In line with the methodology adopted by Smulders et al. (2012), the approximate values provided by the respondents were compared against average hourly rates obtained from local publicly available salary surveys. The Robert Walters Salary Survey (Robert Walters, 2018) and the Michael Page (2019) salary surveys were considered suitable for calculating an hourly value to be used in the internal time cost calculation. Both these surveys related to similar periods as those that were the focus of the current survey. Moreover, both these surveys categorised the survey results into different functions performed by individuals in the accounting and finance field, specifically referring to tax activities. For the category values that would best represent the value of the time spent by individuals in the business on tax compliance activities in the current study, it was assumed that the role of the owner would be most similar to that of the finance manager, while the role of an employee was more or less the same as that of a bookkeeping clerk or accountant.

The rates (R372.54 for owners and R210.30 for paid employees) calculated from these surveys were not comparable to those provided by the respondents (R492.03 for owners and R129.28 for paid employees). Given that reasonably accurate estimates of average salaries per specific type of employee exist, one may question whether it is necessary to consider what rate a small part of the population thinks their time is worth (Turner et al., 1998). It has been argued that it is more precise to use a market average wage rate relevant to the tax profession to estimate internal tax compliance costs (Tran-Nam, 1999). Thus, the rates calculated from the Robert Walter and Michael Page salary surveys were considered most appropriate for calculating the value of the time for the owners and employees of SMMEs in the current study.

#### *4.1.5 Estimation of internal tax compliance costs*

After establishing the hours spent on and the employee(s) who performed the internal tax compliance activities for the SMMEs and the hourly rates to be used, the hours spent on tax compliance activities were converted to a Rand value to estimate the internal tax compliance costs for an SMME. First, the estimated number of hours spent by each type of employee on tax activities was calculated by multiplying the percentage of time spent on each tax type by the respective type of employee by the total time spent on each tax type. This result was then multiplied by the internal time cost (hourly rate), as already established (see Section 4.1.4). The values for the annual internal tax compliance costs per tax type obtained from performing the calculations are set out in Table 8.



Table 8: Annual internal tax compliance costs per tax type by business size

Size		Income Tax	VAT	Employment related taxes	Withholding taxes	Customs and excise	Total all taxes
Micro	5% Trimmed mean	R20 102	R18 740	R11 225	R499	R3 597	R54 163*
	n	335	126	109	20	23	
	Total Cost	R9 763 563	R3 364 932	R2 097 631	R46 243	R261 238	R15 533 607
	% of Total cost	62.85%	21.66%	13.50%	0.30%	1.68%	100%
Small	5% Trimmed mean	R33 385	R38 627	R21 632	R7 147	R11 013	R111 803*
	n	260	245	233	53	50	
	Total Cost	R14745 569	R14 566 710	R6 908 793	R549 848	R772 284	R37 543 204
	% of Total cost	39.28%	38.80%	18.40%	1.46%	2.06%	100%
Me- dium	5% Trimmed mean	R42 202	R71 854	R38 364	R12 795	R12 624	R177 839*
	n	117	110	107	37	37	
	Total Cost	R7 973 913	R11 048 771	R6 944 524	R1 539 555	R1 097 401	R28 604 164
	% of Total cost	27.88%	38.63%	24.28%	5.38%	3.84%	100%
SMME	5% Trimmed mean	R27 124	R37 284	R22 082	R6 822	R9 485	R68 643*
	n	712	481	449	110	110	
	Total Cost	R32482 864	R28 980 250	R15 950 725	R2 135 650	R2 130 920	R81 680 409
	% of Total cost	39.77%	35.48%	19.53%	2.61%	2.61%	100%
* Not calculated as the sum of the row but obtained from the 5% trimmed mean data set							

From Table 8, it is evident SMMEs spent, on average, R68 643 on internal tax compliance costs. Of the total internal costs of tax compliance, 39.77% are attributable to income tax, followed by VAT (35.48%) and

employment-related taxes (19.53%). Withholding taxes and customs and excise both account for 2.61% of the total internal tax compliance costs. After analysing the results for the three different business sizes, it is evident that income tax is the tax type on which the micro business group incurred, on average, most internal tax compliance costs. However, for small and medium businesses, VAT compliance costs were higher than income tax compliance costs. This phenomenon may be explained by the fact that, as businesses increase in size, so does the number of VAT transactions (and possibly their complexity).

#### 4.2 Non-labour tax compliance costs

Respondents were asked to estimate the non-labour costs for tax personnel who dealt with tax compliance for the business during the relevant financial year. To disentangle the accounting and tax costs from each other to ensure that only the tax compliance costs were taken into consideration in the tax compliance cost measurement criteria, the questionnaire instructed respondents to include only the portion of non-labour costs that would disappear if all taxes, duties and levies were abolished. The survey prompted information regarding the cost of the following items incurred for tax personnel: office space and/or parking at the office; furniture, fixtures and fittings; tax software; utilities (telephone, internet, electricity etc.); staff travel and tax conferences. The survey also provided an "other" category if respondents incurred other costs not indicated on the survey. It is noted that the survey did not cater for the fact that some of the items mentioned in this question are of a capital nature. This situation may have caused respondents to report the total cost instead of the annual cost of these items, which may have caused an overestimation of these costs, even though using the trimmed mean would have mitigated the overestimation. Therefore, in future research, items of a capital nature should be determined in a separate question which will assist in estimating the annual costs of these items. The total annual non-labour costs spent on tax personnel that deal with tax compliance for SMMEs are reported in Table 9.

Table 9: Non-labour costs related to tax compliance activities

	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>SMMEs</b>
5% Trimmed Mean	R7 405	R25 707	R27 861	R15 747*
n	381	266	124	771
Total Cost	R6 109 544	R14 059 070	R6 045 300	R26 213 914
* Not calculated as the sum of the row, but obtained from the 5% trimmed mean data set				

Table 9 indicates that SMMEs spent, on average, R15 747 (using the trimmed mean) on non-labour costs related to tax compliance activities. When this was divided into the different business sizes, it was clear that these costs increased as the size of the business increased. Non-labour tax compliance costs in the current study can be compared to those reported in a study by Matarirano et al. (2019). It should be noted that Matarirano et al.'s (2019) study was done only on small businesses in the construction industry and only included businesses with a turnover below R14 million. The average non-labour tax compliance costs for small businesses in the construction industry was calculated to be R19 525 (Matarirano et al., 2019). The mean for the non-labour costs for the respondents in the construction industry for the current study for the micro and small turnover group

combined was calculated as R22 377. This increase is in line with inflation. If one increases the result of the Matarirano et al. (2019) study with the monthly consumer price index issued by Statistics South Africa (2020), it amounts to ±R22 275. Thus, in the current study, the non-labour costs for the micro and small turnover group businesses in the construction industry appear to be reasonable compared to those reported by Matarirano et al. (2019).

#### 4.3 External tax compliance costs

The final component of tax compliance costs entails external tax compliance costs. External tax compliance costs consist of the costs of a professional tax adviser (fees paid to accountants, lawyers or auditors) to assist with tax-related activities and obligations (Evans, 2008; Tran-Nam et al., 2000; Turner et al., 1998). One of the problems with measuring external tax compliance costs is that external tax service providers often assist SMMEs with non-tax services (for example, accounting) as well. It is especially problematic if an SMME appoints a single accountant or accounting firm to assist with both services, and the accountant or accounting firm provides only one invoice for all the services involved (Turner et al., 1998).

To separate the costs of tax services from non-tax services costs, two separate questions dealing with payment to external tax service providers were posed. The first dealt with the cost for non-tax services rendered by external tax service providers, and the second dealt with the cost for tax services rendered by external tax service providers to SMMEs. However, instead of defining what constitutes tax and non-tax services in these specific questions to clarify what the survey (based on the vast body of literature available) regarded as tax and non-tax services, a list of non-tax services was provided in the first question. Respondents were instructed in the second question to ignore costs associated with general bookkeeping/accounting functions. The non-tax services given included audit, general accounting services, managerial advice, secretarial services, and computerised accounting software assistance.

Respondents were then required to indicate the percentage allocation of the estimated expenditure for external tax services between the tax types. This allocation would provide valuable information regarding which tax type is the most expensive in respect of SMMEs' external tax compliance costs. Lastly, respondents were asked to allocate the spending on external tax service providers between different tax activities. The tax-related activities described in the rows of the matrix provided in the question were based on the processes and procedures that an SMME must follow to be tax compliant in any one tax year – that is, after registration. These activities included money paid to external tax service providers for pre-filing activities of tax returns (for example, record-keeping) and post-filing activities (such as time spent on preparing and submitting objections). The respondents' amounts spent on the non-tax-related and tax services rendered by external tax service providers during the relevant financial year, are reported in Table 10.

Table 10: Amount paid for non-tax-related and tax services by business size

		<b>Non-tax services</b>	<b>Tax Services</b>	<b>Total</b>
Miro	5% Trimmed mean	R12 121	R8 300	
	n	144	134	
	Total Costs	R2 207 519	R1 559 877	R3 767 396

	% of Total Cost	59%	41%	100%
Small	5% Trimmed mean	R32 845	R20 552	
	n	199	191	
	Total Costs	R8 906 270	R4 684 911	R13 591 181
	% of Total Cost	66%	34%	100%
Medium	5% Trimmed mean	R97 240	R37 827	
	n	91	87	
	Total Costs	R10 796 066	R4 822 652	R15 618 718
	% of Total Cost	69%	31%	100%
SMMEs	5% Trimmed mean	R33 206	R18 225	
	n	434	412	
	Total Cost	R21 910 056.00	R11 067 556	R32 977 612
	% of Total cost	66%	34%	100%

The trimmed mean was calculated for the amounts spent on non-tax and tax services in the current study, and it amounted to R33 206 for non-tax services, and to R18 225 for tax services. Overall, SMMEs spent almost twice as much on external service providers for non-tax services than for tax services, based on the total cost of services calculated above. If the two types of services (non-tax and tax) are compared to each other (in monetary terms) per business size, SMMEs of all business sizes tended to spend more on non-tax services than on tax services. After establishing the amount spent on external tax services by SMMEs per business size, the results were analysed per tax type. Figure 2 (a clustered column chart) graphically displays the distribution of the external tax services costs by type of tax in SMMEs (per business size).

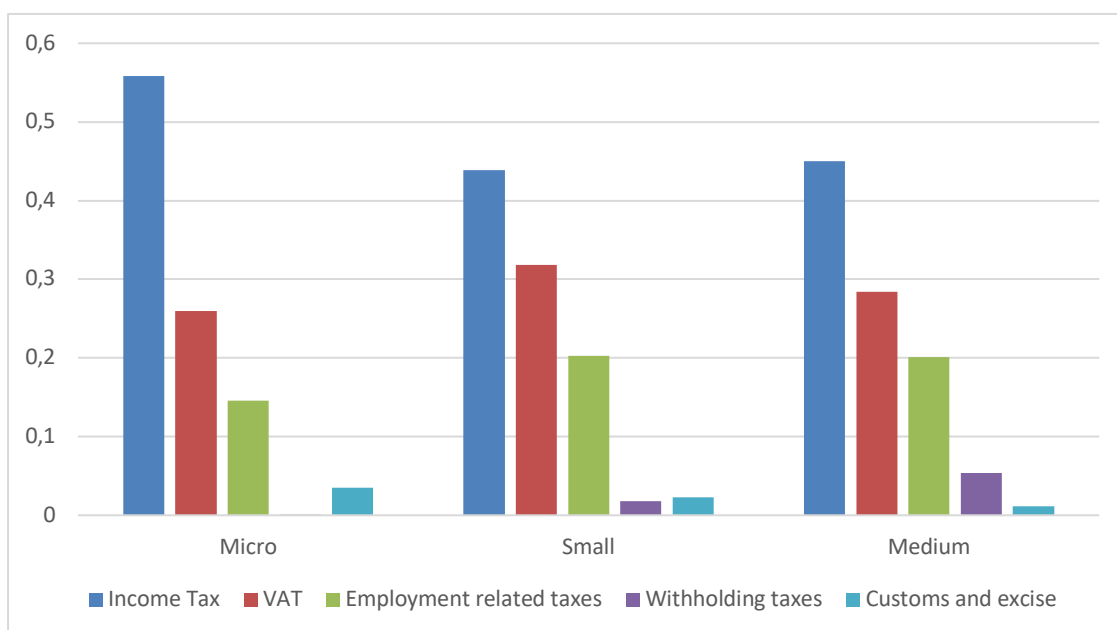


Figure 2: Distribution of external tax services costs by tax type and business size

From the results in Figure 2, it is apparent that income tax is the type of tax for which micro, small and medium businesses spent most on external tax service providers. The second most expensive tax type in terms of external

tax service provider costs was VAT, followed by employment-related taxes. Customs and excise were the fourth most expensive tax type in terms of external tax service provider costs, and withholding taxes were the least expensive (except for medium enterprises, where withholding taxes were more expensive than customs and excise) from an external tax service provider costs perspective. Plausible explanations for these findings include the argument that very few micro businesses need to deal with withholding taxes, whereas medium businesses should be exposed to this tax type. Medium businesses also usually handle customs and excise themselves rather than using the services of an external service provider, which is confirmed by the percentage of time spent internally on customs and excise presented in Table 1, which shows that almost 5% of total internal time spent by medium businesses on the different type of taxes was spent on customs and excise.

For comparison purposes, in the current study, a micro and small businesses group (businesses with a turnover of R0 to R20 million) was formed and compared to data in previous studies. The average tax-related and non-tax-related services costs rendered by external service providers (mean), as well as the 5% trimmed mean for these costs in the current study for this turnover group, were used and compared because only Smulders et al. (2012) used the mean and 5% trimmed mean, while the FIAS (2007) used the mean only.

The FIAS (2007) study was based on data from a survey distributed to accountants and bookkeepers registered with professional accounting bodies in South Africa. If one first considers the total costs of external tax service providers for non-tax and tax services, using the mean (average) as the comparative indicator, the total costs of R36 343 (FIAS, 2007) have increased by 91.78% since the end of 2006. This increase is in line with inflation. If one increases the total costs result of the FIAS (2007) study with the monthly consumer price index issued by Statistics South Africa (2020), it amounts to ±R73 000, which is slightly more than the current study's result of R69 698. However, when one compares the non-tax and tax services costs, the non-tax services costs have increased by 314.31%, while the tax services costs decreased by 20.46%. Similarly, non-tax services costs increased by 78.49% from the figures reported by Smulders et al. (2012), while tax services costs decreased by 42.88%. The total cost of external service providers of R61 920 (Smulders et al., 2012) increased by only 12.56%, well below the inflation increase of ±49%.

When comparing this study's trimmed mean results to the Smulders et al. (2012) results, the total cost of external tax service providers for non-tax and tax services increased by 51.34%. This result aligns with the inflation increase of ±49%. However, after differentiating the results between tax services costs and non-tax services costs, a higher-than-inflation increase regarding non-tax services cost and decrease in tax services cost is noted, consistent with the findings in the current study (using the mean) above. The decrease in the tax services costs is a positive finding for the government, which wants to decrease the tax burden of SMMEs (National Treasury, 2019), especially as internal tax compliance costs did not increase by more than inflation. The present study's finding suggests that the tax services costs of external tax service providers for the micro and small combined turnover group did, in fact, decrease since the Smulders et al. (2012) study. A plausible explanation for this finding is that services provided by external tax service providers are either performed in-house (however, this is less likely, as the findings of internal time spent in Section 4.1.1 do not support this), or, if these services are performed in-house, businesses can comply at a lower cost. It may also be that due to the improvement of accounting and tax-related software and other technology advancements, external tax services costs did decrease for businesses. Further investigation into this finding is recommended.

A decrease in costs did not appear to apply for external non-tax costs. An increase of 99.63% (trimmed mean) and 78.49% (mean) compared to Smulders et al.'s (2012) findings and 314.31% increase compared to the FIAS (2007) figures indicate a substantial increase in this area. This increase may be due to the changing role of external accountants in the SMME environment, of not only providing tax-related services and accounting services but substantial other business advice services (De Bruyckere et al., 2017). Over the last decade, the development of technology has had a significant impact on almost all aspects of life. The accounting industry is no exception. With the improvement of accounting software and other technologies, accountants should be able to handle bulk administrative work more efficiently, giving more time for accountants to provide business advice to clients (Moll & Yigitbasioglu, 2019). The increase in external non-tax services costs may also be due to a substantial increase in other non-tax compliance matters which external accountants are performing on behalf of SMMEs. These non-tax-related services include broad-based black economic empowerment advice and assistance, employment-related issues, UIF administration, assistance to comply with the Compensation for Occupational Injuries and Diseases Act, and various services other than regular accounting services. Therefore, further investigation into the reasons for the increase in non-tax-related services costs by external tax service providers is recommended.

#### **4.4 Total tax compliance costs**

After establishing the internal, non-labour and external tax compliance costs, the next step was to calculate the total tax compliance costs for SMMEs. Internal, non-labour and external tax services costs were added together to arrive at the total tax compliance costs for SMMEs. In addition, if an SMME formed part of a group structure and incurred internal tax compliance costs because of this relationship, these costs were added to the abovementioned cost. The total tax compliance costs for SMMEs and per turnover group were calculated, and the results are presented in Table 11.

Table 11: Total tax compliance costs for SMMEs

	Micro	Small	Medium	Total
5% Trimmed mean	R43 226	R158 383	R254 589	R105 609*
n	381	266	124	771
* Not calculated as the sum of the row, but obtained from the 5% trimmed mean data set				

The average amount (mean) spent by SMMEs on tax compliance costs for the financial year ending between 1 April 2018 and 31 March 2019 was R154 296. The trimmed mean amounted to R105 609. The tax compliance costs per turnover group, based on the trimmed mean results, was R43 226 for a micro business, R158 383 for a small business, and R254 589 for a medium business. Adjusted for inflation<sup>3</sup>, these costs amounted to total tax compliance costs of R136 152, and to R55 727 for a micro business, R204 189 for a small business, and R328 218 for a medium business.

<sup>3</sup> The costs were adjusted for inflation from March 2019 to August 2024.

A comparison can again be made to research on tax compliance costs in the construction industry (Matarirano et al., 2019), where they calculated the total tax compliance costs for businesses in the construction industry to be R66 330. No trimmed mean average was calculated in Matarirano et al.'s (2019) study. The mean for the current study considering businesses in the construction industry – following a similar approach to that used in Matarirano et al.'s (2019) study – is R88 711. Even considering the time difference of three years between 2016 and 2019, it seems that the total tax compliance costs for construction micro and small businesses combined have increased since Matarirano et al.'s (2019) study. The total tax compliance costs for the micro and small businesses turnover group could not be compared to Smulders et al.'s (2012) study because they did not include post-filing costs.

#### **4.5 Small business tax incentives**

Although special tax incentives were introduced for SMMEs, such as the SBC regime and the turnover tax concessions for micro businesses, the results indicated that a low number of SMMEs use the SBC regime (83 respondents) and the turnover tax concessions (31 respondents). While the SBC regime reduces taxes paid, the turnover tax system aims to streamline tax compliance requirements for micro-businesses and reduce the administrative burden, thereby reducing the overall cost of complying with tax obligations (SARS, 2020). Because of the low number of respondents indicating that they use the SBC regime and turnover tax concessions, it was not meaningful to measure the tax compliance costs for the respondents utilising these incentives separately. Nevertheless, if SMMEs did not use these incentives but were eligible to use them, this decision was investigated as it could provide insight into the success of these incentives.

The results of the study indicate that SMMEs that did not use the small business turnover tax incentive, despite being eligible for it, opted not to use it because they did not know how to register for it (58.3% either agreed or strongly agreed), and because the registration process for the turnover tax incentive is too complicated (46.5%). Both these reasons are directly related to the registration for the turnover tax incentive, which suggests that complexity regarding the registration for this specific tax incentive is an obstacle to uptake. In addition, 39% of respondents indicated the rules regarding the tax incentives are too complex. This result is in line with the findings of Smulders et al. (2012), who reported that one of the main reasons for not using small business tax incentives was that the rules of the incentives were too complex. This result is a matter of concern because small business tax incentives, such as the turnover tax incentive, were specifically introduced to reduce the administrative burden for micro businesses (SARS, 2020), and this objective will not be achieved if there is too much complexity around the registration process. Hence, the low uptake of the small business tax incentives warrants further investigation. For example, future research could be undertaken to assess the tax compliance costs for SMMEs that use the turnover tax incentive introduced to reduce the tax compliance costs for small businesses in relation to record-keeping (indicated as the most time-consuming tax compliance activity in section 4.1.2). This type of research will assist in investigating the effectiveness of the incentives introduced by the government.

## **5. Conclusion**

The importance of SMMEs for a growing economy is well documented and recognised by governments around the world. Tax compliance costs are one of SMMEs' main challenges, as these can affect their viability and growth. Therefore, the efficiency of a tax regime should be assessed by reviewing the quantifiable data from tax compliance costs surveys, because policymakers need to know which elements of tax compliance costs are possibly adding to the tax compliance burden for businesses and should, therefore, be targeted for reform. Against this backdrop, this study was designed with the objective of collecting data that would allow for the measurement of the tax compliance costs of SMMEs in South Africa.

During the financial year ending between 1 April 2018 and 31 March 2019, it took SMMEs on average 209.2 hours (trimmed mean) to comply with their tax obligations. Other than for the micro businesses, VAT is the tax on which SMMEs spend most of their internal time. For micro businesses, income tax takes more time than VAT, because micro businesses are generally not required to register for VAT. The results also show that the amount of time spent internally on tax compliance activities depends on a business's size. As the turnover of a business increases, so does the internal time that is spent on tax-related activities. However, this time spent is regressive, if it is taken as a percentage of turnover, meaning that the tax compliance cost burden weighs more heavily on small businesses than on larger businesses. This result aligns with prior research on micro and small businesses. From a tax compliance activity perspective, record-keeping is the most time-consuming activity. From a size perspective, most of the tax compliance activities were performed by the owners in micro businesses, which contrasts with medium businesses, where employees performed most of the tax compliance activities.

When the hours spent by owners and employees were converted to Rand values using externally verified rates, it was found that SMMEs spent, on average, R68 643 on internal tax compliance costs in the year under review. Added to this, SMMEs also spent, on average, R15 747 (using the trimmed mean) on non-labour costs, which consisted of overhead costs associated with tax personnel responsible for tax compliance activities. When divided into the different business sizes, it was also clear that these costs increased as the size of the business increased.

The final component of tax compliance costs in this study was external tax compliance costs, which consisted of the money paid to external tax service providers to assist an SMME with its tax-related activities. The results indicate that SMMEs spent on average R18 225 (using the trimmed mean) on external tax services. The present study's finding suggests that the tax services costs of external tax service providers for the micro and small combined turnover group did, in fact, decrease since the Smulders et al. (2012) study. Plausible explanations for this finding are mentioned, but further investigation into this finding is recommended.

To arrive at the total tax compliance costs for SMMEs, the internal, non-labour and external tax compliance costs were added together. The amount spent by SMMEs on tax compliance costs for the financial year ending between 1 April 2018 and 31 March 2019 amounted to R105 609. From a business size perspective, it was established that a micro business spent on average R43 226 on tax compliance costs, a small business R158 383 and a medium business R254 589. Adjusted for inflation, these costs amounted to total tax compliance costs of R132 510, and to R54 236 for a micro business, R198 727 for a small business, and R319 439 for a medium business.



Finally, despite the government's commitment to placing SMMEs at the centre of economic growth and job creation in South Africa, the findings of this study confirm that tax compliance costs are high and regressive in nature. Also emanating from the research is the concern over the effectiveness of the small business tax incentives considering the low take up of these incentives and the perception that they are too complex. It is therefore submitted that this research has a practical contribution because the tax compliance costs calculations (including pre- and post-filing tax compliance costs) in the current study may provide a baseline for the continuous assessment of the tax compliance costs for SMMEs in South Africa (including medium businesses for the first time). Future studies could use this baseline and any changes in these costs to provide an indication of whether these costs have increased or decreased. This could also provide insight into what reforms are needed to reduce SMMEs' tax compliance costs or whether the reforms subsequently implemented by SARS (for example, the requirement to submit additional supporting documents with the income tax return of trusts for the 2023 tax year of assessment which would affect small businesses) increased or decreased SMMEs' tax compliance costs and the impact this could have on an SMMEs' tax compliance behaviour and ultimate survival.

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