



# Possible reasons for tax resistance in South Africa: A customised scale to measure and compare perceptions with previous research



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## ABSTRACT

Tax resistance takes two major forms, namely tax avoidance and tax evasion both of which diminish a government's tax receipts. Limited research on taxpayers' perceptions has been conducted in South Africa. A study was undertaken in order to determine the perceptions of South African taxpayers about various aspects with regard to taxation. There are no standardised scales to measure taxpayers' perceptions. The reasons for evading taxes, however, have been explored by both economists and psychologists. This article elaborates on the design of a measurement tool for determining taxpayers' perceptions taking previous research into account. In addition, this article assesses whether findings from the current research substantiates earlier research. The results of the current study confirmed the majority of findings from past research. The significance of this study is emphasised, in that it builds on previous research, utilising insights from several disciplines and various theoretical perspectives.

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## 1. Introduction

According to Adams (1921), a government's success or failure to levy (collect) tax rests primarily upon the honesty of taxpayers. The author states further that one of the factors that contributes to the dishonesty of taxpayers is the complexity of the tax system, as it may lead to administrative failures. From the taxpayers' perspective, the most common complaint about taxes is straightforward – they are too high (Slemrod & Bakija, 1996).

It has been argued that tax resistance takes two major forms, namely tax avoidance and tax evasion, both of which diminish the government's tax receipts (Lewis, 1982; OECD, 2004; Stiglingh, Venter, & Hamel, 2005; Webley, Robben, Elffers, & Hessing, 1991). Smith and Kinsey (1987) stated that taxpayers' opportunities for both compliance and non-compliance vary substantially and opportunity factors must, therefore, be included in any analysis of tax behaviour.

A significant tax gap exists in South Africa. The tax gap merely portrays the wedge between economic reality and a purely legal construct called statutory taxes (Franzoni, 1998). A figure of R30 billion is often quoted in the press as the extent of the gap (Cokayne, 2002; Kemp, 2002; Leuvenink, 2003; Mabanga, 2004; Temkin, 2002, 2003). Kemp (2002) is of the opinion that non-compliant individual taxpayers contribute to the vast majority of the "tax gap".

A study was undertaken in order to determine the perceptions of South African taxpayers about various aspects with regard to taxation. Limited research on taxpayers' perceptions has been conducted within a South African context. No standardised scales exist to measure taxpayers' perceptions. The reasons for evading taxes have been, however, explored by

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both economists and psychologists. A customised scale was developed taking cognisance of research that had been conducted previously. This article elaborates on the design of the measurement tool which can be used by future researchers. A second objective of the study is to assess whether findings from the current research substantiates earlier research.

The rest of the article is structured as follows: first, it discusses the design of the questionnaire by referring to available literature. This is followed by a description of the methodology of the research. Next, the results from the present research are compared with findings from previous research. Finally, implications, limitations and directions for further research are discussed.

## 2. Background and literature review

In research, *measurement* consists of assigning numbers to empirical events in compliance with a set of rules. This means that observable empirical events are selected, a scheme is developed for assigning numbers or symbols to represent aspects of the event being measured and that the mapping rule(s) is applied to each observation of that event (Cooper & Schindler, 2003).

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

A questionnaire was used as the measuring tool for the study and was developed taking previous research into account. As there is no standardised scale to measure taxpayers' perceptions this study aimed to develop such a measurement tool to be used in future research. The section below describes the individual questions included in the questionnaire, together with the literature that provides support for the inclusion of each question in the questionnaire.

**Questions 1–4 and 6:** Respondents were requested to indicate their age, gender, population group, home language and educational background respectively in questions 1–4 and 6.

Lewis's (1982) model of tax evasion highlights that the characteristics of taxpayers, in terms of their individual, group and demographic differences, influence their attitudes and perceptions of fiscal policy and constitutional structure. This, in turn, influences tax compliance or evasion. Some of these variables identified in previous surveys, include age, sex, and educational factors. In addition, according to the Australian Cash Economy Task Force (1998), taxpayer compliance decisions can be affected by sociological factors (for example, age, gender, ethnic background and education level).

Previous studies have also identified that age (Mueller, 1963; Webley et al., 1991), gender (Friedland, Maital, & Rutenberg, 1978) and educational background (Groenland and Van Veldhoven 1983, in Webley et al., 1991; Almond & Verba, 1963; Fallan, 1999; Vogel, 1974) are factors which influence tax evasion.

**Questions 7 and 9:** Question 7 requested respondents to indicate their employment status. Question 9 asked respondents whether they earn a second or other additional income (for example, income from a second trade or from renting out premises) in addition to their monthly salary.

The literature indicates that there are several facts that implicate framing outcomes as gains or losses in taxpayer decision-making (Jackson & Milliron, 1986; Schadewald, 1989; Smith & Kinsey, 1987). For instance, tax that has to be paid has greater utility than tax that is already withheld. In addition, the majority of taxpayers in the United States prefer having more tax withheld than is strictly necessary. This implies that, in a system where tax is withheld by the authorities, individuals who expect a refund and perceive this as a gain, would avoid the risks associated with evasion. On the other hand, those expecting to pay additional tax (a certain loss) would be more likely to take the risky alternative and evade tax.

Previous studies have also revealed that a person's employment status can be associated with tax evasion behaviour (Vogel, 1974; Webley et al., 1991).

**Question 8:** Question 8 requested respondents to indicate their income per month before deductions. According to Lewis's (1982) model of tax evasion, characteristics of taxpayers in terms of their individual, group and demographic differences, influence their attitudes and perceptions of fiscal policy and constitutional structure. This, in turn, influences tax compliance or evasion. The taxpayer's income (including perceived economic well-being and anticipated future economic well-being) is included in these characteristics. The brackets used in the questionnaire were designed taking the tax threshold into account.

**Questions 5, 10 and 11:** Lewis's (1982) model of tax evasion emphasises that characteristics of taxpayers, in terms of their individual, group and demographic differences, influence their attitudes and perceptions of fiscal policy and constitutional structure. This, in turn, influences tax compliance or evasion on the part of the taxpayer.

Question 5 requested respondents to indicate their type of dwelling and question 11 requested respondents to specify the number of persons living within their household. These questions, based on the 2001 census, were included, as they focus on demographics and also indicate individual and group differences.

Question 10 required respondents to indicate the frequency of visits to state-funded medical facilities per month. This question was included as it provides further demographic information and implies the extent to which they are dependent on the government.

**Question 12:** In this question respondents were requested to indicate how they would invest R10,000 if they were to inherit or win this sum of money. The options which respondents could select included: (1) invest the amount in a bank/post office savings account; (2) invest the sum of money in a bank/post office fixed deposit; (3) keep the money in a safe place at home; or (4) invest this amount of money on the Johannesburg Stock Exchange (JSE) (the name of the JSE has recently been amended and is now referred to as JSE Securities Ltd). Lewis's (1982) model of tax evasion includes risk aversion

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