

## **Factors that Influence Tax Compliance of SMEs in South Africa**

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**Abstract:** Small and medium enterprises play an important role for South Africa. They serve as a vehicle in creating jobs for local communities. KwaZulu Natal is the second largest province in the country and the necessity of developing sustainable small and medium businesses cannot be overemphasized. The South African government has identified and prioritized the development of small businesses as one of their strategic objectives. Despite the importance of these businesses for the country and province, there are many challenges that these businesses face. One of the most onerous and time-consuming challenges is ensuring tax compliance. Tax compliance is defined as the preparation, submission and payment of taxes due within the specified time periods. In order to achieve the objectives set out by government, it is necessary that the tax systems for small businesses be efficient and simplified in order to meet the needs of the sector. The research has been undertaken to firstly determine which taxes are most complex for SMEs and secondly to determine which factors and costs are most significant in ensuring tax compliance. A questionnaire was sent to eighty five small business owners to determine which taxes are most complex and what challenges and costs are most excessive. The findings from this study reveal that VAT is the most complex tax for small businesses in South Africa. Compliance with VAT is the most costly and challenging and the time spent on compliance by owners is perceived to be the most excessive cost incurred in ensuring tax compliance.

**Keywords:** SMEs; SARS; tax compliance; value added taxation

### **1. Introduction**

The aftermath of the apartheid policies and practices has resulted in an unequal distribution of income, poverty and degradation amongst many South Africans. After

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the first democratic elections in 1994, one of the top priorities of the newly elected government was to address the need to reduce poverty in South Africa (African National Congress, 1994). More than twenty years later, millions of South Africans continue to remain unemployed and a large number of households are living close to the poverty line. As a result of these shortcomings, the South African President, in 2010, appointed the National Planning Commission to establish a vision and national development plan. One of the essential objectives of this vision and plan is to eliminate poverty in the country by the year 2030. Increasing employment is considered to be the most viable solution to assist in eliminating poverty and to reduce the significant levels of inequality that the people of South Africa are faced with. The National Planning Commission is focused on expanding a robust, innovative and entrepreneurial economy (National Planning Commission, 2011)

SMEs are perceived to be one of the most effective mechanisms to assist economies in prospering and growing. SMEs aid the creation of sustainable employment, contributes to an economies gross domestic product and assists with numerous other forms of economic and social development (Krasniqi, 2007). Therefore, developing, nurturing and sustaining small businesses is one of the key strategies identified to assist in alleviating poverty and generating meaningful employment together with creating sustainable incomes for communities (Dockel & Ligthelm, 2002).

These smaller businesses are exposed to many risks, which threatens their existence as a going concern. The majority of South African small and medium sized businesses rarely survive and last for an average of three and a half years. Regulatory compliance costs are considered substantial and a large amount of valuable resources are consumed in order to ensure that these businesses in South Africa remain compliant with all the applicable laws and regulations. Alternative utilisation of these valuable resources may have been focused on advancing, promoting and bolstering business in the both the local and international context however they are used for the excessive compliance requirements (SBP, 2004)

One of the key issues that influence the overall regulatory environment for small and medium enterprises is tax compliance (SBP, 2003). Tax compliance issues are believed to be some of the most time consuming and troublesome regulations for SMEs in the country and the largest portion of regulatory compliance costs and resources are directly attributable at ensuring tax compliance (SBP, 2004). Tax compliance is perceived as a large regulatory expense and burden that disparages small-scale entrepreneurs (Junpath, et al., 2016), and smaller businesses are reluctant to enter into the formal economy by registering for tax. Despite the many advantages

such as access to finance, improved access to business opportunities and improved legal standing of the business, registering for tax implies falling into the tax system (Junpath et al., 2016) and (Govender, 2008).

## **2. Literature Review**

In South Africa, approximately ninety one percent (91%) of formal business entities are small and medium sized entities. These entities contribute between fifty two percent (52%) and fifty-seven percent (57%) to gross domestic product (GDP) and provide about sixty one percent (61%) to employment (Abor & Quartey, 2010). The importance of small and medium sized businesses' to the economy is stressed by these statistics as they are a major contributor to gross domestic product (GDP) and employment. A successful economy is strongly driven and influenced by the generation, success and sustainability of SMEs and in South Africa, all stakeholders and political parties unanimously agree on the significance of promoting the establishment of SMEs as well as facilitating their growth (Small Business Project, 2003)

Across the globe, many different definitions are used as there is no single data source that has all of relevant information at a given point in time (Gale & Brown, 2013). In this study, SMEs are defined with reference to only the employee and revenue thresholds mentioned above. For this study a SME is defined as an enterprise with revenue in the range of R70 000 to R20 000 000 and businesses employing between five and two hundred people.

### **2.1. The Importance of Small and Medium Enterprises**

The growth of any economy relies heavily on the advancement of SMEs. There is an ever increasing recognition of the importance that SMEs play in the expansion of economies and societies. SMEs are job creators and are the engines of the economy (Abor & Quartey, 2010). Formal and informal businesses constitute approximately eighty to ninety percent (80 – 90 %) of the workforce and also contributes to over fifty percent (50%) of gross domestic product (GDP) on average in many developed countries (Ponorica & Al-Saedi, 2015). The South African government has identified the small and medium business sector as one of the most viable means to improve job creation and generate future prosperity in the country (Llyod, 2002), and small business improvement is a significant feature in the countries economic

development, poverty reduction and employment creating plan which is in line with the National Development Plan (DTI, 2008).

## **2.2. Challenges Faced By Small Businesses**

Despite the significant contribution to economic growth, small businesses globally and internationally still face many challenges. Obstacles and challenges that these businesses are faced with are significantly more than they were previously as the environments small businesses operate in, are significantly more complex and dynamic. To assist in the development of the economy within a country it is imperative to have knowledge of the factors and risks which impact small business success or failure (Sitharam, 2014).

Cant, et al., (2003) have estimated that less than fifty percent (50%) of new and developing businesses last more than five years and argue that the failure rate of SMEs internationally is between seventy percent (70%) and eighty percent (80%). In South Africa, the failure rate is extremely high as well, with seventy five percent (75%) of small businesses not becoming established firms (Olawale & Garwe, 2010).

There has been much research on identifying and understanding the various factors that influence business failure. According to Sitharam (2014), small business failure can be attributed to a number internal and external factors as well as entrepreneurial culture (Everett & Watson, 1998) identified and discussed the three types of risk that small business owners are exposed too. Economic, industry and firm based risk are the three risks that are considered the main determinants of business success or failure. Everett and Watson (2008) further argued that economic factors are associated with about thirty percent (30%) to fifty percent (50%) of small business failures.

Other important factors that influence the performance of SMEs in South Africa include competition, government bureaucracy, foreign exchange rates, inflation and interest rates. (Sitharam, 2014). The GEM (2014) report also highlighted government bureaucracy in South Africa, as a major hurdle for business sustainability and activity. Key issues identified in government bureaucracy, were the time delays in obtaining necessary permits and licences to trade. Government departments were considered inefficient in handling these duties. It was also argued that there is a lot red tape around starting and managing a business, which includes the copious amount of registration and compliance with the relevant Acts and regulatory bodies in South Africa (SEDA, 2016).

Specifically, tax laws and labour laws have been identified as the major laws and regulations that negatively affect business growth (Sitharam, 2014). Labour laws have been specifically pin pointed as a major problem when it comes to business growth, especially when it relates to the termination of staff (OECD, 2015). Small and medium businesses are also exposed to high labour costs in South Africa, which is a result of the high minimum wages that are sanctioned by the South African labour law (SEDA, 2016).

In a study conducted by SBP in 2004, it was reported that the regulatory environment imposed significant costs on business activities. These costs reduced the businesses ability to expand operations and create jobs. More importantly, the single largest growth inhibiting aspect identified was the pure red tape of regulatory compliance costs (SBP, 2004). Small and medium businesses and more importantly the new entrepreneur starting his business is faced with many different obstacles. Vast amounts of legislation and regulations that apply, taxes, consumer protection, access to information and corporate laws impose reporting and administrative burdens, with the constant threat of non-compliance and risks (Retief, 2010). In terms of all regulations and laws, tax compliance costs are considered to be the largest component of all compliance costs incurred by businesses (SBP, 2004).

### **2.3. Importance of Taxation**

Taxes are an important factor that defines the business climate. Tax also serves and operates as a political accountability mechanism (Ponorica & Al-Saedi, 2015). Taxes are the main stream of revenue generation for developing countries and these revenues are necessary for improving infrastructure, dealing with climate changes and most importantly to finance poverty reduction (Keen, 2012). The small business sector consists of approximately one hundred and sixty five thousand (165 000) registered businesses and contributes about thirty six percent (36%) of all corporate taxes collected in South Africa (Davis Tax Committee, 2016)

SMEs in the country could be accountable for eleven various taxes (income tax, capital gains tax, provisional tax, dividends tax, value added tax, employees tax, employment related levies, customs and excise duties, transfer duty, donations tax and stamp duty). In order to comply, small businesses are required to obtain and complete the prescribed forms and ensure that submissions are made on time.

Compliance requires a vast amount of administration and non-compliance may result in fines, penalties and interest. The complexity and compliance of these tax systems are considered to be an obstacle for small enterprises (Abrie & Doussy, 2006), and it is assumed that small businesses are generally uncertain about getting in the formal economy as they consider tax as a high legislative expense and this discourages smaller entrepreneurs from embarking on business ventures (SBP, 2003).

Govender, (2008) defined these tax compliance costs as all the costs incurred in ensuring proper compliance with relevant tax regulations. These costs include the following:

- Expenses related to record retention, filing and sorting records, invoices and receipts;
- Costs incurred in the preparation and submission of all relevant tax returns;
- Opportunity cost in respect of time utilized by SMEs in ensuring tax compliance;
- Costs of external advisors that are required for tax compliance and/ or to address disputes with the tax authorities;
- Any costs to ensure compliance as well as any incidental costs and travel expenditure.

#### **2.4. Challenges in Tax Compliance**

VAT compliance and SARS tax administration are considered to be two of the most burdensome regulations that small businesses are faced with (SBP, 2004). VAT requires a considerable degree of bookkeeping skills as well as time to complete the necessary returns. As VAT is levied on the invoice basis, it also has led to serious cash flow problems for SMEs who await payment from suppliers. Income tax has also become a severe problem that has caused cash flow issues for small businesses as the provisions of the Tax Act require income be to taxed at the earlier of receipt or accrual. These tax provisions cause significant hardship for small businesses particularly those in their start up and growth years (SBP, 2003).

Luiz, (2002) also argued that the complexities of the tax systems were a significant obstacle and challenge for small businesses. These small businesses lack the capacity to effectively manage tax compliances and regulations, and the fees accountants and

external advisors charge along with other necessary costs to assist with compliance is considered extremely costly.

## **2.5. Tax Compliance Costs**

Small businesses trade in a strict regulatory environment with multiple taxes that constantly exert a significant imposition on their operation (Atawodi & Ojeka, 2012). According to Abrie & Doussy, (2006), tax compliance places a heavy administrative burden on small and medium sized businesses and tax compliance utilises resources that could be used in more important management areas in a business. A lack of trained employees to manage tax compliance affairs and the need for additional costs for the use of experts become a tax burden for these small businesses.

To comply with tax regulations, a small business has to incur certain costs. These costs include but are not limited to:

- The excessive time utilised by owners and staff on ensuring compliance and the rules;
- Expenditure involved in preparing the relevant bookkeeping records and expenditure for the compilation of tax returns;
- Expenditure for specialised tax practitioners, accountants and consultants;
- Ancillary expenditure for communication and travel in liaising with SARS (Arendse et al., 2006; Evans, 2006; Gurd et al., 1998; SBP, 2003 cited in Smulders & Stiglingh, 2008).

The following 3 important areas of costs applicable to tax compliance activities have been identified by Tran – Nam, et al., (2000):

- Time spent by owners and staff (internal costs);
- Payment of tax advisors (external costs);
- Tax related ancillary costs or enterprise overheads such as postage, stationery, telephone and travel.

According to Hanefah, et al., (2002) the following costs as cost of compliance are also considered:

- Internal costs;

- External costs;
- Computation costs;
- Planning costs;
- Initial costs.

Hanefah, et al., (2002) found that small businesses in Malaysia are less likely to employ external advisers. A majority of small businesses prepared tax returns and related documentation internally and that larger small and medium enterprises made use of accounting firms and legal advisers as their main sources of external advice (Chamberlain & Smith, 2006) also found that smaller businesses found it cheaper to complete tax returns in house rather than outsource external advisers.

Five important areas were highlighted by the Small Business Development Department that have caused problems for the SME sector:

- Procurement by public sector;
- gaining entrance to market into the public sector value chain;
- constraints imposed by regulators;
- ability to obtain finance and support of rural communities. (Davis Tax Committee, 2016) Regulations; and
- red tape including regulatory compliance.

These critical areas are identified as the greatest constraints to business expansion in South Africa (Bac, 2006)

The imposition of taxes on businesses generally result in hidden compliance costs being incurred by the taxpayer. The interest in understanding compliance costs has grown over the years and this is due to number of reasons that include:

- Changes in technology;
- The introduction of VAT regimes;
- The growth of the small business sector; and
- The increasing complexity of tax systems (Tran - Nam, et al., 2000)

Compliance costs for small businesses are considered disproportionate to their size. The smaller the business, the higher the compliance cost percentage is. This situation is experienced internationally as well as South Africa and other parts of the African



continent (Ramestse, 2010) In Botswana, the taxation systems are considered to have placed the small business sector at a disadvantage and taxation is considered to be the most critical regulation in compliance (Coleman & Evans, 2003 as cited in (Nkwe, 2013).

Time spent on tax activities are considered to be a significant component of taxation compliance costs. Smulders, et al., (2012), found that it took small and medium enterprises an average of two hundred and fifty five hours in the year to handle the tax compliance related matters. For micro businesses that utilise turnover tax, it took a total of one hundred and fifty five hours to comply. The most time complex activity was VAT. PAYE however, was identified at the tax that took the most time to calculate, submit and pay. PAYE is also the tax that took up most time dealing with SARS. The most time spent on advisory and dealing with tax advisors was in respect of income tax.

The majority of the internal time spent on tax affairs is attributed to small businesses entrepreneurs. The owners account for approximately sixty three percent (63%) of the annual hours related to tax compliance activities. Employees account for approximately thirty four percent (34%) of the time and unpaid friends or family who assist with certain matters spends the remaining three percent (3%). The time internal time spent by owners and employees roughly cost a small business around R53 356 per annum. VAT compliance was the most expensive and amounted to approximately thirty eight percent (38%) of this total cost, with PAYE being the second most expensive and income tax the third most expensive. In addition, small businesses also made use of external service providers for accounting and tax related services. The average cost of tax related services for small businesses is approximately R9 882 per annum (Smulders, et al., 2012).

Govender, (2008) found that VAT is considered to be the individual tax with the second highest demand on time, which consumes roughly one third of all the time taken per annum on all taxes. Income tax and provisional tax was the lowest and second lowest respectively, in terms of time requirements for completion and filing. Employees' taxes was the tax with highest requirement that accounted for almost half of all the time taken per annum on all taxes.

Regulatory tax compliance is defined as the full payment of taxes due. (Braithwaite, 2009 cited in (Kamleitner, et al., 2012). Atawodi & Ojeka, (2012) define tax compliance as "fulfilling all tax obligations as specified by the law freely and

completely” and (Nkwe, 2013) further describes tax compliance as “the degree to which a taxpayer obliges to tax rules and regulations”.

On the other hand, Kasipillai & Jabbar, (2006) defined tax non-compliance to be in the form of not submitting a tax return within the required period, under declaring income, overstating deductions and not paying required taxes by required cut off times. According to Atawodi & Ojeka (2012), high tax rates is the fundamental dilemma faced by entrepreneurs and these high tax rates are the main reason that promotes non-compliance. Non-compliance is motivated by the perception that the tax burden is too high. In addition, poor tax education, poor tax morale and the numerous taxes that businesses are expected to comply with are the some of the other reasons which make it difficult to ensure compliance is achieved (Ponorica & Al-Saedi, 2015). Small business owners are required to be understand the various compliance specifications and requirements in order to pay appropriate taxes. Tax knowledge is considered an effective skill, which improves the prospect of business prosperity. (Haber & Reichel cited in (Kamleitner, et al., 2012).

According to Zivanai et al, (2016), small and medium enterprises are generally aware of the requirement to comply with tax laws and rules but these small and medium enterprises take a chance on not complying because there is a low risk of being caught if they do not comply.

Non-compliance of taxes do have serious disadvantages. Non-compliance undermines the tax system’s equity and efficiency and impedes sustained economic development (Ponorica & Al-Saedi, 2015). Small businesses may not be able to source formal sources of finance such as bank loans and many corporates may not take them on as suppliers or customers if tax affairs are not up to date. In addition, small businesses require tax clearance certificates to tender for government contracts and enter the supply chains of many large corporates. If there is no compliance access to these facilities and markets is restricted (Small Business Project, 2003).

An imparity between a country’s tax systems and the economic environment can have unfavourable ramifications for the future. Considerations such as reducing tax liabilities, elimination of red tape and improving tax processes must be considered when endorsing policies and procedures pertaining to the tax systems (Marusa & Ashrafzadeh Ileana, 2013). The objective of any regulations imposed by government is to maintain and enhance the environment that allows an economy to function. These regulations that have been established and enforced, has an important impact on shaping the economy (Kitching, 2006).

### 3. Research Methodology

In KwaZulu Natal, the failure rate of small businesses is extremely high, with a large proportion of them not developing into established firms (Olawale & Garwe, 2010). This is contrary to the strategic objectives set out by the national government. One of the main reasons for business failure is the excessive regulatory burdens that are placed on small businesses. Although there has been very limited literature on tax compliance and the costs associated with compliance, there has been limited research about the influence of tax compliance on the small business sector in the province of KwaZulu Natal.

Value added tax, Income tax, Provisional tax and Employees tax are the only taxes that have been included in this study as they are deemed to be the most common taxes that are applicable to small businesses.

#### 3.1. Research Design

No single research method can be considered as the best method in all circumstances. The choice will be dependent on the research question, research objectives, data that is being accessed and precisely what we are expected to do (Smith, 2011, p. 53). Questionnaires have the advantage of obtaining data more efficiently in terms of researcher time, energy and costs. The method of data collection using questionnaires is mostly used for economic and business surveys (Kothari, 2004), and most of the empirical research on tax compliance is based on surveys analysing taxpayers (Gangl, et al., 2014). As a result a questionnaire was deemed to be most appropriate for the purposes of this study. The primary participants in this study were the owners of small businesses who are responsible for ensuring the taxes are up to date. The questionnaire was distributed to a sample of 85 SME business owners.

The questionnaire consists of two sections, namely profile and personal details of the respondent, tax registration and complexity of taxes, tax compliance costs and lastly the challenges. The information that was highlighted in the literature review in chapter two has been incorporated into the design of the questionnaire as follows:

- **Section A – Registration of taxes and ranking of complexity of taxes:**  
These questions have been designed and included to determine which taxes are most complex for SMEs.
- **Section B – Tax compliance challenges and costs:**

Questions included relate to which factors are considered as challenges to tax compliance and to determine which costs are most excessive to ensure tax compliance.

#### 4. Discussion of Findings

##### 4.1. Section a - Most Complex Taxes

In order to fulfil the research objectives, respondents were requested to rank the complexity of taxes. The results of this study indicate that small and medium businesses are required to comply with four major taxes: Income Tax, Provision Tax, VAT and Employees Tax. The rankings of taxes were cross tabulated against the different business types: private companies; close corporations and sole proprietors.

Business Type * Income Tax Crosstabulation							
			Income Tax				Total
			Most complex	Second most	Third most	Least complex	
Business Type	Sole Proprietor	Count	5	6	2	14	27
		% within Business Type	18,5%	22,2%	7,4%	51,9%	100,0%
	Close Corporation	Count	2	8	15	10	35
		% within Business Type	5,7%	22,9%	42,9%	28,6%	100,0%
	Private Company	Count	2	10	6	5	23
		% within Business Type	8,7%	43,5%	26,1%	21,7%	100,0%
Total		Count	9	24	23	29	85
		% within Business Type	10,6%	28,2%	27,1%	34,1%	100,0%

**Figure 1. Income Tax**

51.9% of sole proprietors have indicated that income tax compliance is the least complex tax that they are required to comply. 42.9% of close corporations have indicated that income tax compliance is the third most complex tax that are required to comply. 43.5% of private companies have indicated that income tax compliance is the second most complex to comply. Overall, only 10.6% of respondents have indicated that income tax is the most complex tax.

Business Type * Provisional Tax Crosstabulation							
			Provisional Tax				Total
			Most complex	Second most	Third most	Least complex	
Business Type	Sole Proprietor	Count	4	14	7	2	27
		% within Business Type	14,8%	51,9%	25,9%	7,4%	100,0%
	Close Corporation	Count	8	12	8	7	35
		% within Business Type	22,9%	34,3%	22,9%	20,0%	100,0%
	Private Company	Count	9	6	5	3	23
		% within Business Type	39,1%	26,1%	21,7%	13,0%	100,0%
Total		Count	21	32	20	12	85
		% within Business Type	24,7%	37,6%	23,5%	14,1%	100,0%

**Figure 2. Provisional tax**

51.9% of sole proprietors and 34.3% of close corporations have indicated that provisional tax compliance is the second most complex tax. 39.1% of private companies have indicated that provisional tax is the most complex tax they have to comply with. Overall 37.6% of respondents have indicated that provisional tax is the second most complex tax to comply with.

Business Type * VAT Crosstabulation							
			VAT				Total
			Most complex	Second most	Third most	Least complex	
Business Type	Sole Proprietor	Count	13	4	10	0	27
		% within Business Type	48,1%	14,8%	37,0%	0,0%	100,0%
	Close Corporation	Count	19	5	9	2	35
		% within Business Type	54,3%	14,3%	25,7%	5,7%	100,0%
	Private Company	Count	12	1	9	1	23
		% within Business Type	52,2%	4,3%	39,1%	4,3%	100,0%
Total		Count	44	10	28	3	85
		% within Business Type	51,8%	11,8%	32,9%	3,5%	100,0%

**Figure 3. VAT**

51.8% of all businesses have indicate that VAT compliance is the most complex tax. 48.1% of sole traders, 54.3% of close corporations and 52.2% of private companies have indicated that VAT is the most complex tax. Only 3.5% of respondents have noted that VAT is the least complex.

Business Type * Employees Tax Crosstabulation							
			Employees Tax				Total
			Most complex	Second most	Third most	Least complex	
Business Type	Sole Proprietor	Count	5	3	8	11	27
		% within Business Type	18,5%	11,1%	29,6%	40,7%	100,0%
	Close Corporation	Count	6	10	3	16	35
		% within Business Type	17,1%	28,6%	8,6%	45,7%	100,0%
	Private Company	Count	0	6	3	14	23
		% within Business Type	0,0%	26,1%	13,0%	60,9%	100,0%
Total		Count	11	19	14	41	85
		% within Business Type	12,9%	22,4%	16,5%	48,2%	100,0%

**Figure 4. Employee's tax**

48.2% of the overall respondents have indicated that employees' tax is the least complex tax to comply with. An overwhelming 60.9% of private companies, 45.7% of close corporations and 40.7% of sole traders have indicated that employees' tax is the least complex tax.

VAT is considered to be the most complex tax for small and medium enterprises in and this is consistent with the studies that were conducted by Govender, (2008) and Smulders et al., (2012). The last complex tax as indicated by respondents is employee's tax.

#### **4.2. Section B - Factors of Tax Compliance that are Considered a Challenge**

Respondents were asked a series of questions to identify specific challenges that relate to tax compliance.

a. **Is preparation and submission of tax returns timeously a challenge?**

Out of the 85 respondents, 52.9% of them perceive the preparation and submission of tax returns as a challenge. The remainder of the 47.1% do not feel that the preparation and submission of tax returns is not a challenge.

b. **Is time spent dealing with SARS a negative factor?**

57.6% of respondents believe that the time spent dealing with SARS is negative factor which wastes valuable time and resources for business owners. The remainder of the 42.4% do not consider time spent at SARS to be a problem.

c. **Is the payment of monies to SARS within stipulated times a challenge?**

On overwhelming 81.2% of respondents, feel that the payment of monies to SARS within the stipulated time frames to be a challenge. This strongly correlates to the issues identified in the literature review relating to cash flow problems experienced by small business owners.

d. **Are inflexible regulations pertaining to small businesses a challenge for compliance?**

72.9% of respondents feel that the inflexible regulations imposed by SARS is a major challenge for small businesses. Only 27.1% of small business owners feel that the regulations and compliance requirements are not a challenge.

e. **Are complex returns considered a challenge for tax compliance?**

The majority of respondents (62.4%) have indicated that complex returns are not an issue in achieving compliance. This indicates that business owners generally do understand how to complete and file tax returns to SARS or they have learnt how to deal with the returns and file the accordingly.

### Costs of compliance

Respondents were asked about which costs are most excessive to ensure tax compliance is achieved.

#### Which cost is considered most excessive to ensure tax compliance?

Which cost is considered most excessive to ensure tax compliance?			
	Frequency	Percent	Cumulative Percent
External advisors	29	34,1	34,1
Time spent by owner	43	50,6	84,7
Time spent by key staff	13	15,3	100,0
Total	85	100,0	

The most excessive cost to ensure tax compliance is the time spent by the owner. 50.6% of respondents have indicated that the owners' time is the most costly. Cost spent on external advisors is second, with 34.1% of respondents and time spent by key staff is considered to be the cost which is least excessive with only 15.3% of respondents. The findings above are consistent with studies by (Smulders, et al., 2012) and (Tran - Nam, et al., 2000).

## 5. Conclusion

This study aims to make policy makers aware of the perceptions of the tax challenges in the country. The results from this study allows policy makers to be aware about the complexities and costs that small and medium businesses are exposed to in respect of tax compliance. VAT has been identified as the tax that is most complex to business owners and hence policy makers may need to address some time and resources into finding alternative solutions to assist with VAT compliance. In addition, time spent at SARS by business owners, inflexible regulations and payment of monies with strict stipulated times are considered as serious challenges for businesses. Policy makers may need to address these issues by identifying strategies that are efficient and effective to both the government and the business owners.

Tax compliance challenges have been adversely impacting business growth which is in direct contrast to the strategic objectives of eliminating unemployment and poverty, as set out by the national government. There is an urgent need for a reform in tax policies that regulate the small business sector to support small and medium businesses in accomplishing these objectives.

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