A CONCEPTUAL FRAMEWORK FOR EVALUATING THE TAX BURDEN OF INDIVIDUAL TAXPAYERS IN SOUTH AFRICA

by

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Submitted in fulfilment of the requirements for the degree

PhD option: Taxation

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

at the

UNIVERSITY OF PRETORIA

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November 2012

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

ACKNOWLEDGEMENTS

Ps 121:1: "I lift up my eyes to the hills. From where does my help come?"

I would also like to extend my appreciation to a number of exceptional individuals:

- Professor Riel Franzsen, my supervisor. Thank you for your guidance and encouragement throughout this study. Without your expert contribution and positive support, this study would not have succeeded.
- Professor Madeleine Stiglingh, my co-supervisor and colleague in the Department of Taxation. Thank you for giving me the opportunity to succeed in this study. Your advice and your confidence in my ability motivated me to complete this study.
- Idette Noomé, the person who taught me so much about the English language. Thank you for your professional advice and your passionate work in proofreading and improving this document. Your valuable contribution significantly enhanced the presentation of my study.
- Helmien van den Berg, from the library services at the University of Pretoria. Thank you for your efforts in securing numerous sources and references for me.
- I would also like to thank all my colleagues in the Department of Taxation for their support and encouragement, especially Gerhard Nienaber, Sharon Smulders, Karen Stark, Hettie Terblanche, Thandi Tlamama and Gene van Blommestein – your encouragement motivated me to endure a lonely road. Thank you.
- My parents. I do not know how to thank you enough for all you have done for me. Your unselfish sacrifice years ago provided me with an opportunity to further my studies, and all your love and support over the years enabled me to realise many of my dreams.
- Leo Leonidiv, our adopted family friend. Thank you for your friendship and support over the years, more so in the last year, not only towards me, but

also towards my wife and my boys. Also, thank you for your contribution to enhancing the quality of this document.

- My neighbours, Lawrence and Yvette Cronjé. Thank you for your friendship and support. Your regular encouragement across the fence was more valuable to me than you will ever know.
- All my other friends and family, too many to name each one individually. Thank you all for your support and specifically for tolerating my temporary inability to discuss nothing more than this one topic with you at social events.
- Alrich and Ignus Steyn, my two special boys – the two of you are the best. Thank you for your patience with me during this study, your supportive understanding on why I did not spend as much time with you as before. The two of you are a great inspiration to me, something without which I would not have been able to succeed.
- Marelia Steyn, my wife and the love of my life – your contribution to my success is immeasurable. Without you and your continuous belief in me, I would not have succeeded in any of my endeavours over the years. The words ‘thank you’ cannot come close to expressing my gratitude for all your love, your caring, your encouragement, and your unselfish sacrifices over many years.

ABSTRACT

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In South Africa, just as in a number of other countries around the world, the tax burden of individual taxpayers is a highly controversial issue that frequently arises as a topic of discussion. Studies and debates around the tax burden are often contradictory – to a large extent, this can be attributed to the lack of a comprehensive basis from which the tax burden of individual taxpayers in South Africa can be evaluated, especially from individual taxpayers' point of view. Hence, there is a need in South Africa for a conceptual framework for evaluating the tax burden of individual taxpayers, not only objectively, in terms of the taxes imposed by government on individual taxpayers, but also subjectively, in terms of how these taxpayers perceive the tax burden.

The main objective in this study was to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. In order to achieve this objective, it was essential to define, on the basis of a literature review, the construct of the imposed tax burden and the construct of the perceived tax burden. These definitions of the imposed and perceived tax

burden, formulated on the basis of the literature, then served as a theoretical foundation for the development of the conceptual framework.

The theoretical constructs underpinning the imposed tax burden were used to formulate a classification framework that provides criteria for classifying government imposts used by the South African government as sources of revenue to fund the public sector, according to their inherent characteristics, irrespective of the label given to a particular impost by the government. The results of this classification of government imposts in South Africa, combined with the theoretical constructs of the perceived tax burden derived from the literature, were used to formulate a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa.

The conceptual framework was then applied in a real-life context, using multiple households as case studies. The purpose of the case study research was to assess the validity of the theoretical constructs underpinning the conceptual framework in a real-life environment. The validity of these theoretical constructs was confirmed by the results of the data analysis in this study. Therefore, this study proposes a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa, both objectively, in terms of the imposed tax burden, and subjectively, in terms of the perceived tax burden.

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LIST OF ABBREVIATIONS AND ACRONYMS

Abbreviation /Acronym	Meaning
ACSA	Airports Company of South Africa
AEI	American Enterprise Institute
ARMSCOR	Armaments Corporation of South Africa Limited
ATNS	Air Traffic and Navigation Services Company Limited
BMR	Bureau of Market Research
BOCMA	Breede-Overberg Catchment Management Agency
CASA	Casino Association of South Africa
CGT	Capital gains tax
CHE	Council for Higher Education
CMS	Council for Medical Schemes
CSIR	Council for Scientific and Industrial Research
DA	Democratic Alliance
ELRC	Education Labour Relations Council
GAAL	Gateway Airport Authority Limited
GDP	Gross domestic product
GEPF	Government Employees Pension Fund
HDA	Housing Development Agency
HSRC	Human Sciences Research Council
ICASA	Independent Communications Authority of South Africa
IMF	International Monetary Fund
NBER	National Bureau for Economic Research
NECSA	Nuclear Energy Corporation Limited
NEMISA	National Electronic Media Institute of South Africa
NERSA	National Energy Regulator of South Africa
NHBRC	National Homebuilders Registration Council
NHFC	National Housing Finance Corporation Limited
NHLS	National Health Laboratory Service
NNR	National Nuclear Regulator
NRWDI	National Radioactive Waste Disposal Institute
NURCHA	National Urban Reconstruction and Housing Agency
NYDA	National Youth Development Agency
OECD	Organisation for Economic Co-operation and Development

PAYE	Pay-As-You-Earn
PPSA	Public Protector of South Africa
PRASA	Passenger Rail Agency of South Africa
PSIRA	Private Security Industry Regulatory Authority
QCTO	Quality Council for Trades and Occupations
RAF	Road Accident Fund
RAL	Roads Agency Limpopo
RHLF	Rural Housing Loan Fund
RTMC	Road Traffic Management Corporation
SAA	South African Airways (Pty) Limited
SABC	South African Broadcasting Corporation
SABS	South African Bureau of Standards
SACAA	South African Civil Aviation Authority
SACE	South African Council for Educators
SAMRC	South African Medical Research Council
SAMSA	South African Maritime Safety Authority
SANERI	South African National Energy Development Institute
SANRAL	South African National Roads Agency Limited
SAPO	South African Post Office Limited
SAQA	South African Qualifications Authority
SARS	South African Revenue Service
SDL	Skills development levy
SETA	Sector Education and Training Authority
SHF	Social Housing Foundation
SHRA	Social Housing Regulatory Authority
STC	Secondary tax on companies
TCTA	Trans-Caledon Tunnel Authority
TTC	Total Tax Contribution
UIF	Unemployment Insurance Fund
UNISA	University of South Africa
UPFS	Uniform Patient Fee Schedule
USA	United States of America
USAASA	Universal Service and Access Agency of South Africa
VAT	Value-added tax
WRC	Water Research Commission

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Jean-Baptiste Colbert, Louis XIV's Comptroller-General of Finances, once said that the art of taxation consists in plucking the goose so as to obtain the largest number of feathers with the least amount of hissing (Colbert, n.d.).

Colbert's comment raises a number of questions: When are more feathers being plucked than the goose can afford to lose? How many feathers is the goose giving up, compared to others? Is it justifiable for the goose to start hissing about the number of feathers that it is giving up? How does the goose feel about the plucking of its feathers? These questions relating to Colbert's metaphorical goose can also be asked about a taxpayer. When is the tax burden too much for a taxpayer to bear? How heavy is the tax burden of one taxpayer compared to others' tax burden? Is it justifiable for taxpayers to complain about the effect of the tax burden on their ability to make a living? And how does the taxpayer perceive the tax burden?

The tax burden imposed on taxpayers is not a new topic. In 1776, Adam Smith already referred indirectly to the tax burden of taxpayers in two of his four tax maxims (Smith [1776] 2003:1231). His first maxim deals with the aspect of tax equity amongst taxpayers, in other words, the fair distribution of the tax burden among taxpayers in proportion to their capabilities. The fourth maxim deals with the issue of an economy of collection – it states that every tax ought to take as little and keep out as little as possible from the pockets of taxpayers. This maxim can be interpreted as implying that the costs of tax administration must be kept to a minimum to reduce the impact of these costs on the tax burden of taxpayers.

There is evidence in the economic literature that the debate around the tax burden of taxpayers goes back even further. According to Kennedy's (1913) essay on taxation in England in the period from 1640 to 1799, the tax burden was already a topic of discussion throughout the 17th and 18th centuries. The two aspects that stand out in the period covered by his essay are the tax burden on poor people and the issue of tax equity amongst different taxpayers.

Today, the phenomenon of the tax burden of taxpayers is still a contentious topic that is debated and studied in countries around the world. The tax burden is a common theme in publications under the auspices of the World Bank, for instance, in work by Bird (2009) and Essama-Nssach (2008). In publications by the International Monetary Fund (IMF), the topic also frequently appears, for example, in studies by Keen *et al*. (2011) and Poirson (2006). Another important organisation that frequently does tax burden-related research is the Organisation for Economic Co-operation and Development (OECD), which annually undertakes research on the impact of personal income taxes and social security contributions on the income of households in the 34 OECD member countries[1] (OECD, 2011). From the literature, it is evident that individual member countries are also debating and studying the tax burden within these countries, for example, in Australia, the United Kingdom and the United States of America (USA).

The government in Australia initiated a study on the country's tax system in 2006 (Warburton & Hendy, 2006). One of the focus areas of the research was the overall level of the tax burden in Australia, compared to the tax burden in other countries (Warburton & Hendy, 2006:vii). In an earlier Australian study, the question of who bears the tax burden in Australia formed the topic under investigation (Harding & Warren, 1999). Wood (1999) investigated the tax burden of home-owner residential property taxes in Australia as it affects

[1] The member countries at the time of this study were Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States (OECD, 2012).

citizens' net personal wealth. These examples of studies relating to the tax burden are just a few from the extensive Australian literature on the topic.

In the United Kingdom, the tax burden has also been the subject of several studies. For instance, the Office for National Statistics (2009) analysed the effect that taxes and benefits have on the income of households in the United Kingdom. This analysis included comparisons between different income quintile groups, as well as between various types of household. The tax burden was also the topic for research by Townsend (2003), who defines the burden of taxation as a representation of the share of income that is paid out as taxes. Another United Kingdom study was done by Clark and Dilnot (2002), who analysed long-term trends in the tax burden and in government spending. These studies are just a small selection from the plentiful literature in the United Kingdom on the tax burden.

In the USA, the tax burden is a hotly debated topic, and has been the subject of numerous studies. One study done in Boston, Massachusetts, set out to establish the beliefs of one segment of society about the poor and how that view differed from the views of other segments of society in relation to tax burdens (Williamson, 1976). Fullerton and Rogers (1993) investigated the question (originating from the debates around tax policies) of who bears the ultimate tax burden. Lav (1998) focused on the question of how much tax a typical family pays. Other studies in the USA include one by the National Bureau for Economic Research (NBER) on the question of whether it pays to work (Gokhale, Kotlikoff & Sluchynsky, 2002:3). Another is a survey by the Tax Foundation on the attitudes of taxpayers, asking questions such as whether respondents consider the amount of federal income tax they pay as too high, about right or too low (Chamberlain & Hodge, 2006:4).

The tax burden has also been explored in a number of socio-economic studies in the USA. For example, in one such study, Dickert-Conlin, Fitzpatrick and Hanson (2005:1) used micro-simulation to measure the cumulative burden on low-income households resulting from explicit taxes (State and federal income, and payroll taxes) and implicit taxes (the reduction of programme benefits as earnings rise). A study on public opinion on taxes under the auspices of the American Enterprise Institute for Public Policy Research (AEI), found that, in various surveys done over the previous 70 years, only a very small percentage of Americans reported feeling that the total amount of taxes they paid were too low, whereas the majority of the respondents were of the opinion that their taxes were too high (Bowman & Rugg, 2011:3-5). An article by Colvin (2004:52) claims that the rich keep getting poorer, showing that wealthy people in the USA are hit the hardest by taxes.

The tax burden of households in the USA is also a contentious issue in the political environment. In one study of the tax burden of households types, Caputo (2005:3-4) analysed the distribution of the federal tax burden, the share of after-tax income and the after-tax income under different presidential administrations from 1981 to 2000 in order to determine the extent to which the different household types bore the brunt of the federal tax burden under the different presidents.

In the South African tax environment, similar questions are debated by taxpayers, policy-makers, academics and various other role-players, for example, the question of whether the poor must pay tax was debated in a study by Steenkamp (1994). The Human Sciences Research Council (HSRC, 2000) undertook a public opinion survey on taxes in South Africa in 2000 in which 44% of the respondents indicated that they would be willing to pay more taxes, on condition that the government improved important services such as education, policing and health. Equally, 44% of the respondents indicated that they were not willing to pay more taxes under any conditions. Among the respondents who earned more than R12 500 per month, three out of five indicated that they were not willing to pay more taxes, even if paying more meant that government services would improve (HSRC, 2000). Research by the HSRC four years later showed that a perception of high levels of taxation and a perceived decline in the standard of public services were some of the main reasons why skilled persons emigrated from South Africa (HSRC, 2004). Oberholzer (2008) found that taxpayers were of the opinion that, although it is fair to pay taxes, the tax burden in South Africa was too high and should be reduced. A study by the Bureau of Market Research at the University of South Africa (UNISA) on the income and expenditure patterns of households in South Africa found that for the period from 2007 to 2008, the income tax burden comprised 11% of the total spending of the surveyed households (Masemola & Van Wyk, 2009).

The vexed issue of individual taxpayers' tax burden in South Africa also led to an acrimonious debate in Parliament in 2008. It was suggested that although lower- and middle-income earners had been paying less tax since 1999, higher income earners had been paying more tax. Mr Maans of the Democratic Alliance (DA) asked Mr Trevor Manuel, then the Minister of Finance, whether the budget surplus was the result of an increase in the tax burden, together with a lower rate of increase in expenditure, rather than a decrease in government spending. The Minister replied that the relative tax burden of 'all individual taxpayers' had been reduced over the years, and that the surplus was the result of the strength of the economic growth, supported by higher commodity prices (Pressly, 2008:1).

The tax burden in general also forms a frequent topic for debate and discussion in the popular media[2] in South Africa. The annual budget presented by the Minister of Finance is frequently debated in the media with specific reference to the tax burden. For instance, in an article in *Business Africa* (2001:8) commenting on the 2001 budget, it was argued that the tax burden was too heavy for taxpayers in South Africa, and that personal taxes had gone up from 10% of the gross domestic product (GDP) in the late 1960s to 21% in 1999. By contrast, six years later, the financial magazine *Finweek* published an article by Munnik (2007:9), who points out that, in the 2007 budget, the Minister of Finance lifted the tax burden on individuals, which resulted in taxpayers' having more money available to them. The question 'Are South Africans really overtaxed?' was debated in a magazine article by the then Chief Director of Tax Policy at the National Treasury, a Rhodes University professor, a tax consultant, an economist and the head of the Taxation Department at the University of

[2] Note that the discussions and debates cited from the popular media are based on opinions and are not the result of focused research studies.

Cape Town (Theunissen, 2005:54). Jones (2010) asked a similar question in his article 'How much tax do you really pay each month?' In another magazine article, Jooste (2009:16) comments that 'individual taxes and the related hidden costs are putting immense pressure on individuals and it might just kill them – financially that is'. In the discussion forum of *The Times*, the editor claims that the income of the middle classes is under attack in the form of increased tax pressure and he demands that this practice end forthwith (Hartley, 2009).

In these debates and discussions, the ever-increasing demand for government income in the form of imposts of various kinds, such as an increase in electricity tariffs (NERSA, 2010), is frequently used as an example of the impact of taxation on the middle classes in South Africa. The media also complain that local government plays an unfortunate role in increasing the tax burden of the middle class, who make up most of the limited number of individuals who pay tax in South Africa (Slabbert, 2010). Slabbert (2010) cites the comments of two of South Africa's best-known economists, Mike Schüssler and Dawie Roodt, on increases in municipal charges since 2008 and the effect that these increases have had on middle income households in the country. According to these economists, South Africans paid 72.2% more for municipal services in the third quarter of 2010 than they did in the same period in 2008. Schüssler argued that by the third quarter of 2010, the amount that people paid for municipal services and rates was equal to the total amount of personal income tax paid by individuals in South Africa. He expressed the opinion that this tax burden was too high and was not sustainable. If the increase in citizens' tax burdens was not limited, all income would go to the government in five years time, according to Schüssler (cited by Slabbert, 2010). Roodt commented that this sharp increase in tariffs for municipal services was not distributed equitably amongst citizens in the country, and that the effect of this was that the increase for the middle class was even greater than 72.2%. He also mentioned that the medium-term municipal budgets announced by the Department of National Treasury for the subsequent two years would increase the burden even further, by 25% (cited by Slabbert, 2010).

These debates and discussions, together with a number of others in the academic literature and popular media (which cannot all be covered here, given the scope of the study), serve as an indication that the tax burden is a highly contentious issue in South Africa, just as it is in other countries. The tax burden is a source of contention and concern, not only in government, academia and the media, but also, and perhaps most importantly, amongst those who experience the burden of taxes in real life, namely the individual person as a taxpayer.

The maxims that Adam Smith formulated in 1776 spell out principles that are still important today: government needs fiscal support from its subjects, but the taxes that a government levies should keep as little as possible out of the pockets of the people (Smith, [1776] 2003:1231). Smith's theory is honourable and makes intuitive sense, but it does not answer the question of whether, in its calculation of the fiscal support it needs from its subjects, a government takes into account the tax burden as perceived by the individual taxpayer. In other words, does the government really know the impact of its fiscal policy on the individual taxpayers as it is experienced by them in real life? If not, there may be a vast difference between the expectations of a government and those of its subjects regarding taxes. It is therefore very important that, when a government formulates its fiscal policy, this policy is based on models that contain thoroughly researched information. In not taking the perspective of the goose that lays the golden eggs into account, the government might be killing the goose without realising it, until it is too late.

1.2 RATIONALE FOR THE STUDY

Mill (1861:118), a 19th century British philosopher, political economist and civil servant, said on politics and society: 'The interest of government is to tax heavily: that of the community is, to be as little taxed as necessary expenses of good government permit.' In view of Mill's claim, it is necessary to try to determine the point at which the taxes levied by government are justified in terms of the expenditure required for good governance, and where the taxpayers perceive the tax burden placed upon them as acceptable.

Stamp (1921:201) emphasises the importance of considering the taxpayers' point of view. Stamp argues that taxation questions may be looked at from three angles: that of the taxpayer, that of government and that of the community as a producing or economic society. This argument is in line with the contention in the current study that taxpayers' perspective of their tax burden must be considered in the process of fiscal policy-making or any other process that may have an impact on the tax burden. Doing so will contribute to a better understanding by the government and policy-makers of how individual taxpayers perceive the overall tax burden imposed upon them and reduce the gap between the expectations of government and those of taxpayers.

The importance of understanding how taxpayers perceive the tax burden is also stressed by Brennan and Buchanan (1980:225), who claim that public economists' main concern has always been to provide advice to government decision-makers on how the State should tax its citizens and how it should use its taxing powers. In their opinion, it is essential to introduce models that also take into account those who suffer the burdens of taxation, in other words, those who are the potential subjects of a government's powers of fiscal exaction (the taxpayers), an aspect often neglected by public economists.

Mendoza, Razin and Tesar (1994:1) claim that a reliable measure of tax rates is essential in order to develop a quantitative analysis and the application of theories related to taxation, thereby helping to transform the theory into an adequate policy-making tool. This argument in part provides the rationale for this study, in that it posits the need for a conceptual framework to evaluate the tax burden, which would then include the tax burden as perceived by individual taxpayers in South Africa. This is necessary to ensure that policy-makers consider all the important factors in any quantitative analysis. Mendoza *et al.*'s (1994:1) view is in line with that expressed by Amusa (2004:117) in a South African study on the macroeconomic approach to estimating effective tax rates. Amusa (2004:117) comments that, given the country's economic and political history, the efficient mobilisation and maximisation of tax revenue represents a critical policy objective. These studies highlight the importance of complete and accurate information for the formulation of an acceptable and equitable fiscal policy. If policy-makers do not take the perspective of the tax burden held by individual taxpayers into account, the information used in any quantitative analysis may be based on incomplete and inaccurate information. This may in turn lead to policy decisions that could have a negative impact on the taxpayers and the economy as a whole.

In South Africa, as elsewhere, it is very important for policy-makers to base their formulation of fiscal policies on scientifically researched information that includes important aspects such as how the tax burden is perceived by the individual as a taxpayer. They have to be sensitive to the fact that any changes to the fiscal policy may have a considerable impact on individuals as taxpayers in this country. Conversely, resistance from such taxpayers could have a critical effect on the South African economy, especially because at present only a very small proportion of the total population in South Africa contributes to the revenue pool: any reduction of this pool has a significant impact on the economy as a whole. Aaron and Slemrod (1999:8) comment as follows in relation to the small proportion of the population that contribute to tax revenue in South Africa:

- '[b]ecause income inequality is extreme, all personal income tax and most revenue are collected from a small proportion of the population';
- '[t]he personal tax is levied at steeply progressive rates on domestic source incomes of individual filing units';
- 'only 5.8 million people, or about 23 percent of the adult population, filed returns in 1998'; and
- '[t]he most affluent 20 percent of the population receive 74.3 percent of household income and pay 94.3 percent of personal income tax'.

The situation has not changed much for South African taxpayers since 1999. Table 1 and Table 2 (overleaf) illustrate this, drawing on statistics from Statistics South Africa (2012) and the National Treasury (2012).

Table 1: Summary of the population and the labour force in South Africa

Detail	Number (Thousands)
Number of individuals between the ages of 15 and 64 years (working population)	32 670
Number of individuals not economically active	14 929
Number of individuals making up the labour force	17 741
Number of individuals in the labour force that are employed	13 497
Number of individuals in the labour force that are unemployed	4 244
Percentage of the labour force that are unemployed	24%

Note: These statistics reflect the end of the last quarter of 2011.
Source: Adapted from Statistics South Africa (2012)

Table 2: Summary of taxpayers and contributions in South Africa

Detail – 2012 budget		Values
Estimated numbers used in the budget (thousands):		
• Total number of individual taxpayers		11 041
• Number of the total who are below the income tax threshold[3]		4 864
• Number of total who are above the income tax threshold		6 177
Budgeted revenue from taxes (Rand millions):		
• Taxes on income and profits	58%	R475 729
• Taxes on payroll and workforce	1%	R 11 131
• Taxes on property	1%	R 8 627
• Value-added tax	25%	R209 675
• Domestic taxes on goods and services	10%	R 84 879
• Taxes on international trade and transactions	4%	R 36 359
Total budgeted revenue from taxes:	100%	R826 401
Income tax budgeted figures (Rand millions):		
• Total income tax		R475 729
• Contribution to the total by individual taxpayers for the year		R286 252
• Percentage contribution by individual taxpayers		60%

Note: Figures in the annual budget presented to Parliament towards the end of February 2012.
Source: Adapted from the National Treasury (2012:50, 153)

[3] The income tax threshold is in essence the taxable income amount from where an individual taxpayer actually begins to incur an income tax liability. The threshold in the 2012 Budget for persons below the age of 65 years is R60 000 (National Treasury, 2012:50).

Using the statistics in Table 1 and Table 2 as an underpinning,[4] the position of the individual taxpayers in South Africa can be interpreted as follows:

- Of an estimated population of 50 587 000 (Statistics South Africa, 2011b:3), only 6 177 000 (those above the tax threshold), or around 12% of the total population, are responsible for income tax to the amount of R286 252 million, on average R46 341 per individual taxpayer.
- The progressive income tax rates, as they appear in the 2012 budget, start with a minimum rate of 18% (on a taxable income up to R150 000), increasing progressively up to a maximum rate of 40% (on a taxable income above R580 000) (National Treasury, 2012:50).

  About 6 656 100, or around 60%, of the total number of individual taxpayers fall into the first category on the scales (National Treasury, 2012:50). However, of these, 4 864 000 are below the tax threshold, and therefore do not contribute to the income tax revenue (Table 2). The remaining 1 792 100 in this category contribute around R11 297 million to the total income tax of R286 252 million – around 4% of the total and on average R6 304 per individual taxpayer in this category per year. Individual taxpayers in the top category of the scales number around 277 550 (National Treasury, 2012:50). In total they contribute around R108 789 million, or 38%, to the total of R286 252 million – an average of R391 962 per taxpayer in this category per year. The remaining 4 107 400 individual taxpayers in the middle categories are burdened with the remaining 58%, which amounts to about R166 166 million – on average, R40 455 per individual taxpayer per year.
- The top three categories of the scales comprise 15% of the total number of individual taxpayers (National Treasury, 2012:50). This 15%, in total, earn an estimated taxable income of R801 379 million, around 49% of the total estimated taxable income. Their contribution to the total income tax amounts

[4] The number of persons at the end of the last quarter of 2011 (Statistics South Africa, 2012) does not correspond exactly to the number of persons in the 2012 budget (National Treasury, 2012). However, the purpose of citing these figures is only to illustrate the small number of individual taxpayers in South Africa in relation to the total population and to place their situation into perspective.

to an estimated R200 353 million, which constitutes 70% of the total income tax revenue from individuals.

- Of the total adult working population of 32 670 000, only around 6 177 050, or 19%, effectively, can be expected to submit a return for income tax purposes.

The purpose of these figures is to highlight the fact that there is not a large pool of individual taxpayers that contribute to the revenue pool in South Africa and that any change in the fiscal policy may therefore have a material impact on the tax burden of this small number of individual taxpayers. Any big increase in the tax burden of these taxpayers may give rise to resistance from them. In turn, this may be detrimental to both the economy and the country as a whole. The following situation is an example of such a potential problem.

One of the ways that taxpayers already use in South Africa to express their resistance to the heavy tax burden is to emigrate to other countries. In a study by the HSRC on reasons why South Africa loses so many highly skilled citizens to other countries, it was found that one of the main reasons people gave was their perception that the levels of taxation in South Africa are too high (HSRC, 2004:2). Other evidence that the tax burden plays a role in taxpayers' decision to emigrate can be found in Vogt's (2009) article 'Tax rules have advantages for employees'. The article discusses the tax benefits of moving employees to Switzerland, arguing that the applicable overall tax charge on employment income makes Switzerland attractive not only for investors, but also for their employees (Vogt, 2009:32). The message of this article is that investors and employees are beginning to consider relocating to countries where the overall tax burden for a company and its employees is lower than in other countries. Although this is not the only factor influencing such a decision, it plays an important part in making the decision to emigrate or not. If individuals as taxpayers in South Africa start to emigrate more and more, it may lead to a further increase in the tax burden of the remaining taxpayers. Such a scenario could be very damaging to the country's economy.

Various economists have studied the tax burden of individual taxpayers in South Africa. In one study, the progressivity of personal income tax in South Africa for the period from 1989 to 2003 was investigated by Nyamongo and Schoeman (2007:478), who explain that the progressivity of tax has long been the subject of discussion in economics and that it is important to determine whether a tax complies with the fairness principle, which underpins a good tax. Their results suggest that the progressivity of personal income tax in South Africa increased over the period under review, but they added that this increase may be attributed in part to an increase in the number of taxpayers who fall into the higher income groups (Nyamongo & Schoeman, 2007:478). Their comments on their findings echo the perceptions of many individual taxpayers that the tax burden for higher income earners in South Africa was, and still is, very high. The main criticism against this kind of economic study is that the study is often based on an analysis and the interpretation of statistics, without any consideration of how the tax burden is perceived by an actual individual taxpayer in a real-life context.

Another study examined the impact of changes to the tax policy on women in South Africa since 1994. Smith (2000:1) correctly points out that most analyses of government budgets and their differential impact on men and women tend to focus only on the expenditure side of the budget. In other words, these analyses consider the budgets only from the government's point of view. Very little attention is paid to the revenue side, or the taxpayers' point of view. This supports the contention of the current study that it is important to consider the tax burden as perceived by individuals as taxpayers in South Africa.

Oberholzer (2008) found in her study on the perceptions of South African taxpayers that 73.46% of the respondents were of the opinion that it is fair to pay taxes. However, 77.31% of the respondents believed that income tax should be reduced, and 82.31% were of the opinion that the value-added tax (VAT) rate should be reduced (Oberholzer, 2008:102). In the same survey, it was found that 63.08% of the respondents believed that wealthy people should pay more tax, and that there was a perception amongst taxpayers that 'wealthy people' paid too little tax. Conversely, 'wealthy people' in their turn believe that their tax burden is too high (HSRC, 2000:1). This difference between the perceptions of individual taxpayers may be an indication that the way in which these taxpayers perceive the tax burden is vastly different. What neither Oberholzer's (2008) study nor the HSRC (2000) study considered is the context in which these taxpayers' perceptions about the tax burden were formulated. In other words, does the actual tax burden as perceived by taxpayers support the perceptions of the taxpayers in these studies?

The accounting and auditing firm PriceWaterhouseCoopers has designed a total tax contribution framework for large companies in South Africa and various other countries. The objective of this framework is to enhance transparency regarding the aggregate amount of tax contributed to the fiscus by these large companies. This framework was developed because there is a perception that large companies are not paying their fair share in taxes, with the result that other taxpayers, including individuals, have to pay more taxes (PriceWaterhouseCoopers, 2009:26). As part of their second report on the total tax contribution, the 2008 data were used to calculate the percentage of salaries and wages that consist of 'people taxes'. These taxes, for the purposes of the study, include Pay-As-You-Earn (PAYE), the Occupational injuries and disease levy, the Skills Development levy (SDL) and contributions to the Unemployment Insurance Fund (UIF). The total percentage for the participating companies was 22.7% of salaries and wages. This 22.7% is made up of 1.7% paid by the companies and 21% collected by the companies from employees (PriceWaterhouseCoopers, 2009:26). These figures indicate that the tax burden of employees in those companies is 21%, on average, of the salaries and wages paid. One problem with these statistics is that they are calculated as a percentage of the total salaries and wages of these companies, which include the salaries and wages of employees who do not necessary pay income tax on their earnings from employment – for instance, people below the tax threshold. Therefore it does not provide an accurate indication of the tax burden for individual taxpayers.

The PriceWaterhouseCoopers (2009) report further indicates that there is a perception and debate amongst the different groups of taxpayers that the tax burden of one group is higher than that of another group. Unfortunately, this report mainly examines the tax burden of companies in South Africa and only to a very limited extent that of the individual employees of these companies. To have a meaningful debate on the issue of the tax burden of individual taxpayers, it is necessary to develop a similar tax contribution framework that can be used for evaluating the tax burden of individual taxpayers in South Africa. This framework must have similar objectives for assessing individual taxpayers to the objectives of assessing the total tax contribution for companies in South Africa. Just as the total tax contribution for companies takes into account the perspective of the tax burden of companies, the framework for individual taxpayers should consider the perspectives of individuals of their tax burden.

Kyle Mandy (2009:2) examined the question of how tax relief to individuals over eight years (the 2001/02 to 2009/10 tax years) affected the average tax rates of individuals in South Africa. He used practical examples, combined with hypothetical salary packages that increase over time, taking inflation into account. The results from these calculations demonstrated that low-income earners had experienced a decrease of 50% of the average tax rate since the 2002 tax year. For middle-income earners, it was 20%, and for high-income earners, it was 12.5%. However, he pointed out that these calculations do not paint the full picture of the tax burden for individuals in South Africa – as he put it: ‘As we all know, Manuel usually gives with the one hand while taking a bit with the other’ (Mandy, 2009:1). The ‘bit’ that Trevor Manuel (the then Minister of Finance) takes is in the form of indirect taxes, which makes it difficult to compare the tax burden for individuals in South Africa over a given period. Mandy (2009:2) also warns that ‘the shift of a significant portion of the aggregate individual tax burden from low-income earners to middle- and high-income earners’ is a matter for concern. His article contributes to the debate around the tax burden of individuals in South Africa. It also highlights the need for a conceptual framework from which consistently to evaluate and compare the tax burden of individual taxpayers in South Africa.

Such a conceptual framework is deemed important to ensure that the quantitative models used by policy-makers make use of reliable and consistent methods for evaluating the tax burden, not only from the government's and the community's points of view, but also from the taxpayers' point of view, as stressed by Stamp (1921:201). The development and use of such a conceptual framework is particularly important in the South African context because of the limited number of individual taxpayers who make a material contribution to the revenue pool that sustains the government.[5]

From the debates and studies in South Africa cited above, it is clear that some claim that the tax burden of individual taxpayers has increased over the years, while others argue that the tax burden has decreased. Some claim that the tax burden of high-income earners is not high enough, while these taxpayers perceive the tax burden to be too high for them. These contradictory perceptions relating to the tax burden carried by the individual taxpayers in South Africa do not arise in a vacuum, but originate from some basis for these taxpayers' perceptions relating to their tax burden. The differences may in part be attributed to the different methodologies and assumptions underpinning the evaluation and interpretation of the tax burden by economists, politicians, accountants and academics. Thus something that is clearly absent from the South African literature on the tax burden of individual taxpayers in the country is a point of reference such as a conceptual framework that can be used for a consistent evaluation of the tax burden of individual taxpayers in South Africa – not only objectively, in terms of the legally imposed tax burden, but also subjectively, in terms of how the tax burden is perceived by taxpayers.

[5] See Table 1 and Table 2 of the present study.

1.3 RESEARCH OBJECTIVES

The primary objective of the present study is to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa.[6]

The main objective is supported by the following secondary objectives:

- to establish and define the theoretical constructs required as an underpinning to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa;
- to formulate a conceptual framework from theoretical constructs for evaluating the tax burden of individual taxpayers in South Africa; and
- to apply the theoretical constructs from the present study in a real-life context, with the purpose of validating these theoretical constructs.

1.4 SCOPE AND LIMITATIONS OF THE STUDY

The main objective of this study is to develop a conceptual framework that can be used as a basis to evaluate the tax burden of individual taxpayers in South Africa. Important elements of the scope of the study are explained below:

- The study is limited to natural persons as taxpayers in South Africa, and does not include corporate entities, trusts, and other similar entities.
- The study involves baseline research and the purpose is not to generalise the findings to the whole population in South Africa. Overall, the study focuses on exploratory research. The conceptual framework developed in the present study must be regarded as an initial framework. One of its objectives is to encourage future research to build on to, and to refine, this initial framework.
- The purpose in defining a 'tax', as it was formulated in the present study, was to create a consistent foundation from which a government impost can be classified for the purposes of evaluating the tax burden of individual

[6] For the purposes of this study, the term 'individual taxpayers in South Africa' must be interpreted as referring to natural persons as taxpayers in South Africa.

taxpayers in South Africa. Therefore, it is by no means claimed that the definition used in this study is a comprehensive definition that makes provision for all circumstances where a definition of a tax is required.

- The present research does not claim, or try to create the impression, that the conceptual framework developed in this study is an economic model in the domain of economics as a discipline. Although the present study refers to and uses terminology frequently found in the economic literature, these terms must be read in the context within which they are used in the present study.
- In defining the imposed tax burden for the purposes of this study (see Chapter 2), the present study refers to the concept of tax shifting and the effect this practice may have on the tax burden. However, the debate around the concept of tax shifting and the methods of determining the final resting place of the tax (as debated in the economic and public finance literature) was not included in the scope of the present study.
- The analysis of the South African public service structures and financing was carried out at a particular time and in a particular context. Any changes after the analysis in the present study were not considered or included in the study, and therefore the results from any future analysis may differ in some respects.
- The effect of the stabilising function of government on the tax burden of individual taxpayers in South Africa was not considered. The reason for this was that this function relates to macro-level studies in Economics as a discipline, whereas the present study focuses on a micro-level, namely individual taxpayers.
- The present study includes benefits that taxpayers receive from government in measuring the tax burden. For the purposes of the study, these benefits from government were limited to those benefits that taxpayers receive in cash from government. Non-cash benefits provided by government to the taxpayers were excluded from the present study. The fair allocation of non-cash benefits to individual taxpayers, as found in the literature, is a long-standing topic for debate, but the purpose of the present research was

neither to debate nor to develop methods for allocating these non-cash benefits from government.

1.5 RESEARCH METHOD

The study commences with a review of the relevant literature to establish the theoretical constructs required for the study. The outcome of the literature review forms the theoretical basis for the conceptual framework and also provides clarity on the constructs underpinning the conceptual framework developed in this study.

The literature review is followed by a validation of these theoretical constructs in a real-life context, using multiple case studies. A total of nine specifically selected individual taxpayers' households are included in the case study research. The data from each case study were collected by means of an interview with the participants, using a standard interview schedule. The multiple or collective case study method for collecting data was deemed the most suitable for this study, because the personal circumstances of each individual taxpayer vary and it was necessary to record details about the various factors that may have had an impact on the tax burden of an individual taxpayer. The primary data collected from each case study present a snapshot of the interviewees' situation at a particular point in time, making the study a cross-sectional study, as described by Saunders, Lewis and Thornhill (2007:148).

The research is exploratory in nature and it is hoped that it will encourage further research and debate on the topic in future. The study does not use statistical hypothesis testing – it is qualitative, with an interpretive orientation. The purpose of the research is to understand the phenomenon of the tax burden in depth, rather than to understand the relationship between variables, as described by Henning, Van Rensburg and Smit (2004:3). The main objective of the present study is to develop a conceptual framework from the theoretical constructs underpinning the phenomenon, and to validate these theoretical constructs in the 'real world', as described by Leedy and Ormrod (2005:135) and Robson (1993:146).

The case study research concentrated on very sensitive personal information on the participants. Therefore, informed consent was obtained from each of the participants in the case study research. The informed consent forms explain the confidentiality with which the information was treated and the anonymity of each participant in detail. The approval of all the relevant parties was obtained where necessary, and the approval of the Research Ethics Committee of the Faculty of Economic and Management Sciences at the University of Pretoria's was obtained before the fieldwork commenced.

1.6 STRUCTURE OF THE THESIS

The main outcomes of the present study are presented in the format of a thesis. The structure of the thesis is explained and summarised below.

1.6.1 Chapter 1: Introduction

Chapter 1 provides an introduction and background to the present study. It also sets out the primary research objective of the study, as well as the secondary objectives that support the primary objective. The rationale for the research is given and the scope of the study is delimited. The research method is briefly explained, and a short overview of the chapters is provided.

1.6.2 Chapter 2: The imposed tax burden

Chapter 2 identifies and defines the theoretical constructs that are relevant to the main and secondary objectives of the study. This literature review analyses the concept of the 'imposed tax burden' to ensure that the correct construct is used for the conceptual framework and to provide clarity on exactly what is evaluated in this study. This chapter forms part of the theoretical basis for the conceptual framework developed in the study for evaluating the tax burden of individual taxpayers in South Africa.

1.6.3 Chapter 3: The imposed tax burden in South Africa

Chapter 3 analyses and clarifies the imposed tax burden of individual taxpayers in South Africa, using the theoretical constructs relating to the tax burden set out in Chapter 2 as an underpinning.

1.6.4 Chapter 4: The perceived tax burden

Chapter 4 defines the theoretical constructs that are relevant to the tax burden as it is perceived by individual taxpayers in South Africa. This chapter analyses the concept of the 'perceived tax burden'. The literature review in this chapter is used to provide clarity on the constructs used to construct the conceptual framework developed in the present study.

1.6.5 Chapter 5: Formulating the conceptual framework

Chapter 5 formulates a conceptual framework based on the theoretical constructs established and defined in the preceding chapters of this study.

1.6.6 Chapter 6: Validating the conceptual framework

Chapter 6 describes the research strategy that was followed to validate the conceptual framework presented in Chapter 5 in a real-life context.

1.6.7 Chapter 7: Data analysis

Chapter 7 explains the method for analysing the primary data from the validation process described in Chapter 6, and presents the results of the data analysis.

1.6.8 Chapter 8: Conclusion

Chapter 8 brings the study to its conclusion. The chapter summarises the findings and conclusions from the other chapters, explains the contribution and limitations of the present study, and also makes suggestions for future research.

CHAPTER 2:
THE IMPOSED TAX BURDEN

2.1 INTRODUCTION

The objective of this study is to develop a conceptual framework that can be used to evaluate the tax burden of individual taxpayers in South Africa. The tax burden can be evaluated objectively by looking at the actual taxes imposed[7] by government on taxpayers. Taxes may consist of various imposts used by governments to raise revenue, and these imposts may be labelled differently by governments, using a variety of terms, for instance, 'tax', 'levy', 'user charge', 'duty', 'fee', etc. (Thuronyi, 2003:48-53; Weier, 2006:15-16). This raises the question of which imposts in essence constitute a real tax that must be included when the imposed tax burden is evaluated, and which of governments' imposts are in fact not a tax and should consequently be excluded from an evaluation of the imposed tax burden. The construct of the **imposed tax burden** was defined in this chapter by means of a review and an analysis of the relevant literature, in order to enhance understanding of the inherent characteristics of the imposed tax burden as a phenomenon, and to ensure that the conceptual framework developed in this study incorporates all the relevant aspects required for evaluating the tax burden of individual taxpayers.

2.2 THE IMPOSED TAX BURDEN AS A CONSTRUCT

To 'impose' is defined in the *Oxford Dictionary and Thesaurus* (2009:465) as to 'force something to be accepted'. Synonyms of the verb 'to impose' include 'to levy', 'to charge', 'to apply', 'to enforce', 'to set', 'to establish', 'to institute', 'to introduce' and 'to bring into effect'. In the context of this study, the word is used to describe a liability that is placed on a taxpayer by government, in terms of

[7] The verb 'to impose' is defined by the *Oxford Advanced Learner's Dictionary* (1995:465) as 'to place a penalty, tax, etc officially on sb/sth'.

legislation, on a taxpayer's income, wealth, and/or consumption of goods and services.

This raises the question of what a tax is. An anonymous wit once quipped: 'A fine is a tax for doing something wrong. A tax is a fine for doing something right.' The words of this anonymous author may seem to offer a simple answer to the question of what a tax is, but unfortunately the concept of a tax is much more complicated. One useful point of departure in understanding the inherent nature and purpose of a tax is a brief overview of the historical development of taxes.

2.2.1 Historical overview of taxes

The concept of taxation goes back as far as the ancient kingdoms of Mesopotamia and Egypt, to before 3000 BC (Salanié, 2003:2; Webber & Wildavsky, 1986:38-52). '*Covée*' was the earliest form of taxation on record. It consisted of a mandatory contribution of labour to the king. The word 'labour' in the ancient Egyptian language was, in fact, synonymous with the word 'tax' (Webber & Wildavsky, 1986:68). A Sumerian tablet dating back to around 1500 BC, found in Iraq, contains an inscription that reads: 'You can have a Lord, you can have a King, but the man to fear is the tax collector' (Muller, 2010:12; Salanié, 2003:2). In those times, the King was synonymous with the State and had to provide for things such as an army, his court, priests, family and officials. To fund all this he had to levy taxes on the peasants, who constituted most of the population. Taxes were paid by the peasants in the form of physical labour and 'tithes', which were a fixed portion of their agricultural produce (Webber & Wildavsky, 1986:38-51). Merchants and artisans in Mesopotamia also had to pay one third to half of their gross receipts as tax to the ruler of their town (Adams, 1993:5-15).

In the ancient empires of the Greeks and the Romans (between 800 BC and about 500 AD), taxes were levied on the sale of land and slaves. They introduced the concept of import duties on goods and also levied tolls on the use of infrastructure. For many centuries, the burden of these taxes was largely carried by the peasants (Coffield, 1970:4; Salanié, 2003:2). The first real direct taxes were introduced during the reign of the Emperor Diocletian, 284-305 BC (Muller, 2010:12). These taxes were levied per head and on land for the citizens of Rome. These taxes were generally regarded as symbols of oppression and disappeared with the fall of the Roman Empire (Adams, 1993:103-110). Both Greece and Rome levied taxes on wealth, but some elite groups were excluded from this burden, with the result that the commercial classes were taxed more heavily. If revenues from taxes decreased, new taxes were implemented or the tax rates were increased (Webber & Wildavsky, 1986:107-108).

Under the medieval feudal system (around the 5th to the 15th centuries), the principle was adopted that everyone, irrespective of status, must contribute to the State, either in the form of military service or labour (Salanié 2003:2; Seligman, 1914:42). For instance, in 1304, a feudal levy was implemented in France, whereby a nobleman could send armed knights for the king's service in lieu of the tax. This principle was expanded to all subjects, and even peasants had to provide between four to six soldiers for each group of 100 hearths[8] (Adams, 1993:156; Webber & Wildavsky, 1986:180). This form of direct taxation levied on the subjects of the State during the Middle Ages was in essence a makeshift poll tax. With the development of the concept of private property and the differentiation between economic classes, this poll tax was either replaced or supplemented by a general property tax (Seligman, 1914:5-6). However, real estate during the feudal times was not really bought or sold, with the result that taxes were levied on the rent value and not on the selling value of the property (Seligman, 1914:41).

During the Middle Ages (around the 14th to 15th centuries), Italy was at the forefront of industrial development, and taxes were levied in Italy on the rental value of property (*estima*). In 1415, the earnings of wealthy merchants were subject to an income tax on gains (*catasto*). In a sense, Medieval Italy was thus

[8] A hearth is the fireplaces of a family unit (Webber & Wildavsky, 1986:180)

responsible for the evolution from a property-based tax to an income-based tax (Seligman, 1914:47).

Toward the end of the Middle Ages, taxes on consumption were accepted more and more as an important source of revenue for governments (Seligman, 1914:47-48). One of the main reasons for this was that these consumption taxes were seen to be levied on both the rich and the poor. Consumption taxes during this time took the form of both direct and indirect imposed taxes. Direct taxes were levied in the form of taxes on trade and industry, and indirect taxes were levied in the form of excise taxes. At that time, taxes on the income of individuals generally did not really exist as a broad tax base for government revenue (Seligman, 1914:47-48).

In the period from 1790 to 1793, the taxing of domestic and foreign trade contributed the largest portion of government revenues (Seligman, 1914:60). Consumption taxes were imposed on numerous consumer goods, for instance, on some foods, drink, coal, candles, soap, manufacturing materials, silk, wool, leather and hats. In England, luxuries and items of pleasure such as wigs, fashion goods, tobacco and playing cards were also taxed. Of these taxes levied, the one with the most impact on consumers was the taxing of salt, which was then used extensively for the preservation of food and the seasoning of cereals such as oatmeal (which formed the staple diet of many peasants). Hence, salt taxes provided a dependable stream of income for a number of countries (Seligman, 1914:60; Webber & Wildavsky, 1986:271-272). The French Revolution and the Napoleonic Wars (1793 to 1815) brought about the first modern-style income taxes in England and other European countries. These income taxes were only temporary in nature and were abolished after the Napoleonic wars ended (Aidt & Jensen, 2009:162; Salanié, 2003:2-3; Seligman, 1914:10-11).

Income taxes in the 19th century became more and more important for governments. The liberal ideas of ‘free trade’ effectively lead to a reduction in the revenues to government from excise and customs duties (Salanié, 2003:3). In the 20th century, with World War I and World War II, and the emergence of welfare states, large increases of revenue from income taxes were needed to finance welfare programmes (Salanié, 2003:3). Income taxes in the USA and the United Kingdom were basically a 'mass tax' paid by all households and were mainly collected by means of a system of pay-as-you-earn (PAYE). After World War II, a strong move towards social expenditure gave rise to an increase in the imposition of income taxes. Social expenses such as pensions and unemployment benefits were created and had to be financed (Salanié, 2003:4-5; Webber & Wildavsky, 1986:354-355, 547-548).

This brief overview of the history of the development of taxes indicates that modern taxes evolved over a long period, where the creation of each type of tax was influenced by events at specific periods in history. Modern-day taxes consist of various imposts used by government to raise revenue, and the diversity of government imposts in modern tax systems makes it possible that many taxpayers are unaware of the total amount of taxes that they pay. In this regard, Webber and Wildavsky (1986:578) refer to a 'fiscal illusion'. The doctrine of a 'fiscal illusion' or 'hidden taxes' is used to describe how the citizens of a country are misled into paying more taxes than they would ordinarily be prepared to pay if they knew how much they were really paying (Webber & Wildavsky, 1986:578).

Government imposts are labelled using various terms, of which 'taxes', 'levies', 'duties', 'user charges' and 'rates' are the ones most commonly found in the literature (Steenekamp, 2012; 162-163; Thuronyi, 2003:48-53; Weier, 2006:15-16). The term 'taxes' generally refers to compulsory impositions by governments, whereas 'levies' are compulsory, but can be imposed by either the government or by another authority (Weier, 2006:15). 'Duties' is a term commonly used to describe imposts on the consumption or importation of certain goods and services (Weier, 2006:15-16). 'User charges' generally refer to the prices charged by government for certain public goods and services, whereas 'rates' refer to specific taxes levied on property (Steenekamp, 2012:246-246; Weier, 2006:15-16).

According to Say (1821:341-342),

> Whatever be the denomination it bears, whether tax, contribution, duty, excise, custom, aid, subsidy, grant, or free gift, it is virtually a burthen imposed on individuals, either in a separate or a corporate character, by the ruling power for the time being.

Say's words support the notion that a tax labelled as something else to hide its true nature (knowingly or unknowingly) is still inherently a tax, no matter what a government calls it. Similarly, Thuronyi (2003:46) indicates that the concept of a tax is somewhat malleable,[9] suggesting that a tax can easily be disguised as something else.

However, no matter what the government labels an impost, one way or another, all imposts serve the purpose of raising revenue to fund governments' expenditure. It may therefore be helpful to discuss the concept of government revenue to provide clarity on the nature of governments' sources of revenue.

2.2.2 Government revenue

Government revenue can be classified into three main categories of revenue: **derivative revenue**, **direct revenue** and **anticipatory revenue** (Adams, 1898:219-220; Musgrave & Musgrave, 1980:229).

Derivative revenue arises from income that originally forms part of the income of a taxpayer, but is paid over to government, based on an impost created in terms of a revenue law. This type of impost is normally referred to as a tax (Adams, 1898:220; Lutz, 1936:194; Musgrave & Musgrave, 1980:229; Steenekamp, 2012:163). In South Africa, like elsewhere in the world today, a tax is regulated by legislation to enable the government to meet its

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[9] The word 'malleable' can be used to describe something that is easily changed into a new shape (*Cambridge Advanced Learner's Dictionary*, 2008:867).

constitutional obligations and fund services that the government is supposed to deliver to the public (Croome & Olivier, 2010:1).

Direct revenue refers to income that accrues directly to the government through the delivery of particular public goods or services (Adams, 1898:119-220). This revenue for the government originates from imposts in the form of prices charged by the government for providing these particular goods and services. The impost for these public goods and services is based on voluntary transactions between the government and consumers (Musgrave & Musgrave, 1980:229). The imposts by the government on these public goods and services are often referred to as user charges (Adams, 1898:119-220; Lutz, 1936:192; Musgrave & Musgrave, 1980:229; Steenekamp, 2012:162).

The category of **anticipatory revenue** refers to moneys borrowed by a government to fund its functions (Adams, 1898:220-221; Steenekamp, 2012:162). This **borrowed income** is described as 'anticipatory', because it is the first step towards a possible increase in taxes and/or user charges in future to enable government to repay the loan (Adams, 1898:220-221; Lutz, 1936:194; Musgrave & Musgrave, 1980:229). For the purposes of this study, it was not necessary to analyse revenue from borrowings, because this type of government revenue does not affect the tax burden directly. Borrowed income is accounted for inherently as part of taxes and/or user charges, in the sense that these two items are automatically adjusted by a government as part of its fiscal budget, either in the form of lower taxes and/or user charges at the stage when the money is borrowed by the government, or in the form of higher taxes and/or user charges at the stage when the government needs to repay the borrowed money.

In order to be able to classify government imposts consistently into either a tax or a user charge, it is important to formulate criteria that are linked to the inherent characteristics of each of these imposts. Hence, it is essential to clarify the inherent traits of a tax and those of a user charge.

2.2.3 Inherent characteristics of a tax

The inherent characteristics of a tax were identified by exploring various definitions of the term 'tax' from different sources in the literature. The purpose was not to examine an exhaustive list of definitions, but to determine the common characteristics of a tax based on the different definitions chosen.

Almost 200 years ago, Say (1821:341) defined a tax as 'the transfer of a portion of the national products from the hands of individuals to those of government, for [the] purpose of meeting the public consumption or expenditure'.

Following on from this general definition, a valuable point of departure was to refer to definitions in some commonly used and reputable dictionaries, as well as definitions in some discipline-specific dictionaries. A tax was defined as follows by these different dictionaries:

- *Oxforddictionaries.com* (n.d.:n.p.) defines a tax as 'a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services, and transactions'.
- The *Oxford Dictionary & Thesaurus* (2009:952) defines a tax as 'money that must be paid to the state, charged as a proportion of income and profits or added to the cost of some goods and services'.
- *A Dictionary of Accounting* (Oxford, 2010:409) defines taxation as a 'levy on individual or corporate bodies by central or local government in order to finance the expenditure of that government and also as a means of implementing its fiscal policy. Payments for specific services rendered to or for the payer are not regarded as taxation'.
- *An International Dictionary of Accounting & Taxation* (Wanjialin, 2004:385) defines a tax as a 'charge imposed by a government body on personal and corporate income, estates, gifts or other sources to obtain revenue for the public good'.

- *Black's Law Dictionary* (Gardner, 1999:1469) defines a tax as a 'monetary charge imposed by the government on persons, entities, or property to yield public revenue'.
- *A Dictionary of Modern Legal Usage* (Gardner, 1995:868) describes a tax as follows: 'A *tax* generally supports improvements for the entire community.'
- *A Dictionary of Law* (Law & Martin, 2009:541) defines a tax as a 'compulsory contribution to the state's funds. It is levied either directly on a taxpayer…; or indirectly through tax on purchases of goods and services…and through various kind of duty'.

Taxation was traditionally the primary focus of public finance economists (Singer, 1976:169). Hence, the literature in that discipline contains various definitions and descriptions of a tax. For example, Steenekamp (2012:163) defines taxes as 'transfers of resources from persons or economic units to government [which] are compulsory (or legally enforceable)'.

Lutz (1936:316-321) is of the opinion that the elements of a common purpose, personal obligation and a compulsory contribution are essential to satisfy the definition of a tax. A common purpose refers to the contributions which are made by citizens and which governments then apply to finance general or common services to all citizens. Personal obligation relates to the fact that the State is an association of persons and that each of these persons is responsible for supporting the State in its functions. Compulsory contributions must be interpreted as referring to a levy that is imposed by a government and that does not take into account the taxpayer's will or pleasure.

Musgrave and Musgrave (1980:229-230) describe taxes as compulsory imposts that become a form of income that a government uses to finance public expenditure. Gildenhuys (1989:260-263) describes taxes as compulsory payments to a government, where a direct *quid pro quo* for the payment is absent, and the funds are used by the government to provide collective services to the community. Similarly, Bird and Tsiopoulos (1997:38) argue that taxes 'are mandatory levies that are not related to any specific benefit or government service'. Jones & Rhoades-Catanach (2010:4) state that taxes are compulsory and not voluntary, and they differ from a user charge in that they do not entitle the payers to specific goods or services.

Literature from the legal discipline other than the legal dictionaries referred to above constitutes another important source of definitions of taxes. Thuronyi (2003:45) argues that a tax may be defined as a required payment to government and that the definition is both under- and over-inclusive. It is under-inclusive in the sense that not all payments are made to government itself, for example, some payments are made to government-controlled entities. It is over-inclusive in the sense that not all required payments to government take the form of a tax, for example, fines paid to government as a penalty for illegal acts. A payment to support government's expenses can be described as a tax. It is different from a fine or penalty, as the purpose of tax is not to deter or punish unacceptable behaviour, but to provide funding to government (Thuronyi, 2003:46). Taxes should also not include payments to government where the taxpayer receives something directly in return, for instance, a transfer fee on property paid in return for the registration of the property in the name of the taxpayer.

The definition of a tax has been the subject of a legal debate in Australia. The accurate classification of a government impost either as a tax, a levy, a charge, an excise or a penalty is essential for the legal validity of the impost. Traditionally, the High Court in Australia has used the 'Latham definition' of a tax from the case of *Matthews v Chicory Marketing Board,* 1938, to consider the legal classification of a government impost (Morabito & Barkoczy, 1996:47; Weier, 2006:2). The 'Latham definition' refers to a tax as 'a compulsory exaction of money by a public authority for public purposes, enforceable by law, and is not a payment for services rendered' (Morabito & Barkoczy, 1996:47). The Australian High Court has steered away from a definitive statement of the characteristics that identify a tax, and opted rather to use specific factors to decide whether a particular impost is a tax or not (Morabito & Barkoczy, 1996:43-63; Weier, 2006:2). In summary, these factors are described as follows:

- *Compulsion*. An impost is considered to be compulsory in that the taxpayer has no choice about whether to pay it.
- *Revenue-raising*. The purpose of raising revenue for the government is a significant factor to consider when deciding whether an impost is a tax or not.
- *Public purposes.* Taxes are generally imposed to be used for the common benefit of the general public.
- *Payment for services.* An impost is generally not a tax when it is an impost for goods and services rendered by a government in return for the payment.
- *Arbitrariness.* This is an important factor when deciding whether an impost is a tax. The liability for the tax must be the result of an impost based on criteria that are general and clear in their application, and not the result of an administrative decision unrelated to a test laid down by legislation.

Judge Murphy, in the Canadian case of *Lawson v. Interior Tree Fruit and Vegetables Committee of Direction*, [1931] S.C.R. 357, said: ‘That they are taxes, I have no doubt. In the first place they are enforceable by law…. Then they are imposed under the authority of the legislature. They are imposed by a public body…. The levy is also made for a public purpose.’ The judge’s words strengthen the notion that a tax is a compulsory impost with the purpose of providing benefits to the public.

In a South African case, *Maize Board v Epol (Pty) Ltd* 2009 (3) SA 110 (D), the Maize Board wanted to recover levies from Epol (Pty) Ltd. The levies in question entailed a general and a special levy imposed in terms of the now repealed Marketing Act (59 of 1968). The Court had to decide whether the levies constituted a tax or not. Judge Tshabalala concluded that the levies in issue did not satisfy the requirements of a tax, as they were not imposed on the public as a whole, nor on a substantial portion of the public. Nor was the collected revenue used for public benefits, nor were the levies intended to raise public revenue – they were not used to support government activities in general.

The South African government literature also contains various definitions and descriptions of a tax. The main definition of taxes in the national accounts describes taxes as compulsory, unrequited revenue collected by the government under statutory provisions. It is unrequited in the sense that the taxpayer does not receive anything directly in return from the government for paying the tax (National Treasury, 2009c:38-39). This definition is similar to the definition of a tax in the System of National Accounts (2009:143), where taxes are defined as compulsory, unrequited payments, in cash or in kind, made by institutional units to government units.

The above definitions of a tax in various sources in the literature are not intended to be an exhaustive list, but it is clear that all these definitions refer, in one way or another, to a number of specific elements that are considered essential for an impost to be classified as a tax. The following broad terms were used to summarise and group the elements emerging from these definitions, as set out in Table 3:

- *Compulsory*. These elements from the definitions refer to the compulsory nature of a tax. The term 'compulsory' is defined in the *Oxford Dictionary & Thesaurus* (2009:179) as 'required by law or a rule'. Therefore the term 'compulsory', in the context of the definitions of a tax from the literature, must be read as originating from legislation, the very essence of a tax.
- *Raise revenue*. These elements indicate that the purpose of a tax is to raise revenue for government. This tax revenue is intended to fund general expenditure in the provision of public goods and services.
- *Public benefits.* These elements indicate that the government, in return for the tax that the State imposes, provides public goods and services to the shared benefit of the public.

Table 3: Common elements from the definitions of a tax

Source	Compulsory	Raise revenue	Public benefits
A Dictionary of Accounting (Oxford, 2010:409)	✓	✓	
A Dictionary of Law (Law & Martins, 2009:541)	✓	✓	
A Dictionary of Modern Legal Usage (Gardner, 1995:868)		✓	✓
An International Dictionary of Accounting & Taxation (Wanjialin, 2004:385)	✓	✓	
Bird & Tsiopoulos (1997:38)	✓		✓
Black's Law Dictionary (Gardner, 1999:1469)	✓	✓	
Gildenhuys (1989:260-263)	✓	✓	✓
Jones & Rhoades-Catanach (2010:4)	✓		✓
Lawson v. Interior Tree Fruit and Vegetables Committee of Direction, [1931] S.C.R. 357	✓	✓	✓
Lutz (1936:316-321)	✓	✓	✓
Maize Board v Epol (Pty) Ltd 2009 (3) SA 110 (D)	✓	✓	✓
Matthews v Chicory Marketing Board, 1938	✓	✓	✓
Morabito & Barkoczy (1996:43-63)	✓	✓	✓
Musgrave and Musgrave (1980:229-230)	✓	✓	
National Treasury (2009c:38-39)	✓	✓	✓
Oxford Dictionary & Thesaurus (2009:952)	✓		
Oxforddictionaries.com (n.d.:n.p.)	✓	✓	
Say (1821:341)		✓	
Steenekamp (2012:163)	✓	✓	
System of National Accounts (2009:143)	✓	✓	✓
Thuronyi (2003:45)	✓	✓	
Weier (2006:2)	✓	✓	✓

The common elements in the above definitions of a tax can be interpreted as the essential elements that characterise a tax. They therefore provide a meaningful basis from which to formulate criteria to classify a government impost as a tax (or as not a tax), irrespective of the label given to the impost by government.

In conclusion, a **compulsory impost** is in essence **a tax** when its purpose is to raise revenue for government, where the revenue is intended for **funding general expenditure** in the provision of public goods and services, to the **shared benefit** of the public as a whole.

2.2.4 Inherent characteristics of a user charge

Black's Law Dictionary (Gardner, 1999:1542) defines a user charge as a 'charge assessed for the use of a particular item or facility'.

It is not easy to distinguish between imposts that should be treated as taxes and imposts that are not taxes, but user charges (OECD, 2010:Annexure A). Therefore it was deemed helpful to clarify the inherent characteristics of a user charge, using the essential elements of a tax as a point of reference.

2.2.4.1 Compulsory

The essence of a tax is its compulsory nature.[10] However, as the National Treasury (2009c:40) indicates, a user charge is also normally regulated in terms of legislation, although, as Heyns (1999:210) puts it, 'the degree of compulsion involved is not a categorical one'. The Australian High Court, cited by Morabito and Barkoczy (1996:43-63) and Weier (2006:2), has indicated that the term 'compulsory' can be interpreted to mean that a taxpayer has no choice about whether to pay an impost or not. It is nevertheless possible to argue that in some instances a taxpayer does indeed have a choice about paying the impost or not. For instance, a taxpayer can avoid paying for a fishing licence (although such a licence may be compulsory in terms of legislation), provided that the taxpayer decides not to take up fishing.[11] However, the decision not to take up fishing does not change the inherent character of the impost: it is still a

[10] See Section 2.2.3.
[11] Example based on the explanation provided by the National Treasury (2009c:41).

compulsory impost in terms of legislation, although the payment thereof only becomes mandatory when a person decides to take up fishing.

It is important to note that the term 'compulsory' must be interpreted in a wider sense than is implied by its legislative underpinning. In some instances, goods and services are supplied by a government entity which has a monopoly[12] on the provision of these public goods and services, because, as Posner (1969:548) puts it, when a given institution or firm 'is the only seller of a product or service having no close substitutes [it] is said to enjoy a monopoly'. There are two types of monopoly, namely statutory monopolies and natural monopolies (Bird & Tsiopoulos, 1997:43; Black, 2012:59). A statutory monopoly refers to a situation where potential competitors are prevented (normally in terms of legislation) from supplying certain goods or services in competition with government (Bird & Tsiopoulos, 1997:43; Black, 2012:59; Rich, 1993:247-252). A natural monopoly refers to the situation where the supply of goods or services depends on a large capital outlay, for instance, the supply of water or electricity to the public (Bird & Tsiopoulos, 1997:43; Black, 2012:62; Posner, 1969:548). In these instances, taxpayers are 'practically compelled' to buy goods and services from government, as no other alternative is available (Bessell & Henderson, 2001:11; Heyns, 1999:210). Bird and Tsiopoulos (1997:43) maintain that the use of many public services, in essence, is mandatory, not optional. Therefore, the term 'compulsory' must be read to include the requirement for the payment of an impost in order to receive particular benefits, even if the specific impost can be avoided by willingly forgoing the benefit, as Weier (2006:2) explains.

In summary, if an impost is regulated in terms of legislation and the taxpayer does not have a choice about whether or not to pay the impost, even if the taxpayer willingly decides to forgo the benefit of specific goods or services, the

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[12] The term 'monopoly' is defined in the *Oxford Dictionary & Thesaurus* (2009:597) as 'the complete control of the supply of a product or service by one person or organization'.

impost is in effect compulsory.[13] Therefore, both a tax and a user charge are in essence **compulsory** imposts.

2.2.4.2 Raise revenue

The purpose of a tax is to raise revenue for government, with the main intention of using this revenue from the tax to fund general expenditure in providing public goods and services.[14] By contrast, a user charge is also imposed with the purpose of raising revenue for government, although the main intention with the revenue raised from a user charge is to **recover the costs** (some of, or all the costs) (Adams, 1898:220; Gildenhuys, 1989:412; Thuronyi, 2003:48) incurred by the government for the **direct supply** of particular public goods or services in return for paying the impost (Cowden, 1969:67; Gildenhuys, 1989:411-431; Heyns, 1999:210; Morabito & Barkoczy, 1996:55; Musgrave & Musgrave, 1980:239-240; Singer, 1976:248). Hence, it is important to clarify the concepts of 'cost recovery' and 'direct supply'.

The concept of **cost recovery**, in the context of a user charge, means that the impost must be **less than or in proportion to the costs** incurred by the government for providing those particular public goods and services (National Treasury, 2009c:41; OECD, 2010:Annexure A; Thuronyi, 2003:48). If an impost is not in proportion[15] to the cost of providing the given public goods and services, the impost is in essence a tax, rather than a user charge (Heyns, 1999:209-211; National Treasury, 2009c:41; Singer, 1976:248; Weier, 2006:4-5). The present study follows the guidelines of the national accounts in South Africa, which classify an impost as a tax receipt if the impost is out of proportion to the cost to government for providing the goods or services (National Treasury, 2009c:41[16]). This is in line with the practices of the IMF (2001:47) and

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[13] If the impost complies with these criteria, it is deemed to be compulsory, irrespective of whether or not it is a tax or user charge.

[14] See Section 2.2.3.

[15] The term 'proportion' is defined in the *Oxford Dictionary & Thesaurus* (2009:736) as 'the relationship of one thing to another in terms of quantity or size'.

[16] The guidelines from National Treasury for economic reporting by government units (National Treasury, 2009c:41) state that 'for the receipt item to be recorded as a tax, it is sufficient either … or that the sales price is out of proportion to the cost of producing the service'.

the OECD (2010:Annexure A[17]), which treat an impost that is out of proportion to the cost of providing a particular service as a tax and not as a user charge.

The concept of **direct supply**, in the context of a user charge, must be interpreted as indicating that a direct[18] *quid pro quo*[19] must be supplied by government in return for paying the impost (Gildenhuys, 1989:411). However, an impost is deemed to be a tax if it is **unrequited**, meaning that government does not provide a direct *quid pro quo* (something of a similar value) in return for the payment of the impost (National Treasury, 2009c:38-39).

However, it emerged from the literature review that imposts which the government labels ‘licences’ are a highly topical issue. It is frequently found that the main issue under discussion is the question of whether the intention with the licence fee is to recover the costs for a regulatory function of government, or whether the real intention with the licence is to raise revenue for government (Devas & Kelly, 2001:381-384; Gildenhuys, 1989:432, Harley, 1936:290; National Treasury, 2009c:44; Weier, 2006:4). It emerges from these debates that the classification of a licence fee as a tax or a user charge depends on the questions of whether the impost is unrequited and of whether the impost is in proportion to the cost of providing the public service. This criterion is also used in the public accounts in South Africa for classifying revenue raised from a licence fee (National Treasury, 2009c:38-44).

A licence fee is deemed to be unrequited where the issuing of the licence does not depend on some form of inspection of the goods or services by government, especially if the licence itself fails as a regulatory instrument and/or the licence application is never denied (Mikesell, cited by Devas & Kelly, 2001:383). A flat

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[17] The OECD’s classification and interpretative guide (OECD 2010:Annexure A) states: ‘Where the recipient of a service pays a fee clearly related to the cost of providing the service, the levy may be regarded as requited and under the definition of §1 would not be considered as a tax. In the following cases, however, a levy could be considered as ‘unrequited’:
a) where the charge greatly exceeds the cost of providing the service;
b)…’

[18] The term ‘direct’ per definition means ‘without anyone or anything else being involved or between’ (*Cambridge Advanced Learner’s Dictionary*, 2008:395).

[19] The term ‘*quid pro quo*’ is defined in the *Cambridge Advanced Learner’s Dictionary* (2008:1165) as ‘something that is given to a person in return for something they have done’.

rate for the issuing of a licence is not complex to administrate, which is another indication that the purpose of the licence is regulatory and that it is not intended primarily to raise revenue for government (Devas & Kelly, 2001:383). However, it is not the purpose of this study to debate the issues around a licence fee at length. Hence, this study adopts the following criteria for classifying licence fees, based on the discussion above:

- If the issuing of a licence depends on some or other inspection-related service by government, it is interpreted as being indicative of a direct service rendered by the government. If the issuing of the licence does not require such a service from the government, the licence fee is classified as unrequited for the purposes of this study.
- If a licence fee is based on a flat rate (although it may vary by different categories of goods and services), this fact is treated as an indication that the cost to issue the licence is less than, or in proportion to, the cost of issuing the licence.

In summary, when a compulsory impost is mainly intended to **recover costs** which are incurred by a government in the **direct** supply of **specific** public goods and services in return for the payment of the impost, this is an indication that the impost is **a user charge**. However, if this impost is **out of proportion to the cost** of providing the given public goods and services, or if the **impost is unrequited**, the impost is in essence **a tax,** and not a user charge.

2.2.4.3 Public benefits

The third important element that distinguishes a user charge from a tax is the benefit that the person paying the impost receives in return for the payment. A tax is essentially used by a government to create an indirect benefit, in the form of general public goods and services shared by the public as a whole.[20] However, if the payment of the impost bestows a direct **exclusive benefit** upon the person who makes the payment, the impost is classified as a user charge (Bird & Tsiopoulos, 1997:40; Cowden, 1969:67). An exclusive benefit refers to a

[20] See Section 2.2.3.

benefit restricted to those willing to pay the impost on those specific public goods and services (Bird & Tsiopoulos, 1997:40; Cowden, 1969:67; Heyns, 1999:210; Steenekamp, 2012:162). Thus, if others (who do not pay the imposts on these specific public goods and services) also benefit from these goods and services,[21] the impost paid is inherently a tax on those making the payment, and not a user charge.

In summary, when a compulsory impost is mainly intended to recover costs incurred by a government in the direct supply of specific public goods and services in return for the payment of the impost, to the **exclusive benefit** of the person(s) paying the impost, this is an indication that the impost is **a user charge**. However, if the impost does **not render an exclusive benefit** in return for the payment, the impost is in essence **a tax** and not a user charge.

2.2.4.4 Classification of user charges

Imposts classified as user charges can be divided further into one of three sub-categories, namely **consumer tariffs**, **user levies** and **administrative fees** (Gildenhuys, 1989:412; Heyns, 1999:210). These sub-categories can be explained as follows:

- **Consumer tariffs** are charges for goods and services that are **consumed** and that need to be replaced on a continuous basis (Cowden, 1969:124; Gildenhuys, 1989:416). For example, electricity tariffs can be classified as consumer tariffs, because the electricity provided by government in return for the impost is consumed and therefore needs to be generated anew.
- **User levies** are charged for the **use** of goods and services, but these goods and services are not consumed in the process (Gildenhuys, 1989:416; Heyns, 1999:210). For instance, bus fares for using public transport can be classified as a user levy, as the bus is merely used by a traveller and it is not consumed in the process of using it.

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[21] For instance, electricity and water are provided without charge to some citizens, while others have to bear the full user charge for the consumption of these utilities.

- **Administrative fees** are levied for **services that regulate access** to a specific right or privilege granted by a government to a beneficiary (IMF, 2001:54; National Treasury, 2009c:40; Steenekamp 2012:162; Weier, 2006:4). For instance, the fee to issue an identification document is, in essence, an administration fee; for example, a licence fee that is classified as a user charge in terms of the criteria in Section 2.2.4.2 can be interpreted as an administrative fee.

2.2.4.5 Conclusion to the section

A **compulsory impost** that is mainly intended to **recover costs** incurred by the government in the **direct** supply of **specific** public goods and services in return for the payment of the impost, to the **exclusive benefit** of the person(s) paying the impost, is in essence **a user charge**. However, if the impost is **unrequited**, or is **out of proportion to the cost** of providing the given public goods and services, or does **not render an exclusive benefit** in return for the payment, the impost is in essence **a tax** and **not a user charge**. A user charge can be classified as a **consumer tariff**, or a **user levy**, or an **administrative fee**.

2.2.5 Framework for classifying government imposts

In any evaluation of a tax burden, it is important to classify imposts by government on taxpayers as either a tax or a user charge, according to each one's inherent characteristics, each of which in turn affects the taxpayer in its own unique way. The inherent characteristics of a tax and a user charge (see Section 2.2.3 and Section 2.2.4) provide an underpinning to the framework, as formulated in Table 4, for classifying government imposts into either taxes or user charges, irrespective of the label given to these imposts by the government.

Fines, penalties and forfeits are compulsory imposts in terms of legislation, but their purpose is neither to raise revenue nor to recover costs. The main purpose of these imposts by government is to deter unlawful acts by raising assessments for the infringement of laws and regulations (IMF, 2001:61; Weier, 2006:6). Provision is therefore made in the classification structure in Table 4 to classify such imposts as penalties.

Table 4: Framework for classifying government imposts

<table>
<tr><td colspan="8">Is the impost compulsory, regulated by legislation?</td></tr>
<tr><td colspan="7">Yes</td><td>No</td></tr>
<tr><td colspan="7">Is the purpose to raise revenue for government either to fund or recover public expenditure?</td><td rowspan="13"></td></tr>
<tr><td colspan="6">Yes</td><td>No</td></tr>
<tr><td colspan="6">Is there a direct return of public goods and services by government?</td><td rowspan="11"></td></tr>
<tr><td colspan="5">Yes</td><td>No</td></tr>
<tr><td colspan="5">Is the impost in proportion to the cost of the public goods and services?</td><td rowspan="9"></td></tr>
<tr><td colspan="4">Yes</td><td>No</td></tr>
<tr><td colspan="4">Is the benefit exclusive to persons making the payment?</td><td rowspan="7"></td></tr>
<tr><td colspan="3">Yes</td><td>No</td></tr>
<tr><td colspan="3">Impost is deemed to be a user charge.</td><td rowspan="5"></td></tr>
<tr><td colspan="3">Does the user charge regulate access to a right or privilege?</td></tr>
<tr><td rowspan="3">Yes</td><td colspan="2">No</td></tr>
<tr><td colspan="2">Are the goods and services consumed?</td></tr>
<tr><td>Yes</td><td>No</td></tr>
<tr><td>Adminis-trative fee</td><td>Consumer tariff</td><td>User levy</td><td>Tax</td><td>Tax</td><td>Tax</td><td>Penalty</td><td>None</td></tr>
</table>

Source: Self-developed from sources referred to in this section

The criteria for classifying a government impost as a tax, a user charge, a penalty, or none of the aforementioned are important for the conceptual framework developed in the present study, but it is also important to clarify the construct of a (tax) 'burden' as it relates to this conceptual framework.

2.2.6 A (tax) burden as a construct

The construct of a burden is part of the central theme of this study and must be explained to provide clarity on the theoretical concepts used in the study. These theoretical concepts have a decisive impact on the basis on which tax burdens can be evaluated, so it is essential to include them in the conceptual framework developed in this study.

The term ‘burden’ is defined in general as ‘a duty or misfortune that causes worry, hardship, or distress’ (*Oxforddictionaries.com*, n.d.:n.p.), or more specifically as ‘the responsibility of paying an amount of money, especially when this is considered too much‘ (*Macmillandictionary.com*, n.d.:n.p.). These definitions can be used to construct a description of a tax burden for the purposes of this study, as the responsibility or duty to pay taxes.

This burden of paying taxes is affected by the concept of **stocks and flows***,* and the concept of **tax incidence and shifting** (Musgrave & Musgrave, 1980:257; Poterba, 1989:325; Steenekamp, 2012:181-182). It is important to understand the theories underlying these two concepts, because they have a direct influence on the perspectives and basis from which a tax burden can be measured and evaluated.

2.2.6.1 Stocks and flows

The responsibility or duty, and perhaps the misfortune, of having to pay tax is imposed on the citizen of a country from the day that person is born and ends on the day that the person dies. A tax burden effectively starts from the day on which the first tax is imposed on a person; the burden usually increases with each and every subsequent tax imposed on the person; and it ends with the last tax imposed on the person. This phenomenon is generally used to underpin evaluations of tax burdens, either from an ongoing perspective or from a lifetime perspective (Fullerton & Rogers, 1991:1; Poterba, 1989:325).

Some taxes are levied on the cumulative results of an ongoing activity over a given period, for instance, a tax year. The characteristics of being linked to a time dimension and measured over a specific period are referred to as **flows** (Jones & Rhoades-Catanach, 2010:6; Miller, 1991:189; Musgrave & Musgrave, 1980:233; Steenekamp, 2012:164). Taxes with flow characteristics are classified as **activity-based taxes** (Jones & Rhoades-Catanach, 2010:6). Income and consumption taxes are normally considered to be flows, because both are measured cumulatively over a given period (Musgrave & Musgrave, 1980:248; Steenekamp, 2012:164).

Other taxes require the occurrence of specific transactions or events at a particular point in time. The characteristics of not being linked to a specific extended time dimension and being measured only at a particular point in time are referred to as **stocks** (Jones & Rhoades-Catanach, 2010:6; Miller, 1991:189, Musgrave & Musgrave, 1980:233; Steenekamp, 2012:164). Taxes with stocks characteristics are classified as **transaction-based taxes** (Jones & Rhoades-Catanach, 2010:6). Wealth taxes are normally considered to be stocks, because they are measured at a particular point in time upon the occurrence of specific transactions or events (Musgrave & Musgrave, 1980:248; Steenekamp, 2012:164).

The characteristics of stocks and flows are relevant to this study, because they are used to classify taxes into those that affect the tax burden on an ongoing basis over a given period (activity-based taxes), and those that affect the tax burden only at particular times during the lifetime of an individual taxpayer (transaction-based taxes). Tax burdens affected by activity-based taxes are referred to as **recurrent**[22] **tax burdens** for the purposes of this study, and tax burdens affected by transaction-based taxes are referred to as **random**[23] **tax burdens** for the purposes of this study.

2.2.6.2 Tax incidence and shifting

The phenomenon of tax incidence involves the final resting place of the economic burden of a tax. The incidence of a tax fundamentally revolves

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22 The term ‘recurrent’ is described in the *Oxford Dictionary and Thesaurus* (2009:770) as ‘happening often or repeatedly’.

23 The term ‘random’ is described in the *Oxford Dictionary and Thesaurus* (2009:759) as ‘done or happening without any plan, purpose, or regular pattern’. This study uses the term ‘random’ as it relates to the words ‘without regular pattern’.

around the question of who really pays the tax in the end, effectively reducing that person's economic spending ability (Steenekamp, 2012:170-171). Incidence may be described as the way in which the tax burden is shared and transferred between individual households. This transfer of a tax is commonly referred to as 'tax shifting' (Adams, 1898:388; Lutz, 1936:381-383; Musgrave & Musgrave, 1980:257-262; Seligman, 1921:1; Steenekamp, 2012:166).

Tax incidence can be classified into statutory incidence and effective incidence (Musgrave & Musgrave, 1980:259). Statutory incidence refers to a person's legal liability to pay the tax to the government, whereas effective incidence refers to the final resting place of the tax, in other words, the person or entity that bears the economic burden of the tax. For instance, a company may bear the statutory burden of paying a tax on its profits, but then effectively shifts the economic burden of the tax onto somebody else (Phares, 1985:35-42; Seligman, 1921:1-2; Steenekamp, 2012:166; Vermeend, Van der Ploeg & Timmer, 2008:41).

In determining the final resting place of a tax, the argument that all taxes are eventually paid by natural persons must be acknowledged (Musgrave & Musgrave, 1980:259). Companies may remit taxes to government (bearing the legal liability), but do not ultimately bear the economic burden of the tax, because they shift it onto a natural person. Taxes can be shifted forward, backward and onward to natural persons (Lutz, 1936:381; Steenekamp, 2012:171). Forward shifting refers to the situation where, for instance, a tax is levied on the producer of goods or the supplier of particular services, and then this tax is shifted forward onto the **consumer** as part of the price of the goods and services.[24] Backward shifting of taxes refers to the situation where, for instance, a tax is levied on an entity and then shifted back onto the **employees**, in the form of reduced wages and/or employment.[25] Onward shifting refers to the situation where, for instance, the tax is levied on the producer of goods, who then shifts the tax onto the middleman, using price shifting. The middleman in turn shifts the tax onto the next person in the line, also using price shifting. This

[24] Referred to in this study as 'price shifting'.
[25] Referred to in this study as 'payroll shifting'.

repeated until it the tax is ultimately paid by the consumer, who then bears the economic burden of the original tax (Gildenhuys, 1989:283; Steenekamp, 2012:171). Taxes can also be shifted forward onto the **shareholders** of a company in the form of reduced dividends,[26] effectively reducing shareholders' economic spending power (Musgrave & Musgrave, 1980:259; Seligman, 1921:3; Steenekamp, 2012:171).

The effects of tax shifting and methods to determine the ultimate bearer of the economic burden are long-standing topics for debate in the economic and public finance disciplines, and are topics for theoretical discourse based on empirical evidence (Adams, 1898:388; Seligman, 1921:1; Slemrod & Bakija, 1996:62; Steenekamp, 2012:170-171). The debate on the effects of tax shifting and methods of determining the final resting place of a tax falls beyond the scope of this study. For the purposes of this study, it suffices to say that it is assumed that all taxes levied on, and paid by, companies and business enterprises, are eventually shifted onto natural persons, either in the form of price, payroll and/or shareholder shifting. This assumption accounts for the effect(s) that tax shifting may have on the evaluation of a tax burden. The reasoning behind this assumption is that tax shifting inherently affects the tax burden of individual taxpayers, either by reduced direct taxes on income (wages and dividends), and/or by increased indirect taxes on goods and services (prices).

Direct taxes are taxes levied directly on the income or wealth of people and companies, whereas **indirect taxes** are levied on goods and services (Gildenhuys, 1989:284; Steenekamp, 2012:166). The statutory and effective incidence of direct taxes on natural persons usually vests in the same person, and therefore these taxes cannot be readily shifted. Thus the person on whom these taxes are levied is normally the intended bearer of the tax (Steenekamp, 2012:166). Tax burdens consisting of these types of taxes are referred to as **direct tax burdens** for the purposes of this study. In contrast to direct taxes, the statutory and effective incidence of indirect taxes normally does not vest in

[26] Referred to in this study as 'shareholder shifting'.

the same persons. The economic burden of indirect taxes can be readily shifted onto the consumers, usually as part of the cost of production or the price of the goods and services (Gildenhuys, 1989:285; Musgrave & Musgrave, 1980:259; Steenekamp, 2012:166). In this study, tax burdens comprising of indirect imposts through goods and services are referred to as **indirect tax burdens**.

In conclusion, a tax can be imposed directly on the income or wealth of a taxpayer (**direct tax burden**), or indirectly on the consumptions of goods and services by the taxpayer (**indirect tax burden**).

2.2.6.3 Framework for classifying the tax burden

The criteria to classify a tax according to the theoretical concepts as a recurrent tax burden or a random tax burden, and as a direct or indirect tax burden, are set out in Table 5. The criteria in this table are used as a platform for the conceptual framework developed in this study to classify imposts by government according to their inherent characteristics as they relate to the tax burdens of individuals as taxpayers.

Table 5: Framework for classifying the (tax) burden

Is it an activity-based tax, imposed on a recurrent basis?			
Yes		No	
Is the tax directly imposed on income or wealth?		Is the tax directly imposed on income or wealth?	
Yes	No	Yes	No
Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden

Source: Self-developed from sources referred to in this section

2.2.7 Framework for classifying the imposed tax burden

In summary, the framework for classifying government imposts in Table 4[27] and the framework for classifying the tax burden in Table 5[28] were used as a basis to compile a consolidated framework, as set out in Table 6, that can be used as a complete set of criteria to classify all South African government imposts, according to their substance, into either a tax, a user charge, or a penalty. The criteria in Table 6 can also be used as indication of the (tax) burden, either a recurrent (direct or indirect), or a random tax burden (direct or indirect), placed on the taxpayer by the imposts, classified as taxes.

[27] See Section 2.2.5
[28] See Section 2.2.6.3

Table 6: Framework for classifying the imposed tax burden

Is the impost compulsory, regulated by legislation?

Yes | No

Is the purpose to raise revenue for government either to fund or recover public expenditure?

Yes | No

Is there a direct return of public goods and services by government?

Yes | No

Is the impost in proportion to the cost of the goods and services?

Yes | No

Is the benefit exclusive to persons making the payment?

Yes | No

Impost is deemed to be as a user charge.

Does the user charge regulate access to a right or privilege?

Yes | No

Are the goods and services consumed?

Yes | No

Govern-ment Impost	Adminis-trative fee	Consumer tariff	User levy	Tax	Tax	Tax	Penalty	None

For all imposts classified as <u>a tax</u>, the <u>tax burden</u> must be determined using the criteria below.

Is it an activity-based tax, imposed on a recurrent basis?

Yes | No

Is it imposed on income or wealth? (Yes) | Is it imposed on income or wealth? (No)

Yes	No	Yes	No
Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden

Sources: Table 4 and Table 5
of the current study

2.3 CONCLUSION

The imposed tax burden consists of government imposts classified as taxes using the combined framework for classifying the imposed tax burden set out in Table 6. This framework uses definitions of a tax, a user charge, and a penalty as an underpinning to provide criteria for classifying government imposts as a tax, a user charge or a penalty. A **tax**, for the purposes of this study, is defined as a compulsory impost by government, with the purpose of raising revenue to fund general expenditure in the provision of public goods and services, to the shared benefit of the public as a whole. A **user charge**, for the purposes of this study, is defined as a government impost on the direct supply of specific public goods and services. The purpose of the impost is to raise revenue for recovering costs; the impost is below or in proportion to the cost of providing the goods and services, and the person paying the impost receives an exclusive benefit in return for the payment. A **penalty**, for the purposes of this study, is a compulsory impost in terms of legislation, where the purpose of the impost is neither to raise revenue nor to recover costs for government, and it includes fines, penalties and forfeits.

To evaluate the tax burden of individual taxpayers, it is important to understand that the phenomenon consists of taxes imposed on the taxpayer, either on a recurrent basis over a given period, or randomly at specific times during the lifetime of the taxpayer. A tax that affects the tax burden on a recurrent basis is referred to in this study as a **recurrent tax**, and a tax that affects the tax burden only at specific times is referred to in this study as a **random tax**.

A **recurrent tax** affects the tax burden of a taxpayer either directly or indirectly. It affects the tax burden directly if it is imposed on the income or wealth of the taxpayer, and it affects the tax burden indirectly if it is imposed on the use or consumption of goods or services by the taxpayer. A recurrent tax that affects the tax burden directly is classified, for the purposes of this study, in the category of a **direct recurrent tax burden,** using Table 6 as a basis for this classification. A recurrent tax that affects the tax burden indirectly is classified, for the purposes of this study, in the category of an **indirect recurrent tax burden,** using Table 6 as a basis for this classification.

A tax that only affects the tax burden at specific times is referred to as a **random tax,** and is classified as a **random tax burden** for the purposes of this study, using Table 6 as a basis for this classification. Similar to a recurrent tax, a random tax can also be imposed directly on the income or wealth of a taxpayer, or indirectly on the use or consumption of goods and services by the taxpayer.

The focus of this study is the individual taxpayer in South Africa. Therefore it is essential to analyse the imposed tax burden in the country using the theoretical construct of the imposed tax burden from the current chapter as an underpinning. An analysis of the imposed tax burden in South Africa is set out in Chapter 3.

CHAPTER 3:
THE IMPOSED TAX BURDEN IN SOUTH AFRICA

3.1 INTRODUCTION

The purpose of this study is to develop a conceptual framework to evaluate the tax burden of individual taxpayers in South Africa. As has already been explained in Chapter 2, tax burdens can be evaluated objectively by looking at the actual taxes imposed by a government on the income, wealth, and consumption of taxpayers. The purpose of this chapter is to analyse and clarify the **imposed tax burden in South Africa**, using the theoretical construct of the imposed tax burden from Chapter 2 as an underpinning. The analysis of the imposed tax burden is essential to this study, because it provides the theoretical basis necessary for developing a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa.

A useful point of departure for analysing the imposed tax burden in South Africa is to refer briefly to the historical background of some of the taxes currently levied in South Africa. This historical overview is followed by an investigation of the revenue sources of the South African government, with the purpose of identifying the imposts used to exact this revenue from taxpayers. The chapter concludes with an analysis of the identified imposts in order to classify each of these imposts as a tax, a user charge, or a penalty, using the criteria set out in Table 6. An impost classified as a tax in terms of the criteria is then also categorised as a direct recurrent tax burden, as an indirect recurrent tax burden, or as a random tax burden, using the relevant criteria from Table 6 as a basis.

3.2 HISTORICAL OVERVIEW OF TAXES IN SOUTH AFRICA

The purpose of this brief historical overview is not to provide a complete and comprehensive background to all taxes levied in South Africa, but to provide a broad background to the development of some of the modern-day taxes in the country.

Prior to establishment of the Union of South Africa in 1910, the country consisted of smaller administrative regions – the original Cape Colony (first under Dutch and then under British rule), and later Natal (under British rule), the self-governing Oranje Vrijstaat, and the Zuid-Afrikaansche Republiek in the former Transvaal area. Each of these areas governed itself and its own finances. The colonial tax policies and tax policies of the independent republics had an important influence on the development of taxes in the 20th century in South Africa (Lieberman, 2003:107).

In the 60 years before the formation of the Union of South Africa, the governments of the four areas relied on trade duties, indirect taxes and user fees for their revenue income. In the Transvaal area, gold mines became the most important source of revenue for the government. These mines were taxed by the government of the Zuid-Afrikaansche Republiek on an indirect basis from 1871 onward, but from 1898 a direct tax on the profits from these mines was implemented (Lieberman, 2003:108-112). After the South African War (1899-1902) and the subsequent unification of South Africa in 1910, the various forms of mining tax legislation were consolidated under the Mining Taxation Act (6 of 1910) (De Koker & Urquhart, 1989:1-3; Meyerowitz & Spiro, 1986:1-3).

In addition to the taxes on gold mines, general income taxes were implemented in the Cape and Natal colonies. It can be argued that these taxes were the first income taxes in South Africa. These income tax acts in the Cape and Natal colonies were abolished when the Union of South Africa was established (Lieberman, 2003:108-112). The first income tax for the Union of South Africa was introduced in 1914 under the Income Tax Act (28 of 1914). This Act levied a tax on all income (defined in the Act as profits and gains) from sources within South Africa. In 1917, the Income Tax Act and the Mining Tax Act (6 of 1910) were consolidated in and replaced by the Income Tax Act (41 of 1917). This Act also allowed the South African Parliament to fix the rate of taxes on income annually (De Koker & Urquhart, 1989:1-3; Meyerowitz & Spiro, 1986:1-3).

In 1925, the old Income Tax Act (14 of 1917) was repealed with the introduction of another Income Tax Act (40 of 1925). This Act was in turn replaced in 1941 by a new Income Tax Act (31 of 1941). World War II also gave rise to special imposts known as the Excess Profit Special Levy and the Trade Profits Special Levy. After the end of the war in 1945, both these levies were repealed in 1947. In 1955, a tax on donations was introduced and included in the Income Tax Act. All Income Tax Acts from 1941 to 1961 were consolidated into the Income Tax Act (58 of 1962), which is still in force today (De Koker & Urquhart, 1989:1-3; Meyerowitz & Spiro, 1986:1-3).

Since 1962, there have been several important amendments to the Income Tax Act (58 of 1962) (De Koker & Urquhart, 1989:1-3; Meyerowitz & Spiro, 1986:1-3; Vorster & Coetzee, 1991:1-4). Some of these amendments have had a considerable impact on the tax burden of the individual as a taxpayer in South Africa. These include the introduction of the Pay-as-You-Earn (PAYE) system in 1963, the abolition of provincial income tax in 1971 (which led to a material increase in the tax rate on individuals), making fringe benefits taxable in 1984, and the introduction of a tax on capital gains in 2001 (Manuel, 2002:5).

Income tax is an important tax in the history of South Africa, but a number of other taxes that have had an impact on the tax burden of individuals as taxpayers in South Africa have also been implemented. Transfer duty was introduced in South Africa in 1686 and is the oldest tax still in use in the country today (Franzsen, 2005:154). Estate duty was introduced in 1955 by means of the Estate Duty Act (45 of 1955), and a stamp duty was introduced under the Stamp Duties Act (77 of 1968). In 1978, a general sales tax (GST) was implemented, but this tax was replaced in 1991 by a Value-added tax (VAT), in terms of the Value-added Tax Act (89 of 1991) (Manuel, 2002:4-10; Meyerowitz & Spiro, 1986:1-3; Stack, Cronjé & Hamel, 2000:4).

The brief historical overview above indicates that the South African government has historically used a diverse range of taxes to raise revenue. In the modern tax environment in South Africa, this is still the case, and, as with the modern tax systems in other countries, there is a possibility that South African taxpayers are unaware of the aggregate amount paid through different taxes collectively, a phenomenon referred to as the 'fiscal illusion' (Webber & Wildavsky, 1986:578). One of the factors that contribute to the fiscal illusion is the government's labelling of a tax as something else to hide its true nature[29] (Say, 1821:341-342; Thuronyi, 2003:46).

Governments traditionally raise revenue through various imposts on the income, wealth, and consumption of goods and services of taxpayers (Gildenhuys, 1989:284-285; Muller, 2010:16; Steenekamp, 2012:164). The government labels the revenue from imposts on income, wealth and consumption in South Africa 'tax revenue' (National Treasury, 2011a:159). This tax revenue is supplemented by other income, which the South African government labels 'non-tax revenue' (National Treasury, 2011a:161). This non-tax revenue includes income from the sale of government-produced goods and services, interest income from investments, rental income from properties, and various other kinds of income (National Treasury, 2011a:161).

It is assumed in this study that individual taxpayers in South Africa are generally aware of most imposts on income, wealth, and consumption in South Africa, which the government labels 'tax revenue'. The reason for this assumption is that these imposts are often mentioned in government publications available to the general public, for instance, the annual budget overview (National Treasury, 2011a, 2012). However, other sources of government income, labelled 'non-tax revenue', provide the South African government with an opportunity to impose other taxes, and to 'hide' the true nature of these taxes from the taxpayers in South Africa by labelling the imposts as something else. For instance, this can be achieved by incorporating a specific impost, which is inherently a tax, into the tariff or fee structures (user charges) for particular public goods or services supplied by government. It is therefore important to investigate the revenue sources of the South African government, not only to identify all the relevant imposts used by the government to exact revenue from individual taxpayers, but

[29] Also see Section 2.2.1.

also to classify these imposts in terms of the criteria in Table 6, irrespective of the labels given to them by the South African government.

To achieve these objectives, it was deemed necessary to compile a comprehensive list of imposts that could potentially be used by the South African government to extract revenue from individual taxpayers. This comprehensive list was compiled using the IMF (2001:49) framework for classifying governments' revenue as a point of departure.

3.3 IMF FRAMEWORK FOR CLASSIFYING GOVERNMENT REVENUE

The IMF framework for classifying government revenue is part of the IMF's *Government finance statistics manual* (*GFS manual*). This manual provides a comprehensive conceptual and accounting framework for analysing the public sector performance in any country (IMF, 2001:1). The framework is internationally accepted and recognised, and provides a basis for cross-country analyses, especially between member countries of the OECD (IMF, 2001:viii; OECD, 2010). South Africa is not a member country of the OECD, but it was possible to use the IMF framework as a basis for investigating imposts in South Africa in this study because the South African government uses the *GFS manual* to structure its public sector accounts (National Treasury, 2009b; 2009c, 2011:158-161; Steenekamp, 2012:163).

The IMF framework classifies the main sources of government revenue into the broad categories of revenue from 'taxes'[30] on income, wealth and consumption, revenue from social contributions, revenue from grants, and other revenue, which includes property income, the sale of public goods and services, fines, penalties and forfeits, voluntary transfers, and miscellaneous income (IMF, 2001:47-49). The IMF framework also provides a comprehensive list of imposts

[30] Just because an impost is labelled a tax, it does not necessarily mean that the impost is in fact a tax (see Section 2.2.1 and Section 3.2 for a background explanation). To prevent confusion between the definition of a tax used in Chapter 2 of this study and the term 'tax' in the IMF's framework, the term 'tax' in the IMF's framework (and subsequent reference to it) is replaced by the term 'impost' in the present study.

associated with each of these categories of government revenue. The IMF framework is summarised in Table 7.

Table 7: IMF framework for classifying government revenue

Code	Classification
1	**Revenue**
11	**Taxes**
111	Taxes on income, profits, and capital gains
1111	Payable by individuals
1112	Payable by corporations and other enterprises
1113	Unallocable
112	Taxes on payroll and workforce
113	Taxes on property
1131	Recurrent taxes on immovable property
1132	Recurrent taxes on net wealth
1133	Estate, inheritance, and gift taxes
1134	Taxes on financial and capital transactions
1135	Other nonrecurrent taxes on property
1136	Other recurrent taxes on property
114	Taxes on goods and services
1141	General taxes on goods and services
11411	Value-added taxes
11412	Sales taxes
11413	Turnover and other general taxes on goods and services
1142	Excises
1143	Profits of fiscal monopolies
1144	Taxes on specific services
1145	Taxes on use of goods and on permission to use goods or perform activities
11451	Motor vehicle taxes
11452	Other taxes on use of goods and on permission to use goods or perform activities
1146	Other taxes on goods and services
115	Taxes on international trade and transactions
1151	Customs and other import duties
1152	Taxes on exports
1153	Profits of export or import monopolies
1154	Exchange profits
1155	Exchange taxes
1156	Other taxes on international trade and transactions
116	Other taxes
1161	Payable solely by business
1162	Payable by other than business or unidentifiable
12	**Social contributions [GFS]**
121	Social security contributions
1211	Employee contributions
1212	Employer contributions
1213	Self-employed or nonemployed contributions
1214	Unallocable contributions
122	Other social contributions
1221	Employee contributions
1222	Employer contributions
1223	Imputed contributions
13	**Grants**
131	From foreign governments
1311	Current
1312	Capital
132	From international organizations
1321	Current
1322	Capital
133	From other general government units
1331	Current
1332	Capital
14	**Other revenue**
141	Property income [GFS]
1411	Interest [GFS]
1412	Dividends
1413	Withdrawals from income of quasi-corporations
1414	Property income attributed to insurance policyholders
1415	Rent
142	Sales of goods and services
1421	Sales by market establishments
1422	Administrative fees
1423	Incidental sales by nonmarket establishments
1424	Imputed sales of goods and services
143	Fines, penalties, and forfeits
144	Voluntary transfers other than grants
1441	Current
1442	Capital
145	Miscellaneous and unidentified revenue

Source: IMF (2001:49)

Using the IMF framework in Table 7 as a point of departure and excluding the imposts listed in Table 9 of this study, a comprehensive list was compiled of potential imposts available to the South African government as sources of revenue. This list is set out in Table 8 below, and is referred to in the remainder of this study as the control framework for identifying government imposts in South Africa.

The control framework for identifying government imposts in South Africa, in Table 8, includes a brief reference to the general characteristics of each of the imposts listed in this control framework. These characteristics were used as broad criteria to facilitate the process of identifying and categorising the imposts used by the South African government. The control framework in Table 8 was structured using the traditional categories found in the literature, namely revenue from imposts on the income, wealth and consumption of taxpayers (Gildenhuys, 1989:284-285; Muller, 2010:16; Steenekamp, 2012:164).

Table 8: Control framework for identifying government imposts in South Africa

Impost	Characteristics of the impost
Revenue from imposts on income:	
Imposts on income and profits (1111)[31]	This term covers imposts on net income (i.e. gross income minus allowable tax deductions), imposts on business profits, as well as specific imposts on investment income (i.e. dividend taxes, royalty taxes). Gross income refers, for instance, to income from labour, investment income, and income from social security funds. These imposts are normally imposed on income earned over an entire year (IMF, 2001:50-51; OECD, 2010:9-10).
Imposts on payroll and workforce (112)	These are imposts paid by employers, employees or self-employed persons, either as a proportion of the payroll, or as a fixed amount per person. The impost is not earmarked for social security funds, nor does it confer entitlement to any benefits (IMF, 2001:51; OECD, 2010:Annexure A:12).
Revenue from imposts on wealth:	
Imposts on capital gains (1111)	These are imposts on profits that originate from the sale, transfer or disposal of capital (IMF, 2001:51-52; OECD, 2010:10).

[31] The code in brackets for each item refers to the category in the IMF framework in Table 7.

Impost	Characteristics of the impost
Recurrent imposts on immovable property (1131)	These are recurrent imposts on the users (tenants) or owners (proprietors), or both, of immovable property. These imposts are usually calculated as a percentage of the property's assessed value (IMF, 2001:52; OECD, 2010:12-13).
Imposts on estates, inheritances, and gifts (1133)	These imposts are levied when wealth is transferred at the death of a person or when property is donated to another party. Imposts on an estate are based on the value of a deceased's estate, whereas imposts on inheritance are based on the share of the estate that a beneficiary receives (IMF, 2001:52; OECD, 2010:13).
Imposts on financial and capital transactions (1134)	Imposts on financial and capital transactions refer to imposts on the transfer of the ownership of property. Transfer of ownership originates from the issuance, purchase and sale of securities, cheques and other forms of payment, and legal transactions, such as the validation of contracts or the sale of immovable property (IMF, 2001:52; OECD, 2010:13).
Revenue from imposts on consumption:	
Value-added impost (1411)	This is an impost collected at different stages by different enterprises, but is ultimately imposed on the final consumer of the goods and services. (IMF, 2001:53; OECD, 2010:14).
Imposts on turnover (11413)	This category consists of multistage cumulative imposts on gross turnover, without a subsequent deduction of expenses and other imposts (IMF, 2001:53; OECD, 2010:15).
Excises (1142)	Excises are imposts on particular products or a range of products at any stage of the production or distribution process. These imposts are based on the value or quantity of products (IMF, 2001:53; OECD, 2010:15).
Imposts on specific services (1144)	This category refers to imposts on selective services, which include imposts on gambling, betting, lotteries, insurance premiums, banking services, entertainment, restaurants, advertising and transport charges (IMF, 2001:54)
Imposts on the use of motor vehicles (11451)	These are imposts on the use of a motor vehicle, or permission to use a motor vehicle, but exclude toll fees (IMF, 2001:55).
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services (11542)	These imposts normally take the form of licenses that permit the use of particular goods, or to perform particular regulated activities. Business and professional licenses are included in this category, as well as other licences that, for instance, permit hunting, fishing, the use of firearms, radio and television licenses and other licenses (IMF, 2001:55).

Impost	Characteristics of the impost
Other imposts on goods and services (1146)	This category provides for imposts that are not classified in the other categories, as well as for imposts on the extraction of minerals, fossil fuels and other non-renewable resources from deposits that are owned privately or are owned by other governments (IMF, 2001:55).
Customs and import duties (1151)	Customs and import duties are imposts on goods entering the country, or services delivered by non-residents to residents of the country (IMF, 2001:56; OECD, 2010:Annexure:16-17).
Imposts on exports (1152)	These are imposts on the export of goods and services to non-residents (IMF, 2001:56).
Other imposts on international trade and transactions (1156)	This category refers to imposts on various items, such as imposts on travel abroad and investments abroad (IMF, 2001:56).
Revenue from social contributions:	
Social security contributions (121)	Social security contributions are normally levied on the payroll and provide for benefits other than retirement benefits. Social security contributions may be paid in full by the employer, or may be a shared contribution between employers and employees. It may also be possible in some instances for self-employed persons to make contributions. These social security schemes do not confer an entitlement to benefits that are directly linked to the level of contributions (IMF, 2001:57).
Other social contributions (122)	Other social contributions include contributions to social insurance schemes (known as retirement schemes) operated by governments as employers on behalf of their employees. These social insurance schemes tie the level of benefits directly to the level of contributions (IMF, 2001:57).
Revenue from grants:	
Transfers from government units (13)	Revenue from grants consisting of non-compulsory transfers received by government units from either another government unit or an international organisation (IMF, 2001:57-58). Three sources of grants are recognised, namely transfers from foreign governments, transfers from international organisations and transfers from other general government units (IMF, 2001:57-58).
Revenue from property:	
Interest (1411)	Interest consists of revenue earned by the government from financial assets, referring, for instance, to deposits, securities other than shares, loans and accounts receivable (IMF, 2001:58).

Impost	Characteristics of the impost
Dividends (1412)	Dividends are revenue that government becomes entitled to in its capacity as shareholder and owner of both private and public corporations (IMF, 2001:59).
Rent (1415)	Revenue from rent is income that government units receive from leases of land, subsoil assets,[32] and other naturally occurring assets (IMF, 2001:59).
Revenue from the sale of [public] goods and services:	
Sales by market establishments (1421)	Sales by market establishments refer to revenue from the sale of goods and services by government entities at economically significant prices[33] (IMF, 2001:47).
Administration fees (1422)	Administration fees refer to revenue from the exercise of some regulatory function by the government unit, for instance, fees for issuing drivers' licenses, passports, identification documents, etc. (IMF, 2001:60).
Revenue from incidental sales by non-market establishments (1423)	Revenue from the incidental sale by non-market establishments refers to sales incidental to the usual social or community activities of government departments and agencies, for instance, fees at government hospitals, tuition fees at government schools and admission fees to government-owned museums and parks (IMF, 2001:61).
Revenue from fines, penalties and forfeits:	
Fines, penalties, and forfeits (143)	Revenue from fines, penalties and forfeits consist of compulsory imposts for violations of laws or administrative rules (IMF, 2001:47-49).
Revenue from voluntary transfers and miscellaneous income:	
Voluntary transfers (144)	Revenue from voluntary transfers consists of non-compulsory income received by government (generally referred to as donations) (IMF, 2001:61).
Miscellaneous income (145)	Revenue from miscellaneous income consists of non-compulsory income received by government and which does not fit into one of the other categories (IMF, 2001:61).

The main revenue source categories of the IMF framework in Table 7, together with the underlying imposts, constitute a comprehensive list of imposts generally available to governments for exacting revenue from taxpayers. However, the South African government does not use all the imposts listed in the IMF framework to raise revenue. Table 9 provides a summary of those

[32] Sub-soil assets refer to mineral deposits or fossil fuels (IMF, 2001:59).

[33] Economically significant prices can be described as prices that are likely to be charged in order to raise revenue in excess of the cost of the goods or services in the long run (IMF, 2001:10; National Treasury, 2009c:26). These prices also tend to be in line with the prices charged by private enterprises providing similar products, if such products exist (National Treasury, 2009c:26).

imposts that were excluded from the control framework in Table 8. It also sets out those imposts that are not used by the South African government, as well as imposts that are not relevant to this study, together with a brief explanation for excluding the impost concerned from the study.

Table 9: Imposts in the IMF framework excluded from this study

Imposts	Basis for exclusion
Revenue from imposts on income, profits and capital gains:	
Payable by corporations and other enterprises[34] (1112)	The focus of the current study is on individual taxpayers in South Africa. Imposts on corporations and other enterprises are therefore not included in this analysis, because these imposts are deemed to be shifted onto individual taxpayers by means of price, payroll and/or shareholder shifting.[35]
Unallocable [Unallocated] (1113)	This is a general category for imposts that cannot be specifically classified into one of the other categories. Therefore this category was not used in the current study, as the purpose of the investigation into the revenue sources was to classify all the imposts used by the South African government into a specific revenue category.
Revenue from imposts on property:	
▪ *Recurrent imposts on net wealth* (1132) ▪ *Other non-recurring imposts on property*(1135) ▪ *Other recurring imposts on property* (1136)	These are recurrent and non-recurring imposts on moveable and immovable property. The value on which these imposts are levied is determined by referring to the market value of the property, less any liabilities incurred on the property, known as imposts on net wealth (IMF, 2001:52; OECD, 2010:13). Net wealth in this context is, in essence, an unrealised capital gain over a particular period, taking into account debts against the property. Paying imposts on net wealth is compulsory. The purpose of such imposts is to raise general government revenue or redistribute wealth (Gildenhuys, 1989:339; Johansen, 1971:197; Muller, 2010:26-27). The introduction of imposts on net wealth in South Africa was considered by the Margo Commission, but was rejected by the Katz Commission on the grounds of administrative difficulties (Katz, 1995:par. 7.1.11; Muller, 2010:28).
Revenue from imposts on goods and services:	
General impost on sales (11412)	This is an impost on the sale of goods and services, and it is normally collected at only one stage of the supply chain.

[34] Corporations and enterprises are entities that are liable for taxation in their own names.
[35] See Section 2.2.6.2.

Imposts	Basis for exclusion
	This stage can be, for example, either the production stage, the wholesale stage, or the retail stage (IMF, 2001:53; OECD, 2010:15). This impost is usually referred to as general sales tax (GST) (IMF, 2001:52-53). Value-added tax (VAT) replaced GST in South Africa in 1991 and therefore this impost as a source of revenue was not relevant to this study.
Profits of fiscal monopolies (1143)	Profits of fiscal monopolies refer to revenue that is transferred to government from the profits of particular entities. Fiscal monopolies[36] are public corporations or quasi-corporations that exercise the taxing power of government by making use of their monopoly powers over particular goods or services. The main purpose with these monopolies is to raise revenue for government. This revenue could otherwise have been raised by imposing taxes on these goods and services (IMF, 2001:53-56; OECD, 2010:16). In South Africa, the government does not provide these types of goods through public entities, but it does impose excise duties on these goods in terms of the Customs and Excise Act (91 of 1964).
Revenue from imposts on international trade and transactions:	
Profits of import or export monopolies (1153)	Profits of import or export monopolies refer to revenue that is transferred to government from the profits of the relevant public entities. Import and export monopolies are in essence similar to fiscal monopolies, but they normally concentrate on the import and export of specific goods and services (IMF, 2001:53-56; OECD, 2010:16). In South Africa, the government does not provide such goods and services, but does impose specific custom duties on them in terms of the Customs and Excise Act (91 of 1964).
▪ *Exchange profits* (1154) ▪ *Exchange imposts* (1155)	Revenue from this type of imposts refers to a margin extracted by government between the purchase and sale price of foreign exchange, and revenue from imposts on the sale or purchase of foreign exchange itself (IMF, 2001:56). The South African government does not use this as a

[36] Fiscal monopolies are non-financial public enterprises that exercise a monopoly – in most cases, over the production or distribution of items such as tobacco, alcoholic beverages, salt, matches, playing cards and petroleum or agricultural products (i.e. products which are likely to be, alternatively or additionally, subject to excises, to raise the government revenues which in other countries are gathered through taxes on dealings in such commodities by private business units). The government monopoly may be at the production stage or, as in the case of government-owned and controlled liquor stores, at the distribution stage (OECD, 2010:16).

Imposts	Basis for exclusion
	source of revenue in the form of an impost on individual taxpayers.
Revenue from other imposts:	
▪ *Payable solely by businesses* (1161) ▪ *Payable by entities other than businesses or unidentifiable* (1162)	This category of revenue caters for general imposts that cannot be accounted for in one of the other categories. Hence, this category was not used, because the purpose of the investigation into the revenue sources was to allocate all imposts used by the South African government into specific revenue categories.
Revenue from property:	
Withdrawal from quasi-corporations (1413)	Withdrawals from quasi-corporations refer to revenue that is conceptually the same as a dividend, but, because the quasi-corporation by definition[37] cannot distribute dividends, government makes withdrawals from these corporations from time to time (IMF, 2001:59). This source of revenue is not used by the South African government. However, this type of revenue is accounted for as dividends in the national accounts of the South African government (National Treasury, 2011a:161).
Property income attributed to insurance policyholders (1414)	Income attributed to insurance policyholders refers to revenue earned by insurance enterprises on their reserve funds. Where these reserve funds are considered to be the property of the policyholders, and government is a policyholder, the income on the reserve funds is deemed to accrue to government. However, this type of revenue is very rare and usually very small (IMF, 2001:59), and is not real revenue. This source of government revenue is not real income. It was therefore deemed not to originate from any imposts on individual taxpayers in South Africa, rendering it irrelevant to this study.
Revenue from the sale of public goods and services:	
Imputed sale of goods and services (1424)	Imputed sales of goods and services refer to specific public goods and services used by government, in lieu of cash, as a compensation for their employees, for instance, the right of workers on a government-owned farm to consume produce. This revenue is not real income to government, but is an assumed income (IMF, 2001:61). This source of government revenue is not real income. It was therefore deemed not to originate from any imposts on individual taxpayers in South Africa, rendering it irrelevant to this study.

[37] A quasi-corporation refers to an entity that is not incorporated or otherwise legally established (IMF, 2001:8).

The South African government uses various imposts to raise revenue for the public sector. An understanding of the public structure and the public sector funding in South Africa is important, because it provides clarity on the sources of revenue used by government for this funding. Hence, the strategy in the present chapter was to examine the literature relating to the public structure and funding in South Africa, specifically focusing on legislation, official government documentation and financial statements from government departments and public entities. The main focus of this examination was directed towards establishing the main sources of revenue of these departments and entities. These sources were then analysed to identify the underpinning imposts from whence the revenue originates. This analysis of the revenue sources and originating imposts was structured by using the imposts and definitions in Table 8 as a control list, to ensure that all material imposts used by the South African government were identified and classified in terms of the categories that underpin the IMF framework.

3.4 PUBLIC SECTOR STRUCTURE AND FUNDING IN SOUTH AFRICA

The public sector in South Africa consists of government departments at the national, provincial and local spheres of government. This structure is extended by public entities (Calitz, 2012:10-11; South African Government, 2011). The management of public sector funds is regulated in terms of the Public Finance Management Act (1 of 1999) and Local Government: Municipal Finance Management Act (56 of 2003).

3.4.1 South African national government

Government at the national sphere consists of national departments. These include the Presidency and different line ministries, for instance, the Departments of Basic Education, Communications, Energy, Finance, Health, Police, Public Enterprises and Transport, in terms of Schedule 1 of the Public Service Act (103 of 1994) (also see South African Government, 2011).

National government in South Africa is mainly funded from the National Revenue Fund (National Treasury, 2011a:161-163, 2011b). In terms of section 213 of the Constitution, a national revenue fund was created, and it is controlled by the National Treasury. Section 213 requires that all revenue received by government at a national level must be deposited into this fund, but provision is made for excluding specific revenue at a national level.[38] Section 214 of the Constitution provides indirectly for the equitable allocation of funds from the National Revenue Fund to the national departments. This allocation is determined as part of the annual national budget.

Given the importance of the National Revenue Fund in South Africa, it can be assumed that by investigating this fund, most of the main imposts used by the national government as sources of revenue can be identified and classified in terms of the structure set out in Table 8. The most appropriate approach to the investigation was deemed to be to scrutinize official publications by the South African government, particularly the national budget review (National Treasury, 2011a), the estimates of national expenditure (National Treasury, 2011b), and the audited consolidated financial information of the government (National Treasury, 2010). The national budget review and the estimates of national expenditure contain the main budgeted sources of revenue for the National Revenue Fund (National Treasury, 2011a:152-165, 2011b:x). The consolidated financial information of government is found in the annual audited financial

[38] This revenue is excluded if it is collected in terms of another Act. This revenue mainly refers to the revenue of public entities dealt with in Section 3.4.4 of this study.

statements of national government, which contain the main actual sources of revenue (National Treasury, 2010:59-61).

An investigation of the national budget review (National Treasury, 2011a:152-165) revealed that the budgeted revenue sources of the National Revenue Fund consist mainly of revenue from imposts on income, wealth and consumption, which, in total, make up around 98% of the total budgeted revenue in the National Revenue Fund. Similarly, the investigation of the consolidated financial information of the government (National Treasury, 2010:43) confirmed that the revenue from imposts on income, wealth and consumption, in total, contributed around 98% of the actual income of national government (National Treasury, 2010:43). The results of the investigation into the sources of revenue of the National Revenue Fund, using Table 8 as a basis, are summarised in Table 10, overleaf.

Table 10: Revenue sources of the National Revenue Fund in South Africa

Source of revenue	Used[39]	Label[40]	Detail
Revenue from imposts on income:			
Imposts on income and profits	✓	Income tax (National Treasury, 2010:59; 2011a:159).	Income tax is imposed on the income and profits of taxpayers during a given tax year in terms of the Income Tax Act (58 of 1962). Income includes income from labour, investments and retirement funds.
	✓	Secondary tax on companies (National Treasury, 2011a:159; 2012:50).	Secondary tax on companies (STC) is imposed in terms of the Income Tax Act (58 of 1962) at the corporate level on net dividends (dividend declared exceeding the sum of dividends received during the assessment period – known as the dividend cycle).
	✓	Dividends tax[41] (National Treasury, 2012:50).	Dividends tax is imposed in terms of the Income Tax Act (58 of 1962) on dividends paid to taxpayers. The tax is administered in the form of a withholding tax upon the payment of the dividend.
Imposts on payroll and workforce	x	N/A	This type of impost is not used as a source of revenue by the national government, but is used as an earmarked source of revenue by a number of specific public entities.[42]
Revenue from imposts on wealth:			
Imposts on capital gains	✓	Capital gains tax (National Treasury, 2010:59; 2011a:159).	Capital gains tax is imposed in terms of the Income Tax Act (58 of 1962) on the profits originating from the

39 This column indicates whether or not the specific impost included in Table 8 is used as a source of revenue in the National Revenue Fund.
40 This column lists the label used by the South African government to refer to that specific impost.
41 Dividends tax replaced secondary tax on companies (STC) on 1 April 2012 (SARS, 2012:1).However, there is a transition period and therefore STC was not excluded from this study.
42 See Section 3.4.4.3.

Source of revenue	Used[39]	Label[40]	Detail
			sale or transfer of property.
Recurrent imposts on immovable property	x	N/A	This type of impost is not used as a source of revenue by the national government, but is used as a source of revenue by municipalities.[43]
Imposts on estates, inheritance, and gifts	✓	Estate duty (National Treasury, 2010:59; 2011a:159).	Estate duty is imposed in terms of the Estate Duty Act (45 of 1955) on the value of a deceased's estates in South Africa.
		Donations tax (National Treasury, 2010:59; 2011a:159).	Donations tax is imposed in terms of sections 54 to 64 of the Income Tax Act (58 of 1962), on the disposal of property in the form of a donation.
Imposts on financial and capital transactions	✓	Transfer duty (National Treasury, 2010:59; 2011a:159).	Transfer duty is imposed on the acquisition of immovable property in terms of the Transfer Duty Act (40 of 1949). This impost becomes payable upon the acquisition of property by (or the enhancement of the value of property in the case of a renunciation in favour of) any person or entity.
		Securities transfer tax (National Treasury, 2010:59; 2011a:159).	Securities transfer tax is imposed in terms of the Securities Transfer Tax Act (25 of 2007), on the transfer of securities, which in essence means any share in a company or membership in a closed corporation.
Revenue from imposts on consumption:			
Value-added imposts	✓	Value-added tax (National Treasury, 2010:59; 2011a:159).	Value-added tax is imposed and regulated under the Value-Added Tax Act (89 of 1991). The impost is destination-based, which means that only the consumption of goods and services is taxed. This impost is considered to be a multi-stage impost,

[43] See Section 3.4.3.

Source of revenue	Used[39]	Label[40]	Detail
			because it is imposed at different stages, from the stage of production, to the final stage of supplying the goods or services to the consumer (Steenekamp, 2012:258).
Imposts on turnover	✓	Turnover tax payable by micro businesses (National Treasury, 2010:59; 2011a:159).	This is an impost on the turnover of qualifying micro businesses in lieu of an impost on their taxable income. This impost is regulated in terms of the Sixth Schedule of the Income Tax Act (58 of 1962).
Excises	✓	Specific excise duties (National Treasury, 2010:59; 2011a:159).	Specific excise duties are imposed in terms of Schedule No 1 Part 2A of the Customs and Excise Act (91 of 1964) on the quantity of specific goods produced in South Africa (SARS, 2009:8).
		Ad valorem excise duties (National Treasury, 2010:59; 2011a:159).	*Ad valorem* excise duties refer to imposts on the value of user goods (also known as 'luxury goods'). These imposts are regulated in terms of Schedule No 1 Part 2B of the Customs and Excise Act (91 of 1964) and are imposed on goods produced in South Africa (SARS, 2009:8).
Imposts on specific services	x	N/A	This type of impost is not used as a source of revenue by national government, but it is used as a source of revenue by provincial governments.[44]
Imposts on the use of motor vehicles	✓	*Ad valorem* excise duties on motor vehicles (SARS; 2009:8).	*Ad valorem* excise duties are imposed on motor vehicles in terms of Schedule No 1 Part 2B of the Customs and Excise Act (91 of 1964), on both the import and production of motor vehicles.

[44] See Section 3.4.2.

Source of revenue	Used[39]	Label[40]	Detail
		CO_2 motor vehicle emissions tax (National Treasury, 2011a:159).	A compulsory environmental impost on carbon dioxide (CO_2) emissions of new and imported motor vehicles is imposed under Schedule No 1 Part 3D of the Customs and Excise Act (91 of 1964).
		Specific excise duties on petroleum products (National Treasury, 2011a:159).	Specific excise duties on the import and production of fuel are imposed in terms of Schedule No 1 Part 2A of the Customs and Excise Act (91 of 1964). These duties form part of the price paid for fuel by motorists (SARS, 2009:7).
		General fuel levy (National Treasury, 2010:59; 2011a:159).	A general impost on fuel is imposed in terms of Schedule No 1 Part 5A of the Customs and Excise Act (91 of 1964). This is a compulsory impost on motorists as part of the fuel price (SARS, 2009:7).
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services	✓	Firearm licences (National Treasury, 2011b:537).	The ownership and use of a firearm is regulated in terms of the Firearms Control Act (60 of 2000). In terms of this Act, the ownership and use of a firearm is permitted by the issue of a firearms license by the Registrar of Firearms. The Registrar of Firearms in terms of this Act is the National Commissioner of the South African Police Service. The license revenue forms part of the administration fees under the non-tax revenue in the national revenue fund (National Treasury, 2011a:161).
Other imposts on goods and services	✓	Electricity environmental levy (National Treasury, 2010:59; 2011a:159).	This is an environmental related impost on the use of electricity, imposed under Schedule No 1 Part 3B of the Customs and Excise Act (91 of 1964). The impost was implemented in order to raise revenue for the National Revenue Fund.

Source of revenue	Used[39]	Label[40]	Detail
		Plastic bags levy (National Treasury, 2010:59; 2011a:159).	This is an environment-related impost on the use of plastics bags, and is imposed under Schedule No 1 Part 3 of the Customs and Excise Act (91 of 1964). The impost was implemented in order to address environmental objectives, particularly the promotion of recycling plastic waste and raising environmental awareness in society.
		Incandescent light bulb levy (National Treasury, 2011a:159).	This is an impost under Schedule No 1 Part 3C of the Customs and Excise Act (91 of 1964). This impost on the use of incandescent light bulbs was introduced to promote the use of electricity-saving light bulbs.
		Mineral and petroleum royalties, as well as prospecting fees and surface rentals (National Treasury, 2011a:161).	These are general imposts to regulate the *access* to and exploitation of mineral deposits located in South Africa. This type of impost is regulated in terms of the Minerals and Petroleum Resources Royalty Act (28 of 2008), the Mineral and Petroleum Resources Royalty (Administration) Act (29 of 2008), the Mineral and Petroleum Resources Development Act (28 of 2002) and the Petroleum Resources Development Regulations (R.527 of 2004)(South Africa, 2004).
Customs and import duties	✓	Customs duties (National Treasury, 2010:59; 2011a:159).	Imposts on goods imported into South Africa are regulated under Schedule No 1 Part 2A, and Schedule No 1 Part 2B, of the Customs and Excise Act (91 of 1964). These are imposed on imported goods that are similar to locally produced goods on which excises are imposed (SARS, 2009:7).
Imposts on exports	✓	Diamond export levy (National Treasury, 2011a:159).	This is an impost on the holder of permit to export diamonds from South Africa, and is regulated in terms of the Diamond Export Levy (Administration) Act (14

Source of revenue	Used[39]	Label[40]	Detail
			of 2007) and the Diamond Export Levy Act (15 of 2007). The purpose of the impost is to promote the development of the local economy, develop skills and create employment (SARS, 2009:8).
Other imposts on international trade and transactions	✓	Air passenger tax (National Treasury, 2010:59; 2011a:159).	This is an impost on international travelling passengers departing from South African airports. This impost is regulated in terms of Section 47B of the Customs and Excise Act (91 of 1964).
Revenue from social contributions:			
Social security contributions	x	N/A	This type of impost is not used as a source of revenue by the national government, but is used as an earmarked source of revenue by specific public entities.[45]
Other social contributions	x	N/A	This type of impost is not used as a source of revenue by the national government, but is used as an earmarked source of revenue by specific public entities.[46]
Revenue from grants:			
Transfers	✓	Government transfers (National Treasury, 2011a:161).	This refers to transfers from other government units, foreign governments, and international organisations (National Treasury, 2010:61).
Revenue from property:			
Interest	✓	Interest (National Treasury, 2011a:161).	Revenue from this source in the National Revenue Fund consists mainly of interest from deposits, loans, advances and investments (National Treasury, 2010:60).

[45] See Section 3.4.4.3.
[46] See Section 3.4.4.3.

Source of revenue	Used[39]	Label[40]	Detail
Dividends	✓	Dividends (National Treasury, 2011a:161).	Revenue from this source in the National Revenue Fund mainly consists of dividends from public entities (National Treasury, 2010:60).
Rent	✓	Rent (National Treasury, 2011a:161).	Revenue from this source consists of rent from government-owned land and buildings (National Treasury, 2010:60).
		Mining leases and ownership (National Treasury, 2011a:161; 2011b:699).	Revenue from this source consists mainly of rent from mining companies for surface rentals (National Treasury, 2011b:699).
Revenue from the sale of public goods and services:			
Sales by market establishments	x	N/A	This category is not used as a source of revenue by national government, but it is used as a source of revenue by specific public entities classified as market establishments[47].
Administration fees	✓	Administration fees (National Treasury, 2011a:161).	This source of revenue consists, for instance, of fees for issuing identification documents, passports, licences, permits and other official documents (National Treasury, 2011b:54, 2010:60).
Incidental sales by non-market establishments.	✓	Other income (National Treasury, 2011a:161).	This revenue originates from the sale by government units of public goods and services at below market-related prices (National Treasury, 2009c:44, 2010:60).
Revenue from fines, penalties and forfeits:			
Fines, penalties, and forfeits.	✓	Fines, penalties, and forfeits (National Treasury, 2011a:161).	This item consists of compulsory receipts imposed by a court or quasi-judicial body (National Treasury, 2009c:47, 2010:60).

[47] See Section 3.4.4.3.

Source of revenue	Used[39]	Label[40]	Detail
Revenue from voluntary transfers and miscellaneous income:			
Voluntary transfers.	✓	Transfers received (National Treasury, 2010:61).	Voluntary transfers received from public corporations and private enterprises (National Treasury, 2009c:45).
Miscellaneous income.	✓	Sale of capital assets (National Treasury, 2010:60; 2011a:161).	Revenue from this source consists of revenue from the sale of capital assets, for example, buildings, bridges, etc. (National Treasury, 2009c:49).
		Financial transactions in assets and liabilities (National Treasury, 2010:60; 2011a:161).	Revenue from this source consists of capital revenue, for instance, loan repayments from public entities, the repayment of equity previously invested in public entities, the repayment of advances, etc. (National Treasury, 2009c:49).
		Sales of scrap, waste, arms and other used current goods (National Treasury, 2010:60; 2011a:161).	Revenue from this source consists of revenue from the sale of goods that are not capital assets, for example, paper sold for recycling, scrap material, or used arms (National Treasury, 2009c:45).

3.4.2 Provincial government

Government departments at the provincial sphere are listed in Schedule 2 of the Public Service Act (103 of 1994). They include the Office of the Premier of each province. Schedules 4 and 5 of the Constitution assign functional areas to provincial departments, which includes agriculture, education, health, housing, roads, transport and tourism.

Revenue at the provincial sphere is regulated in terms of section 226 of the Constitution, which requires the creation of provincial revenue funds under the control of the Provincial Treasuries. All revenues received by provincial governments must be deposited into these provincial revenue funds. However, section 226 also makes provision for revenue excluded by the Constitution or another Act of Parliament.[48] Section 227 of the Constitution entitles provincial governments to an equitable share of revenue raised in the National Revenue Fund, and this share may be extended by conditional or unconditional grants from the National Revenue Fund.

The sources of revenue of government departments at the provincial sphere were investigated in this study by analysing the provincial budget and expenditure review by the National Treasury (2009a), using Table 8 as an underpinning. This review by the National Treasury contains information on the revenue sources of the provincial governments in South Africa over a given period, and it was therefore deemed to be an appropriate source of reference from which to identify imposts used by the provincial governments to raise revenue. The analysis of the National Treasury (2009a) document was extended to an analysis of the 2011/2012 budget reviews of the Gauteng provincial government (Gauteng, 2011), the KwaZulu-Natal provincial government (KwaZulu-Natal, 2011), and the Western Cape provincial government (Western Cape, 2011a), to enhance the investigation into the revenue sources of the provincial governments. The reason for using the

[48] This revenue is excluded if it is collected in terms of another Act. This revenue refers mainly to the revenue of public entities such as those dealt with in Section 3.4.4 of this study.

budget reviews of only these three provincial governments, and not the ones from the other six provinces in South Africa, is that these provinces contribute around 70% of the total provincial revenue from own receipts (National Treasury, 2009a:12). Hence, these three provinces were deemed to be the most important ones to analyse in this investigation.

The results from the investigation into the revenue sources of the provincial governments indicate that provincial revenue funds are mainly funded through transfers from the National Revenue Fund, which contributes around 97% of the total revenue of provinces in South Africa (National Treasury, 2009a:7). The remaining 3% of revenue is generated by the provincial governments themselves, and mainly consists of imposts on the income of casinos (15%) and from horse racing (1%), administration fees from liquor licenses (1%), motor vehicle license fees (48%), the sale of goods and services (21%), fines, penalties and forfeits (1%), interest, dividends and rent on land (11%), and other miscellaneous revenue (2%) (National Treasury, 2009a:11).

Section 228 of the Constitution regulates imposts by provincial governments. In terms of this section, provincial governments do not have the power to raise revenue from income tax, value-added tax, general sales tax, property rates, or custom duties. However, section 228 provides for provincial governments to impose a flat-rate surcharge, in specific circumstances, on any tax, levy or duty imposed in terms of national legislation, although it excludes corporate income tax, value-added tax, property rates and custom duties from this provision.

Table 11, overleaf, summarises the results from the investigation into the revenue sources of the provincial governments in South Africa.

Table 11: Revenue sources of the provincial revenue funds in South Africa

Source of revenue	Used[49]	Label[50]	Detail
Revenue from imposts on income:			
Imposts on income and profits	**X**	N/A	Section 228 of the Constitution makes provision for provincial governments to impose a flat-rate surcharge on the income tax imposed on individual taxpayers, but no evidence was found in the investigation to indicate that this is a source of revenue currently used to raise revenue for the provincial revenue funds.
Imposts on payroll and workforce	**X**	N/A	
Revenue from imposts on wealth:			
Imposts on capital gains	**X**	N/A	Capital gains tax is inherently part of the income tax imposed, as it is regulated and imposed under the Income Tax Act (58 of 1962). Section 228 of the Constitution makes provision for provincial governments to impose a flat-rate surcharge on the income tax imposed on individual taxpayers, but no evidence was found in the investigation to indicate that this is a source of revenue currently used to raise revenue for the provincial revenue funds.
Recurrent imposts on immovable property	**X**	N/A	In terms of section 228 of the Constitution, provincial governments are not allowed to raise revenue from property rates.
Imposts on estates, inheritance, and gifts	**X**	N/A	Section 228 of the Constitution does not prevent provincial governments from raising revenue from this type of impost, but no evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for the provincial revenue funds.
Imposts on financial and capital transactions	**X**	N/A	

49 This column indicates whether or not the specific impost included in Table 8 is used as a source of revenue for the provincial revenue funds.
50 This column provides the label used by the South African government to refer to the impost.

Source of revenue	Used[49]	Label[50]	Detail
Revenue from imposts on consumption:			
Imposts on added value	**x**	N/A	In terms of section 228 of the Constitution, provincial governments are not allowed to raise revenue from value-added tax.
Imposts on turnover	**x**	N/A	Turnover tax inherently forms part of income tax, as it is regulated and imposed under the Income Tax Act (58 of 1962). Section 228 of the Constitution makes provision for provincial governments to impose a flat-rate surcharge on the income tax imposed on individual taxpayers, but no evidence was found in the investigation to indicate that this is a source of revenue currently used to raise revenue for the provincial revenue funds.
Excises	**x**	N/A	Section 228 of the Constitution does not prevent provincial governments from raising revenue from this type of impost, but no evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for the provincial revenue funds.
Imposts on specific services	✓	Casino taxes (Gauteng, 2011:15; KwaZulu-Natal, 2010:2-7; 2011:47; National Treasury, 2009a:11; Western Cape, 2011a:36).	Imposts on casinos are regulated under provincial legislation, and are imposed on the income of the entities in the casino industry (CASA, 2008:12-23).
		Horse racing taxes (Gauteng, 2011:15; KwaZulu-Natal, 2010:2-7; 2011:47; National Treasury, 2009a:11; Western Cape, 2011a:36).	Imposts on horse racing are regulated under provincial legislation, and are imposed on the income of the entities in the horse racing industry (CASA, 2008:12-23).

Source of revenue	Used[49]	Label[50]	Detail
Imposts on the use of motor vehicles	✓	Motor vehicle licences (Gauteng, 2011:15; KwaZulu-Natal, 2010:2-7; 2011:47; National Treasury, 2009a:11; Western Cape, 2011a:36)	Motor vehicle licences are regulated in terms of the National Road Traffic Act (93 of 1996). Motor vehicle licences are a significant source of own revenue generated by provincial governments (National Treasury, 2009a:11 & 134).
		Drivers' licenses (Gauteng, 2011:15; KwaZulu-Natal, 2011:499; Western Cape, 2011a:36).	Drivers' licences are regulated in terms of the National Road Traffic Act (93 of 1996). Drivers' licences are an important source of revenue for provincial revenue funds (National Treasury, 2009a:11 & 134).
		Fines for traffic violations (Gauteng, 2011:15; KwaZulu-Natal, 2011:499; Western Cape, 2011a:36).	Traffic fines for violations on provincial roads are imposed and regulated in terms of the National Road Traffic Act (93 of 1996). These imposts contribute to the revenue of the provincial revenue funds (National Treasury, 2009a:11).
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services	✓	Liquor licenses (Gauteng, 2011:15; KwaZulu-Natal, 2011:51; Western Cape 2011a:45).	The issuing of liquor licences is a functional area in terms of Schedule 5 Part A of the Constitution. Revenue from the issuing of a liquor licence forms part of the provincial revenue funds (National Treasury, 2009a:11).
		Casino and horse racing licences (Gauteng, 2011:15; KwaZulu-Natal, 2010:2-7; 2011:47; National Treasury, 2009a:11; Western Cape, 2011a:36).	The issuing of casino and horse racing licences is a concurrent functional area in terms of Schedule 4 Part A of the Constitution. Revenue from these licences forms part of the provincial revenue funds (CASA, 2008:12-23).
Other imposts on goods and services	**x**	N/A	Section 228 of the Constitution does not prevent provincial governments from raising revenue from this type of impost, but no evidence was found in the investigation to indicate that these are sources of revenue currently used to raise

Source of revenue	Used[49]	Label[50]	Detail
			revenue for the provincial revenue funds.
Customs and import duties	x	N/A	In terms of section 228 of the Constitution, provincial governments are not allowed to raise revenue from customs duties.
Imposts on exports	x	N/A	Section 228 of the Constitution does not prevent provincial governments from raising revenue from this type of impost, but no evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for the provincial revenue funds.
Other imposts on international trade and transactions	x	N/A	
Revenue from social contributions:			
Social security contributions	x	N/A	No evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for the provincial revenue funds.
Other social contributions	x	N/A	
Revenue from grants:			
Transfers	✓	Government transfers received (Gauteng, 2011:5; KwaZulu-Natal, 2011:47; Western Cape, 2011a:36).	Transfers from the National Revenue Fund and other government units (National Treasury, 2011b:xvii).
Revenue from property:			
Interest	✓	Interest (Gauteng, 2011:474; KwaZulu-Natal, 2011:237; Western Cape, 2011a:47).	Interest revenue from interest-bearing financial instruments, such as bank deposits, loans, and bills and bonds (National Treasury, 2009a:11).
Dividends	✓	Dividends (Gauteng, 2011:474; KwaZulu-Natal, 2011:237; Western Cape, 2011a:47).	Dividend revenue from investments (National Treasury, 2009a:11).
Rent	✓	Rent (Gauteng, 2011:474;	Rent as source of revenue refers mainly to the rent received

Source of revenue	Used[49]	Label[50]	Detail
		KwaZulu-Natal, 2011:237; Western Cape, 2011a:47).	from leasing buildings (National Treasury, 2009a:11).
Revenue from the sale of goods and services:			
Sales by market establishments	✗	N/A	This category is not used as a source of revenue by national government, but it is used as a source of revenue by specific public entities classified as market establishments.[51]
Administration fees	✓	Permits, licence, and other administration fees (Gauteng, 2011:322; KwaZulu-Natal, 2011:499; Western Cape, 2011a:441).	The sales of goods and services other than capital assets include administration fees, for instance, abnormal loads permits, duplicate documents, permits of authorised officials, sports gatherings, public road permits, etc.
Incidental sales by non-market establishments	✓	Healthcare service fees (Gauteng, 2011:129; KwaZulu-Natal, 2011:279; Western Cape, 2011a:267).	These fees consist mainly of charges for services by provincial hospitals (National Treasury, 2009a:11 & 47).
		Public school fees (Gauteng, 2011:221; KwaZulu-Natal, 2011:190; Western Cape, 2011a:160).	These fees consist mainly of school fees for public schools (National Treasury, 2009a:21-47).
Revenue from fines, penalties and forfeits:			
Fines, penalties, and forfeits	✓	Fines, penalties, and forfeits (National Treasury, 2009a:39).	Fines are issued for various violations of regulations (Gauteng, 2011:16; KwaZulu-Natal, 2011:51; Western Cape, 2011a:46).

[51] See Section 3.4.4.3.

Source of revenue	Used[49]	Label[50]	Detail
Revenue from voluntary transfers and miscellaneous income:			
Voluntary transfers	✓	Transfers received (Gauteng, 2011:15; KwaZulu-Natal, 2011:50; Western Cape, 2011a:36).	This is revenue received in the form of voluntary donations, mainly from international organisations (National Treasury, 2009a:11).
Miscellaneous income	✓	Sale of capital assets (Gauteng, 2011:15; KwaZulu-Natal, 2011:51; Western Cape, 2011a:47).	This is a source of revenue used by provincial governments, although it is not major source of revenue (National Treasury, 2009a:11).
		Financial transactions in assets and liabilities (Gauteng, 2011:15; KwaZulu-Natal, 2011:51; Western Cape, 2011a:47).	Transactions in financial assets and liabilities consist mainly of debt recovery (National Treasury, 2009a:11).

3.4.3 Local government

Government at the local sphere in South Africa is comprised of eight metropolitan municipalities, 226 local municipalities and 44 district municipalities, as defined in sections 1 and 2 of the Local Government: Municipal Structures Act (117 of 1998), read with section 155 of the Constitution. In terms of section 76 of the Local Government: Municipal Systems Act (32 of 2000), municipalities may use various mechanisms to provide services, which may include departments, administration units, and various other entities.

Section 229 of the Constitution and the Municipal Fiscal Powers and Functions Act (12 of 2007) deals with the fiscal powers and functions of municipalities, but the management of municipal revenue is regulated under sections 7 to 14 of the Local Government: Municipal Finance Management Act (56 of 2003). In terms of sections 7 and 8, municipalities are required to open bank accounts, one of which is the primary bank account, into which all municipal revenues must be deposited. Section 227 of the Constitution entitles the local government sphere to an equitable share of revenue raised in the National Revenue Fund. This share may be extended by conditional or unconditional grants from the National Revenue Fund.

Municipalities receive funding in the form of transfers from the national and provincial revenue funds. These transfers contribute around 20% to the total funding of municipalities (National Treasury, 2011c:58). The remaining municipal revenue consists of property rates (17%), service charges (53%), interest (1%) and other revenue (9%) (National Treasury, 2011c:58). Municipal service charges in South Africa consist of service charges on electricity (67%), water (18%), sanitation (8%), refuse (5%), transfers (20%) and other services (2%) (National Treasury, 2011c:58). However, a large percentage of the revenue from service fees on electricity and water flows through the municipalities to Eskom and various water boards (National Treasury, 2011c:58-59). Municipal revenue from electricity and water services in essence consists of surcharges imposed on bulk electricity from Eskom,[52] and on bulk water from the relevant water boards.

Section 229 of the Constitution regulates imposts by municipalities and provides for municipalities to impose property rates and surcharges on the fees for municipal services. However, section 229 does permit municipalities, under specific circumstances as provided for in the Municipal Fiscal Powers and Functions Act (12 of 2007), to impose taxes, levies and duties appropriate to municipalities, but this provision excludes income tax, value-added tax, general sales tax and custom duties.

The results from the investigation into the revenue sources of municipalities in South Africa are summarised in Table 12, overleaf.

[52] In some instances, municipalities generate their own electricity, but for the purposes of this study, all municipal electricity is deemed to be purchased from Eskom, based on the assumption that most municipalities in South Africa do not generate their own electricity. This assumption is supported by the fact that around 65% to 85% of municipal services charges on electricity are paid over to Eskom (National Treasury, 2011c:58).

Table 12: Revenue sources of municipal revenue funds in South Africa

Source of revenue	Used[53]	Label[54]	Detail
Revenue from imposts on income:			
Imposts on income and profits	x	N/A	In terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from taxes imposed on income.
Imposts on payroll and workforce	x	N/A	
Revenue from imposts on wealth:			
Imposts on capital gains	x	N/A	Imposts on capital gains in South Africa are inherently part of income tax, as it is regulated and imposed under the Income Tax Act (58 of 1962). In terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from taxes imposed on income.
Recurrent imposts on immovable property	✓	Property rates (National Treasury, 2011c:58).	Property rates are compulsory imposts on the market value of immovable property (Steenekamp, 2012:246).The rates are imposed in terms of the Local Government: Municipal Property Rates Act (6 of 2004).
Imposts on estates, inheritance, and gifts	x	N/A	In terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from imposts on estates, inheritances, and gifts, because such imposts are not deemed to be appropriate to municipalities.
Imposts on financial and capital transactions	x	N/A	In terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from imposts on financial and capital transactions, because such imposts are not deemed to be appropriate to municipalities.

[53] This column indicates whether or not the specific impost included in Table 8 is used as a source of revenue in the municipal revenue funds.
[54] This column provides the label used by the South African government to refer to the impost.

Source of revenue	Used[53]	Label[54]	Detail
Revenue from imposts on consumption:			
Imposts on added value	**x**	N/A	In terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from value-added tax.
Imposts on turnover	**x**	N/A	Turnover tax inherently forms part of income tax, as it is regulated and imposed under the Income Tax Act (58 of 1962), and hence, in terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from imposts on income.
Excises	**x**	N/A	Section 229 of the Constitution does not prevent municipalities from raising revenue from this type of impost, but no evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for municipal revenue funds.
Imposts on specific services	**x**	N/A	No evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for municipal revenue funds.
Imposts on the use of motor vehicles	✓	Fines for traffic violations (National Treasury, 2011c:60).	Traffic fines for violations on provincial roads are regulated in terms of the National Road Traffic Act (93 of 1996). This impost is used by municipalities as a source of revenue.
		General fuel levy (National Treasury, 2011c:53).	Metropolitan municipalities' share in the general fuel levy as a source of income (National Treasury, 2011a:163, 2011c:36).
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services	✓	Business licenses (National Treasury, 2011c:33,60).	This is a source of revenue used by municipalities from the issuing of business licenses to businesses providing food to the public. Under Schedule 5 Part B of the Constitution, the issue of business licences is one of the functional areas of municipalities.

Source of revenue	Used[53]	Label[54]	Detail
Other imposts on goods and services	x	N/A	No evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for municipal revenue funds.
Customs and import duties	x	N/A	In terms of section 229 of the Constitution, municipalities are not allowed to raise revenue from customs duties.
Imposts on exports	x	N/A	No evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for municipal revenue funds.
Other imposts on international trade and transactions	x	N/A	
Revenue from social contributions:			
Social security contributions	x	N/A	No evidence was found in the investigation to indicate that these are sources of revenue currently used to raise revenue for municipal revenue funds.
Other social contributions	x	N/A	
Revenue from grants:			
Transfers	✓	Government transfers (National Treasury, 2011c:36; Statistics South Africa, 2010:11).	Transfers from the national and provincial revenue funds (National Treasury, 2011c:36).
Revenue from property:			
Interest	✓	Interest (National Treasury, 2011c:58; Statistics South Africa, 2010:11).	Revenue from the interest on investments and outstanding debtor accounts (National Treasury, 2011c:58).
Dividends	✓	Dividends (National Treasury, 2011c:58; Statistics South Africa, 2010:11).	Revenue from investments (National Treasury, 2011c:58).
Rent	✓	Rent of facilities and equipment (National Treasury, 2011c:58; Statistics South Africa, 2010:11).	Revenue from the rent of equipment and facilities National Treasury (2011c:58).

Source of revenue	Used[53]	Label[54]	Detail
Revenue from the sale of goods and services:			
Sales by market establishments[55] (Municipal services[56])	✓	Electricity service charges (National Treasury, 2011c:58).	Imposts on the supply of electricity used by municipalities to raise revenue (National Treasury, 2011c:36).
		Water service charges (National Treasury, 2011c:58).	Imposts on the supply of water used by municipalities to raise revenue (National Treasury, 2011c:36).
		Sanitation service charges (National Treasury, 2011c:58).	Imposts on the supply of sanitation services used by municipalities to raise revenue (National Treasury, 2011c:36).
		Refuse removal service charges (National Treasury, 2011c:58).	Imposts on the supply of refuse services used by municipalities to raise revenue (National Treasury, 2011c:36).
Administration fees	✓	Administrative fees (National Treasury, 2011c:36).	Administrative fees for municipal services are regulated in terms of the Local Government: Municipal Systems Act (32 of 2000) (National Treasury, 2011c:36).
Incidental sales by non-market establishments	✓	Healthcare service fees (National Treasury, 2011c:33).	This is a source of revenue used by municipalities derived from providing healthcare services (National Treasury, 2009a:47).
		Other income (National Treasury, 2011c:58).	This source of revenue originates from services rendered to other spheres of government, for instance, an agency fee for issuing licenses for motor vehicles' and drivers' licences in terms of the National Road

[55] It is assumed for the purposes of this study that municipal supply services relating to electricity, water, sanitation, refuse removal and some of the other services are in essence public goods and services sold in market-related circumstances. Hence, these services are included under the category of sales by market establishments. This assumption is supported by the fact that these services are generally referred to by municipalities as trading services (National Treasury, 2011c:41 & 58), although it is possible to argue that municipalities are not really market establishments.

[56] Although municipalities might render other services, for instance, public transport services, this study focuses only on the services relating to electricity, water, refuse removal and sanitation. The reason for this is that these services are the main services rendered by municipalities, in total contributing to around 98% of municipal revenue from services (National Treasury, 2011c:58).

Source of revenue	Used[53]	Label[54]	Detail
			Traffic Act (93 of 1996) on behalf of provincial governments. It also includes various other incomes, for instance, entrance fees to municipal swimming pools, parks, and other facilities.
Revenue from fines, penalties and forfeits:			
Fines, penalties, and forfeits	✓	Fines and penalties (National Treasury, 2011c:58).	Fines and penalties on the violation of municipal regulations (National Treasury, 2011c:36), and also penalties on outstanding property rates (National Treasury, 2011c:58).
Revenue from voluntary transfers and miscellaneous income:			
Voluntary transfers	✓	Transfers (National Treasury, 2011c:58; Statistics South Africa, 2010:11).	This is revenue received in the form of voluntary donations (National Treasury, 2011c:58).
Miscellaneous income	✓	Other revenue (National Treasury, 2011c:58; Statistics South Africa, 2010:11).	This revenue consists of other unallocated revenue not often used by municipalities as sources of revenue (National Treasury, 2011c:58).

3.4.4 Public entities

Public entities are defined in Section 1 of the Public Finance Management Act (1 of 1999) as any public board, commission, company, corporation, fund or other entity established in terms of legislation. Public entities are categorised and listed in Schedules 1, 2 and 3[57] of the Act:

- Schedule 1: constitutional institutions;
- Schedule 2: main public entities;
- Schedule 3: other public entities
  - Schedule 3A: national public entities;
  - Schedule 3B: national government business enterprises;
  - Schedule 3C: provincial public entities; and
  - Schedule 3D: provincial government business enterprises.[58]

Public entities can be divided into market establishments and non-market establishments. A market establishment is a public entity providing goods and services at market-related prices, while a non-market establishment provides goods and services at prices below the market rate (IMF, 2001:11; National Treasury, 2009c:28-29). The funding for public entities in South Africa, both market and non-market establishments, comes from various sources, including

- transfers from the national and provincial revenue funds (Gauteng, 2011:22; KwaZulu-Natal, 2011:60; National Treasury, 2011a:167; Western Cape, 2011a:79);
- social contributions (National Treasury, 2011b:104-06);
- imposts in terms of specific legislation on certain goods and services (National Treasury, 2011b:845-858 & 886-887); and/or
- the sale of goods and services (Gauteng, 2011; KwaZulu-Natal, 2011; National Treasury, 2011b; Western Cape, 2011a).

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[57] Schedule 3 consists of Parts A, B, C and D, which are referred to hereafter in the study as Schedules 3A, 3B, 3C and 3D.

[58] This study uses the public entities listed on 30 September 2011 (National Treasury, 2011d, 2011e) as a basis for the investigation into the revenue sources of these entities.

Public entities consist of a large number of public boards, commissions, companies, corporations, funds and other entities in all the functional areas of government (National Treasury, 2011d; National Treasury, 2011e). Not all of the funding structures of all these entities directly affect the tax burden of individual taxpayers, because a large number of them are funded mainly from transfers from the National Revenue Fund and the provincial revenue funds (Gauteng, 2011; KwaZulu-Natal, 2011; National Treasury, 2011b; Western Cape, 2011a).

The analysis of public entities in South Africa, for the purposes of this study, was therefore limited primarily to those entities that are listed in the Public Finance Management Act[59] and that provide services in the government functional areas relating to communication, education, energy, health, human settlements, public order and safety, social development, transport, and water affairs. The reason for focusing on these functional areas was that around 70%[60] of the budgeted revenue from the national and provincial revenue funds is allocated to these functional areas (see Table 73[61]), and hence they were deemed to be the more important focus areas for government. Some of the public goods and services related to these functional areas are also normally used for studies on household expenditure (Statistics South Africa, 2011a:1), for instance, educational services, electricity and fuel, healthcare services, social security services, transport services, and water services.[62]

The investigation into the revenue sources of public entities in South Africa was conducted by analysing the revenue of each specific public entity, as it was included in the latest audited financial statements,[63] using the characteristics listed in Table 8 as a point of reference. Where relevant, the National Revenue Fund (National Treasury, 2011b), and the provincial revenue funds (Gauteng,

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[59] This was limited to entities listed in the Public Finance Management Act on 30 September 2011 (National Treasury, 2011d, 2011e).
[60] The remaining 30% consist mainly of administrative functions (22%) and other miscellaneous functions (8%) (see Table 73).
[61] See Section 5.6.3.2.
[62] For the purposes of this study, these functional areas included in the examination of the revenue sources of public entities are referred to as key functional areas in the rest of the study.
[63] The latest audited financial statements refer to those financial statements that were generally available on the internet for the public entity up to 31 October 2011.

2011; KwaZulu-Natal, 2011; National Treasury, 2011b; Western Cape, 2011a) were also used as a point of reference to identify revenue sources of public entities in the key functional areas. The investigation was limited to the main sources of revenue that contributed, in total, more than 80% to the revenue of the particular public entity under review.

3.4.4.1 Constitutional institutions

Constitutional institutions, listed in Schedule 1 of the Public Finance Management Act, include the Commission on Gender Equality, the Financial and Fiscal Commission, the Independent Electoral Commission, the Public Protector of South Africa and the South African Human Rights Commission. These institutions are mainly funded from the National Revenue Fund and are classified as non-market establishments. The results of the investigation into the main revenue sources of constitutional entities in the key functional areas are summarised in Table 13, overleaf.

Table 13: Main revenue sources of constitutional institutions in South Africa

Key functional area	Constitutional institution	Main sources of revenue	Contribution
Communication	Independent Communications Authority of South Africa (ICASA)	Government transfers (ICASA, 2011:135).	99%
Energy	No constitutional institution in this functional area		
Health	No constitutional institution in this functional area		
Human settlements	No constitutional institution in this functional area		
Public order and safety	Public Protector of South Africa (PPSA)	Government transfers (PPSA, 2010:98).	99%
Social development	National Youth Development Agency (NYDA)	Government transfers; Voluntary transfers (donation) (NYDA, 2011:110).	80% 13%
Transport	No constitutional institution in this functional area		
Water affairs	No constitutional institution in this functional area		

3.4.4.2 Major public entities

Major public entities operate in a competitive marketplace in line with general business principles, and are classified as market establishments. Major public entities, as listed in Schedule 2 of the Public Finance Management Act, include Telkom SA Limited, ESKOM Holdings Limited, Transnet Ltd, South African Airways (Pty) Limited (SAA) and the South African Broadcasting Corporation Limited (SABC).

Such entities are meant to generate profits and declare dividends to shareholders (Auditor-General, 2004:27). Dividends received by the government as a shareholder in these entities contribute to the National Revenue Fund (National Treasury, 2011a:161). The major public entities in the key functional areas are mainly self-funded through the sale of their goods or services, but some also receive financial support from the government in the form of grants. Other sources of revenue include rentals, interest, dividends, and other sundry income. The results of the investigation into the main revenue sources of the major public entities in the key functional areas are summarised in Table 14, overleaf.

Table 14: Main revenue sources of the major public entities in South Africa

Key functional area	Major public entity	Main sources of revenue	Contribution
Communication	Broadband Infrastructure Company (Pty) Ltd (Broadband Infraco)	Broadband infrastructure rental tariffs (Broadband Infraco, 2011:73; National Treasury 2011b:214).	99%
	South African Broadcasting Corporation Limited (SABC)	Air broadcasting tariffs; Television licences (National Treasury, 2011b:603-604, SABC, 2011:135).	67% 17%
	South African Post Office Limited (SAPO)	Postal service tariffs; Courier service tariffs (National Treasury, 2011b:600-601; SAPO, 2010:126).	72% 13%
	Telkom SA Limited (Telkom)	Telecommunication tariffs (Telkom, 2010:232).	94%
Energy	ESKOM	Electricity supply tariffs (Eskom, 2011b:note 29; National Treasury, 2011b:215).	99%
	CEF (Pty) Ltd (CEF)	Imposts on fuel (CEF, 2010:35). The imposts on fuel[64] refer to • an equalisation fund levy; • a slate levy; • a demand side management levy; and • an illuminating paraffin tracer dye levy. (Department of Energy, n.d.; Sasol, 2007).	87%
	Nuclear Energy Corporation Limited (NECSA)	Nuclear energy supply tariffs; Government transfers (National Treasury, 2011b:643; Necsa, 2010:2).	69% 29%
Health	No major public entity in this functional area		
Human settlements	No major public entity in this functional area		

[64] These are imposts on the consumption of fuel in South Africa that form part of the Equalisation Fund, which is managed and administered by CEF (Pty) Ltd (Department of Energy n.d.; National Treasury, 2011a:641).

Key functional area	Major public entity	Main sources of revenue	Contribution
Public order and safety	Armaments Corporation of South Africa Limited (ARMSCOR)	Sale of military goods and services. Government transfers (ARMSCOR, 2010:59).	65% 31%
Social development	No major public entity in this functional area		
Transport	Air Traffic and Navigation Services Company Limited (ATNS)	Air traffic service fees (ATNS, 2011:113; National Treasury, 2011b:854).	89%
	Airports Company of South Africa Limited (ACSA)	Airport service fees; Airport retail income (ACSA, 2011:115; National Treasury, 2011b:857).	52% 32%
	South African Airways (Pty) Limited (SAA)	Air passenger transport fares; Fuel levies on other airlines (SAA, 2009:43).	64% 18%
	South African Express (Pty) Limited (SA Express)	Air passenger transport fares (SA Express, 2009:60).	99%
	Transnet Limited (Transnet)	Freight rail transport tariffs; Port and terminal service tariffs (Transnet, 2010:153,184,200,270).	58% 36%
Water affairs	Trans-Caledon Tunnel Authority (TCTA)	Water tariffs (National Treasury, 2011b:889).	99%

3.4.4.3 National and provincial public entities

National public entities, as listed in Schedule 3A of the Public Finance Management Act, include boards, commissions, companies, corporations and funds established in terms of national legislation. These entities are extensions of national departments with the purpose of fulfilling a specific economic or social responsibility (Auditor-General, 2004:27). Provincial public entities are listed in Schedule 3C of the Public Finance Management Act, and include gambling boards, liquor boards, parks boards, tourism authorities and the Gautrain Management Agency.

Institutions of higher education are specifically excluded from Schedule 3 in terms of Section 47(4)(c) of the Public Finance Management Act. The exclusion of these institutions relates only to the requirements of the Public Finance Management Act. These institutions are classified as public sector entities (Calitz, 2012:10-11; IMF, 2001:9), which are generally funded from transfers from the National Revenue Fund and from other revenue raised from tuition fees, other fees and voluntary donations from individuals and non-government institutions (National Treasury, 2009c:44, 2011a:171; University of Pretoria, 2009:5).

These public entities are mainly or largely funded either by transfers from the national and provincial revenue funds, or from earmarked[65] imposts in terms of legislation on specific public goods and services, and are classified as non-market establishments. The main revenue sources of national and provincial[66] public entities rendering services in the key functional areas of government are summarised in Table 15, overleaf.

[65] Government may raise revenue with the purpose of providing general funding for government expenses. But government may also raise revenue to provide funding earmarked for specific government expenditure, commonly referred to as earmarked 'taxes' (Musgrave & Musgrave, 1980:241-242; Singer, 1976:179; Teja, 1988:523).

[66] All the entities in Table 15 are national public entities, except where it is specifically indicated that it is a provincial public entity.

Table 15: Main revenue sources of national and provincial public entities in South Africa

Key functional area	Public entities	Main sources of revenue	Contribution
Communication	National Electronic Media Institute of South Africa (NEMISA)	Government transfers; Training and development fees (NEMISA, 2009:44).	66% 26%
	Universal Service and Access Agency of South Africa (USAASA)	Government transfers (USAASA, 2010:39).	99%
	Universal Service and Access Fund	Levy on suppliers of telecommunication services (USAASA, 2010:44 & 66; National Treasury, 2011a:159; National Treasury, 2011b:605).	99%
Education	Council on Higher Education (CHE)	Government transfers (CHE, 2010:64).	98%
	Education Labour Relations Council (ELRC)	Levies on educators (employers and employees) (ELRC, 2011:135).	87%
	National Institutes of Higher Education	Government transfers; Tuition and related fees; Investment income (University of Pretoria, 2009:53). The University of Pretoria was used as a reference, but generally the funding of such institutions consists mainly of government transfers (National Treasury, 2011a:353), and tuition fees (University of Pretoria, 2009:53).	33% 27% 17%
	National Student Financial Aid Scheme	Government transfers (National Treasury, 2011b:359).	91%
	Quality Council for Trades and Occupations (QCTO)	Government transfers (National Treasury, 2011b:361).	84%
	Sector Education and Training Authorities (SETAs).	Skills development levy (National Treasury, 2011b:364).	95%
	South African Council for Educators (SACE)	Government transfers (National Treasury, 2011b:304).	99%

Key functional area	Public entities	Main sources of revenue	Contribution
	South African Qualifications Authority (SAQA)	Government transfers (National Treasury, 2011b:353).	95%
	uMalusi Council for Quality Assurance in General and Further Education and Training (uMalusi)	Certification fees; Government transfers (Umalusi, 2011:63).	60% 30%
Energy	EDI Holdings (Pty) Ltd	EDI Holdings (Pty) Limited was terminated by Parliament (National Treasury, 2011b:639).	
	National Energy Regulator of South Africa (NERSA)	Levy on the suppliers of electricity; Levy on the suppliers of piped-gas; Levy on the suppliers of pipeline petroleum (NERSA, 2011:141).	54% 18% 25%
	National Nuclear Regulator (NNR)	Nuclear licences; Government transfers (NNR, 2010:123 & 135).	74% 21%
	South African National Energy Development Institute (SANERI)	Government transfers (SANERI, 2010:103).	95%
	National Radioactive Waste Disposal Institute (NRWDI)	Government transfers (National Treasury, 2011b:643).	100%
Health	Council for Medical Schemes (CMS)	Levy on medical schemes (CMS, 2010:141).	81%
	South African Medical Research Council (SAMRC)	Income from research contracts, grants, and service fees; Government transfers (National Treasury, 2011b:336; SAMRC, 2011:175).	52% 43%
	National Health Laboratory Service (NHLS)	Laboratory service fees (National Treasury, 2011b:334, NHLS, 2011:126).	92%
Human settlement	Housing Development Agency (HDA)	Government transfers (HDA, 2010:40).	88%
	National Home Builders Registration Council (NHBRC)	Levies imposed on home builders; Interest (National Treasury, 2011b:684; NHBRC, 2010:76).	46% 34%

Key functional area	Public entities	Main sources of revenue	Contribution
	National Housing Finance Corporation Limited (NHFC)	Interest; Other (National Treasury, 2011b:686; NHFC, 2010:56).	75% 25%
	National Urban Reconstruction and Housing Agency (NURCHA)	Interest (National Treasury, 2011b:688; NURCHA, 201:37).	90%
	Rural Housing Loan Fund (RHLF)	Interest (RHLF, 2011:74).	97%
	Social Housing Foundation (SHF)	Government transfers (SHF, 2009:56).	99%
	Social Housing Regulatory Authority (SHRA)	Government transfers (SHRA, 2011:49).	99%
	Servcon Housing Solutions (Pty) Ltd	The functions of these two public entities were transferred to the Housing Development Agency in 2008, and the two entities were subsequently terminated by Parliament.	
	Thubelisha Homes		
Public order and safety	Legal Aid South Africa	Government transfers (National Treasury, 2011b:525).	98%
	Special Investigation Unit	Government transfers (National Treasury, 2011b:523).	99%
	Private Security Industry Regulatory Authority (PSIRA)	Levies on suppliers of private security services; Licences; Interest received (PSIRA, 2010:67-68).	64% 14% 8%
Social security	Compensation Fund	Government transfers; Contributions to Compensation Fund by employers (National Treasury, 2011b:385-387).	70% 25%
	Unemployment Insurance Fund (UIF)	Unemployment Insurance Fund contributions; Interest (National Treasury, 2011b:382-384).	78% 21%
	Government employees' pension fund (GEPF)[67]	Investment income; Contributions received (GEPF, 2010:85).	81% 18%
Transport	Cross-Border Road Transport Agency	Permit fees; Penalties (Cross-Border Road Transport Agency, 2011:49).	73% 26%

[67] The GEPF is not specifically included as a public entity under Schedule 3. However, this entity is funded from social insurance contributions, as defined in Table 8, and it was therefore included as a public entity (for the sake of completeness).

Key functional area	Public entities	Main sources of revenue	Contribution
	Ports Regulator of South Africa	Government transfers (Ports Regulator of South Africa, 2011:43).	98%
	Railway Safety Regulator	Government transfers; Permit fees (Railway Safety Regulator, 2011:82).	75% 23%
	Road Accident Fund (RAF)	General fuel levy (National Treasury, 2011b:851).	99%
	Road Traffic Infringement Agency	Government transfers (National Treasury, 2011b:837).	99%
	Road Traffic Management Corporation (RTMC)	Government transfers (National Treasury, 2011b:837).	99%
	South African Civil Aviation Authority (SACAA)	Aircraft passenger safety charge; Examination and related fees (SACAA, 2011:106).	70% 20%
	South African Maritime Safety Authority (SAMSA)	Maritime safety levy (SAMSA, 2010:69).	80%
	South African National Roads Agency Limited (SANRAL)	Government transfers; Toll fees (National Treasury, 2011b:849; SANRAL, 2011:141-142).	55% 28%
	Urban Transport Fund	Government transfers (National Treasury, 2011b:844).	99%
	Provincial public entities in transport:		
	Gautrain Management Agency (Gautrain)	Government transfers (Gauteng, 2011:325).	99%
	Roads Agency Limpopo (RAL)	Government transfers (RAL, 2011:60).	99%
Water affairs	Breede-Overberg Catchment Management Agency (BOCMA)	Government transfers (BOCMA, 2010:48; National Treasury, 2011b:874).	99%
	Inkomati Catchment Management Agency (Inkomati)	Government transfers (National Treasury, 2011b:874).	99%
	Water Research Commission (WRC)	Water research levy (WRC, 2011:118).	87%
	Water Trading Entity	Water tariffs (National Treasury, 2011b:885).	86%

3.4.4.4 National and provincial government business enterprises

National government business enterprises, as listed in Schedule 3B of the Public Finance Management Act, include the Council for Scientific and Industrial Research (CSIR), the Council for Mineral Technology (Mintek), the Passenger Rail Agency of South Africa, the South African Bureau of Standards (SABS), Sentech Limited and various water boards and suppliers. Provincial government business enterprises are listed in Schedule 3D of the Public Finance Management Act and include development corporations, transport corporations and agricultural companies.

Government business enterprises are defined in section 1 of the Public Finance Management Act as juristic entities under the control of the national or provincial executive, and are authorised to carry on business activities in accordance with ordinary business principles. These enterprises are market establishments and are fully or substantially self-funded through the sale of goods and services. The results of the investigation into the main revenue sources of the national and provincial government business enterprises operating in the key functional areas are summarised in Table 16, overleaf.

Table 16: National and provincial government business enterprises

Key functional area	Government business enterprise	Main sources of revenue	Contribution
Communication	Sentech Limited	Broadcasting network service tariffs (National Treasury, 2011b:597-598; Sentech Limited, 2010:78).	92%
Education	No government business enterprise in this functional area		
Energy	No government business enterprise in this functional area		
Health	No government business enterprise in this functional area		
Human settlement	Mpumalanga Housing Finance	Government transfers (Mpumalanga 2006:70)	99%
Public order and safety	No government business enterprise in this functional area		
Social security	No government business enterprise in this functional area		
Transport	Passenger Rail Agency of South Africa (PRASA)	Government transfer; Passenger rail and road transport fares (National Treasury, 2011b:845-847; PRASA, 2011:79).	47% 33%
	Provincial government business enterprises:		
	Gateway Airport Authority Limited (GAAL)	Air traffic service fees; Airport service fees (GAAL, 2011:41).	47% 43%
	Mayibuye Transport Corporation (Mayibuye)	Government transfer; Passenger road transport fares (Mayibuye, 2008:52).	70% 25%
Water affairs	Various water boards, of which Rand Water and Umgeni Water are the largest ones[68]	Bulk water tariffs: Rand Water (2010:103) Bulk water tariffs: Umgeni Water (2010:112; National Treasury, 2011b:891-897).	98% 91%

[68] Largest, based on the volume of water sold (National Treasury, 2011b:895).

3.4.5 Structure of government revenue sources in South Africa

The purpose of this section is to provide a summary of the funding of the public sector in South Africa as it relates to the main sources of government revenue according to the IMF framework (IMF, 2001:49). The public sector funding in South Africa consists of revenue funds at the national and provincial levels of government, funds raised by public entities in addition to the revenue funds, and funding raised by local government.

The main sources of South Africa's government revenue are summarised in Table 17.

Table 17: Main sources of revenue sources of the South African government

Revenue sources	Revenue funds			Public entities			
	National[69]	Provincial[70]	Municipal[71]	Schedule 1[72].	Schedule 2[73].	Schedules 3A & 3C[74]	Schedules 3B & 3D[75]
Revenue from imposts on income:							
Impost on income and profits:							
• Income tax	✓						
• Secondary tax on companies	✓						
• Dividends tax	✓						
Impost on payroll and workforce:							
• Skills development levy						✓	
Revenue from imposts on wealth:							
Impost on capital gains:							
• Capital gains tax	✓						
Recurrent impost on immovable property:							
• Property rates			✓				

[69] National revenue fund – see Section 3.4.1.
[70] Provincial revenue funds – see Section 3.4.2.
[71] Municipal revenue funds – see Section 3.4.3.
[72] Constitutional institutions – see Section 3.4.4.1.
[73] Major public entities – see Section 3.4.4.2.
[74] National and provincial public entities – see Section 3.4.4.3.
[75] National and provincial government business enterprises – see Section 3.4.4.4.

Revenue sources	Revenue funds			Public entities			
	National[69]	Provincial[70]	Municipal[71]	Schedule 1[72].	Schedule 2[73].	Schedules 3A & 3C[74]	Schedules 3B & 3D[75]
Imposts on estates, inheritance, and gifts:							
• Estate duty	✓						
• Donations tax	✓						
Imposts on financial and capital transactions:							
• Transfer duty	✓						
• Securities transfer tax	✓						
Revenue from imposts on consumption:							
Impost on added value:							
• Value-added tax	✓						
Impost on turnover:							
• Turnover tax payable by micro businesses	✓						
Excises:							
• Specific excise duties	✓						
• *Ad valorem* excise duties	✓						
Imposts on specific services:							
• Casino tax		✓					
• Horse racing tax		✓					
Imposts on the use of motor vehicles:							
○ Imposts on motor vehicles*:*							
• *Ad valorem* excise duty on motor vehicles	✓						
• CO_2 motor vehicle emissions tax	✓						
• Motor vehicle licences		✓					
○ Imposts on fuel:							
• Equalisation fund levy					✓		
• General fuel levy	✓		✓			✓	
• Specific customs and excise duties on petroleum products	✓						
• Slate levy					✓		
• Demand side management levy					✓		
• Illuminating paraffin tracer dye levy					✓		
○ Imposts on drivers of motor vehicles:							
• Drivers licences		✓					

Revenue sources	Revenue funds			Public entities			
	National[69]	Provincial[70]	Municipal[71]	Schedule 1[72]	Schedule 2[73]	Schedules 3A & 3C[74]	Schedules 3B & 3D[75]
• Fines for traffic violations		✓	✓				
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services:							
• Firearms licences	✓						
• Liquor licences		✓					
• Business licences[76]	✓	✓	✓			✓	
• Television licences					✓		
Other imposts on the use of goods and services:							
• Electricity environmental levy	✓						
• Plastic bags levy	✓						
• Incandescent light bulbs levy	✓						
• Mineral and petroleum royalties, prospecting fees and surface rentals	✓						
• Levy on suppliers of telecommunication services						✓	
• Levy on educators						✓	
• Levy on suppliers of electricity						✓	
• Levy on suppliers of piped-gas						✓	
• Levy on suppliers of pipeline petroleum						✓	
• Levy on medical schemes						✓	
• Levy on the suppliers of private security services						✓	
• Aircraft passenger safety charge						✓	
• Aviation fuel levy					✓		
• Maritime safety levy						✓	
• Water research levy						✓	
Customs and import duties:							
• Customs duties	✓						
Impost on exports:							
• Diamond export levy	✓						

[76] Business licences, for the purposes of this study, include horseracing and casino licences (see Table 11), nuclear licences (see Table 15), and other business licences regulated by municipalities (see Table 12).

Revenue sources	Revenue funds			Public entities			
	National[69]	**Provincial**[70]	**Municipal**[71]	**Schedule 1**[72]**.**	**Schedule 2**[73]**.**	**Schedules 3A & 3C**[74]	**Schedules 3B & 3D**[75]
Other imposts on international trade and transactions:							
• Air passenger tax	✓						
Revenue from social contributions:							
Social security contributions:							
• Contributions to the Unemployment Insurance Fund						✓	
• Contributions to the Compensation Fund						✓	
Other social contributions:							
• Contributions to the Government Employees Pension Fund						✓	
Revenue from grants:							
Government transfers	✓	✓	✓	✓	✓	✓	✓
Revenue from property:							
Interest	✓	✓	✓		✓	✓	✓
Dividends	✓	✓	✓		✓	✓	
Rent	✓	✓	✓		✓	✓	✓
Revenue from the sale of goods and services:							
Sales by market establishments:							
Municipal services:							
• Electricity service charges			✓				
• Water service charges			✓				
• Sanitation service charges			✓				
• Refuse removal service charges			✓				
Communication services:							
• Broadband infrastructure rent tariffs					✓		
• Air broadcasting service tariffs					✓		
• Broadcasting network service tariffs							✓
• Telecommunication service tariffs					✓		
• Postal service tariffs					✓		

Revenue sources	Revenue funds			Public entities			
	National[69]	Provincial[70]	Municipal[71]	Schedule 1[72].	Schedule 2[73].	Schedules 3A & 3C[74]	Schedules 3B & 3D[75]
Energy supply services:							
• Electricity supply tariffs					✓		
• Nuclear energy supply tariffs					✓		
Human settlement services:							
• Levies imposed on home builders					✓		
Public order and safety services:							
• Sale of military goods and services					✓		
Air travel services:							
• Air traffic service fees					✓		✓
• Aeronautical service fees					✓		✓
• Airport retail income					✓		
• Air passenger transport fares					✓		
Rail transport services:							
• Passenger rail transport fares							✓
• Freight rail transport tariffs					✓		
Road transport services:							
• Toll fees						✓	
• Passenger road transport fares							✓
Marine transport services:							
• Port terminal service fees					✓		
Water affairs:							
• Water tariffs					✓	✓	✓
Administration fees:							
• Permit, licence, certification, and registration fees		✓	✓			✓	
• Administration fees	✓	✓	✓				
• Examination fees							✓
Incidental sales by non-market establishments:							
• Healthcare service fees		✓	✓				
• Public school fees		✓					
• Tertiary tuition service fees						✓	

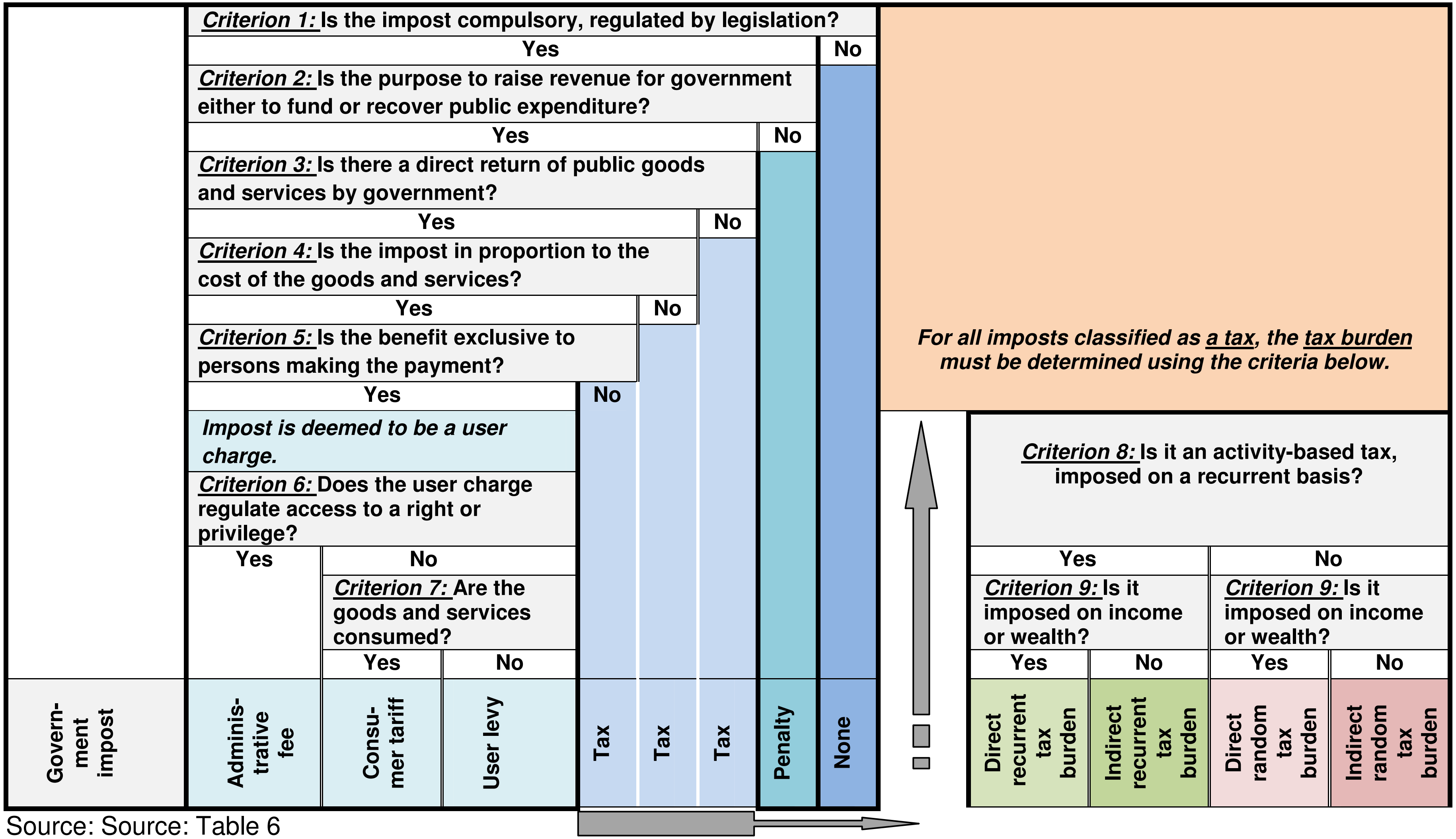
Revenue sources	Revenue funds			Public entities			
	National[69]	Provincial[70]	Municipal[71]	Schedule 1[72].	Schedule 2[73].	Schedules 3A & 3C[74]	Schedules 3B & 3D[75]
• Income from medical research contracts, grants and services						✓	
• Laboratory service fees						✓	
• Other income	✓		✓			✓	
Revenue from fines, penalties and forfeits:							
Fines, penalties, and forfeits	✓	✓	✓			✓	
Revenue from voluntary transfers and miscellaneous income:							
Voluntary transfers	✓	✓	✓			✓	
Miscellaneous income	✓	✓	✓		✓	✓	✓

Source: Summarised from sources referred to in the current chapter

In summary, these sources of revenue consist of government imposts, mainly in the form of taxes, levies, rates and regulated charges. In the public sector accounts in South Africa, these imposts are divided into the categories of tax revenue and non-tax revenue (National Treasury, 2011a:171). This classification is not necessarily a true reflection of the inherent nature of each particular government impost. It is therefore important to analyse the substance of each impost to classify the impost accurately as either a tax or a user charge.

The imposts summarised in Table 17 are analysed to classify each one into either a tax or a user charge, using the criteria from Figure 1 below as a basis. However, it is important to note that this study's main focus is individual taxpayers in South Africa. Therefore the following analysis is done mainly from the individual taxpayers' point of view, and therefore any imposts on corporate entities (non-natural persons, i.e. legal entities) are not analysed in depth.

Figure 1: Imposed tax burden criteria



Source: Source: Table 6
of the current study

3.5 IMPOSTS ON INCOME AND PROFITS IN SOUTH AFRICA

The South African government uses imposts on income and profits as a source of revenue. These imposts are labelled income tax, secondary tax on companies (STC), and dividends tax (see Table 17).

3.5.1 Income tax

Revenue from tax on income and profits is the traditional main source of revenue for the South African government (Gildenhuys, 1989:295; Steenekamp, 2012:163). Income tax is imposed on individuals and persons,[77] as well as on corporate entities (National Treasury, 2011a:159).

Table 18: Classification of income tax in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	It is imposed in terms of the Income Tax Act (58 of 1962), and is compulsory for all residents of South Africa, and in some instances also for non-residents.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The income from this source forms part of the National Revenue Fund (National Treasury, 2009c:38-39, 2011a:163).
Criterion 3: Is there a direct return of specific goods and services by government?	No	This tax is unrequited, in the sense that the government does not provide anything directly in return for the payment of the taxes, but uses the funding towards the collective benefit of the public (National Treasury, 2009c:38-39, 2011a:171).
Conclusion: Based on Criterion 3, the impost on income and profits in South Africa is classified as a tax. The fact that income tax is compulsory, raises general revenue for the government, and is unrequited indicates that this impost is in essence a tax and not a user charge.		

[77] 'Persons' are defined in section 1 of the Income Tax Act (58 of 1962) to include insolvent estates, estates of deceased persons, trusts and portfolios of collective investment schemes, with some exclusions, while 'individuals' refers to natural persons.

Criteria from Figure 1	Yes/No	Rationale
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Income tax is normally levied over a year, defined and referred to as the year of assessment in section 1 of the Income Tax Act. The year of assessment starts on the first day of March and ends on the last day of February every year.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The economic and statutory burden of income tax is imposed directly on the income of individual taxpayers (Steenekamp, 2012:166).
Conclusion: Income tax is a direct impost on the income of individual taxpayers, and it is imposed on a continuous basis over a tax year. Hence, income tax is classified as a direct recurrent tax burden.		

3.5.2 Secondary tax on companies

Secondary tax on companies (STC) is imposed only at the corporate level, in terms of sections 64B and 64C of the Income Tax Act (58 of 1962). Dividends are tax free in the hands of shareholders. STC is a second-stage tax on corporate profits and is determined when a company's after-tax profits are distributed (SARS, 2010d:2). Because this tax is an impost on corporate entities, it is deemed to be shifted onto natural persons in the form of price, payroll or shareholder shifting, and it was therefore not analysed further for the purposes of this study. However, as indicated before, STC has been replaced by a dividends tax, see Section 3.5.3, from 1 April 2012 (SARS, 2012:1).

3.5.3 Dividends tax

Dividends tax is a direct impost on the income of individual taxpayers[78] as recipients (beneficiaries) of dividends paid by companies. Dividends tax is in essence a withholding tax and, although it is imposed in terms of the Income Tax Act (58 of 1962), it is a tax separate from income tax.

[78] Dividends tax is also imposed on dividends paid to corporate entities, but taxes on these entities are deemed inherently to be shifted onto individuals, and therefore this tax was not analysed further.

Table 19: Classification of dividends tax in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	It is imposed in terms of sections 64D to 64N of the Income Tax Act (58 of 1962), and therefore it is deemed to be compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The income from this source forms part of the National Revenue Fund (National Treasury, 2012:50).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Government does not provide anything directly in return for the payment of the tax, but uses the funding towards the collective benefit of the public (National Treasury, 2012:50).
Conclusion: Based on Criterion 3, the impost on dividends in South Africa is classified as a tax. The fact that dividends tax is compulsory, raises general revenue for the government, and is unrequited indicates that this impost is in essence a tax and not a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	This is, in essence, a tax that depends on a specific event (the declaration and payment of a dividend by a company) and thus it is deemed not to be recurrent in nature.
Criterion 9: Is it imposed directly on income or wealth?	Yes	It is a direct impost on the dividend income that a taxpayer receives from a company.
Conclusion: Based on Criteria 8 and 9, dividends tax is classified as a direct tax that affects the random tax burden of individual taxpayers in South Africa.		

3.6 IMPOSTS ON PAYROLL AND WORKFORCE IN SOUTH AFRICA

Imposts on payroll and workforce in South Africa consist of a compulsory earmarked levy on the payroll of employers, referred to as the skills development levy (SDL). The skills development levy is regulated by the Skills Development Levies Act (9 of 1999), and is imposed at 1% on the assessed amount from employers' payrolls (SARS, 2010b:10). The term 'employer', for the purposes of this levy, includes individual taxpayers who act as employers (SARS, 2010b:4).

Table 20: Classification of the skills development levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The skills development levy is regulated and imposed in terms of the Skills Development Levies Act (9 of 1999), and therefore it is deemed to be compulsory in nature.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The skills development levy is earmarked to fund skills development among the South African workforce. This is done, for instance, by increasing the levels of investment in education and training to encourage workers to expand their skills, to assist work-seekers in finding work, and other training-related aspects (National Treasury, 2011b:362-364; SARS, 2010b:7).
Criterion 3: Is there a direct return of specific goods and services by government?	No	This tax is unrequited, in the sense that government does not provide anything directly in return for the payment of the levy. Government uses sector education and training authorities (SETAs), which are public entities to fund education and training to the collective benefit of the workforce in South Africa (National Treasury, 2011b:362; SARS 2010b:6).
Conclusion: Based on Criterion 3, the skills development levy is classified as a tax. The fact that the skills development levy is a compulsory impost that raises earmarked revenue for public entities for which government provides unrequited services indicates that this impost is in essence a tax, and not a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The skills development levy is imposed on a continuous basis on the monthly payroll of employees (Section 6(2A) of the Skills Development Levies Act.
Criterion 9: Is it imposed directly on income or wealth?	No	In essence, the skills development levy is an impost on consumption, as it is imposed on employers for the services that they purchase from their employees. It is not a direct impost on either the income or the wealth of the employer *per se*, even though the assessed amount is underpinned by the employees' income on the payroll.
Conclusion: The skills development levy places an indirect continuous burden on individual taxpayers as employers, and therefore the levy is classified as an indirect recurrent tax burden.		

3.7 IMPOSTS ON CAPITAL GAINS IN SOUTH AFRICA

The impost on capital gains in South Africa is labelled capital gains tax, but it is not an additional tax. It is a direct impost on the wealth[79] of an individual[80] as an integral part of the Income Tax Act (58 of 1962). The capital gain (or loss) is determined in terms of the Eighth Schedule to the Act and is included in the taxable income of an individual taxpayer in the year of assessment in terms of section 26A of the Act.

Table 21: Classification of capital gains tax in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Capital gains tax is imposed in terms of the Income Tax Act (58 of 1962); it is a compulsory impost on all South African residents, and in some instances also on non-residents.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Income from this source forms part of the National Revenue Fund (National Treasury, 2009c:38-39, 2011a:171).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Capital gains tax is unrequited, in the sense that government does not provide anything directly in return for the payment of the taxes, but uses the funding towards the collective benefit of the public (National Treasury, 2009c:38-39, 2011a:163).
Conclusion: Based on the criteria above, capital gains tax is classified a tax and not as a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	This is, in essence, a tax that depends on specific events and transactions, as defined

79 The view is commonly held that capital gains tax is levied on the appreciation of wealth (Muller, 2010:29-30; Steenekamp, 2012:231). However, in terms of the Haig-Simons model, it is also possible to argue that capital gains are merely income from capital in another form, and, hence, that capital gains tax is imposed on income and not on wealth (Muller, 2010:20-21; Sandford, 2000:113-116; Steenekamp, 2012:231).

80 Capital gains tax is levied on corporate entities, but taxes on these entities are deemed inherently to be shifted onto individuals, and hence this tax was not analysed further.

Criteria from Figure 1	Yes/No	Rationale
		in Paragraph 11 of the Eighth Schedule to the Income Tax Act, and is not levied on a recurrent basis.
Criterion 9: Is it imposed directly on income or wealth?	Yes	Capital gains tax is imposed directly on the wealth of a taxpayer, as it is imposed on the capital gains originating from the disposal of assets by the taxpayer.
Conclusion: Based on Criterion 8, capital gains tax is classified as a direct random tax burden.		

3.8 RECURRENT IMPOSTS ON IMMOVABLE PROPERTY IN SOUTH AFRICA

Recurrent imposts on immovable property are generally referred to as property rates in South Africa, and municipalities (except district municipalities) normally use them as a vital source of revenue (Gildenhuys, 1989:342; Muller, 2010:23-24; Steenekamp, 2012:246). Property rates are levied and collected by municipalities on property located in those municipalities' jurisdiction (Franzsen, 2005:154).

Table 22: Classification of property rates in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Property rates are levied in terms of the Local Government: Municipal Property Rates Act (6 of 2004). Property rates are compulsory imposts on real estate that refer to farm, residential, commercial and forest land, as well as on improvements (for instance, buildings, including homes) (Steenekamp, 2012:246).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of this tax is to raise revenue for general expenses of municipalities, for instance, expenses relating to items such as operating expenditure, roads, street lamps and traffic control (Cowden, 1969:105; National Treasury, 2011c: 62-68; Statistics South Africa, 2010:11).

Criteria from Figure 1	Yes/No	Rationale
<u>Criterion 3</u>: Is there a direct return of specific goods and services by government?	No	Property rates are unrequited, in the sense that municipalities do not provide anything directly in return for payment of these rates, but use the funding towards the collective benefit of the public (Cowden, 1969:105; National Treasury, 2011c: 62-68; Statistics South Africa, 2010:11).
<u>Conclusion</u>: Based on the criteria above, property rates are classified as a tax. This is a compulsory unrequited impost to raise revenue for municipalities, so property rates are in essence a tax and not a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
<u>Criterion 8</u>: Is it an activity-based tax?	Yes	Property rates in South Africa are imposed annually, but are generally collected by municipalities in monthly instalments (Franzsen, 2005:154). Hence, such property rates are deemed to affect the tax burden over a given period, although it is, in essence, an impost on wealth.
<u>Criterion 9</u>: Is it imposed directly on income or wealth?	Yes	Property rates are imposed directly on the wealth (property) of a taxpayer (Muller, 2010:23).
<u>Conclusion</u>: Based on Criteria 8 and 9, property rates are classified as a direct recurrent tax burden on individual taxpayers in South Africa.		

3.9 IMPOSTS ON ESTATES AND DONATIONS IN SOUTH AFRICA

These are imposts on the transfer of wealth upon the death of a person or when property is donated to another person.

3.9.1 Estate duty

The impost on deceased estates in South Africa is labelled estate duty (National Treasury, 2011a:157). Estate duty is imposed in terms of the Estate Duty Act (45 of 1955) on all properties of a deceased person, including deemed property, such as life-insurance policies and payments from pension funds. Some admissible deductions from the total value of the estate are allowed (SARS, n.d.).

Table 23: Classification of estate duty in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Estate duty is imposed in terms of the Estate Duty Act (45 of 1955) on all deceased estates in South Africa, and it is therefore a compulsory impost.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Revenue from estate duty contributes to the National Revenue Fund for the purposes of public expenditure (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Estate duty contributes to the National Revenue Fund, so it is unrequited, as it is used by the government to fund general expenditure to the common benefit of the public as a whole (National Treasury, 2011a:163).
Conclusion: Based on Criteria 1 to 3, estate duty is classified as a tax. The fact that is compulsory, is imposed to raise revenue for government, and is unrequited in essence makes it a tax and not a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	This is, in essence, a tax that depends on a specific event (the death of a person) and thus it is not a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	Estate duty is a wealth tax imposed directly on the value of a person's assets at death (Muller, 2010:26).
Conclusion: Based on Criterion 8, estate duty in South Africa is classified as a direct random tax burden.		

3.9.2 Donations tax

The impost on the donation of wealth in South Africa is labelled donations tax (National Treasury, 2011a:157). A donation is defined in section 55 of the Income Tax Act (58 of 1962) as a voluntary transfer of assets or rights without receiving a subsequent payment in return for the transfer.

Table 24: Classification of donations tax in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Donations tax in South Africa is a compulsory impost on the disposal of wealth in the form of a donation. It is regulated in terms of sections 54 to 64 of the Income Tax Act (58 of 1962).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Revenue from donations tax contributes to the National Revenue Fund for the purposes of public expenditure (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Donations tax contributes to the National Revenue Fund, and is therefore unrequited. It is used by the government to fund general expenditure to the common benefit of the public as a whole (National Treasury, 2011a:163).
Conclusion: Based on the criteria above, the impost on donations in South Africa is classified as a tax and not as a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	This is, in essence, a tax that depends on a specific event (the donation of property or rights) and is therefore deemed not to be a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	Donations tax is a wealth tax imposed directly on the value of assets donated by a taxpayer (Muller, 2010:25).
Conclusion: Criteria 8 and 9 indicate that donations tax is in essence a non-recurrent tax that depends on a specific event and it is a direct impost on the wealth of a taxpayer. Hence it is classified as a direct random tax burden.		

3.10 IMPOSTS ON FINANCIAL AND CAPITAL TRANSACTIONS IN SOUTH AFRICA

The imposts on financial and capital transactions in South Africa consist of an impost on the transfer of securities, and an impost on the transfer of immovable property.

3.10.1 Transfer duty

Transfer duty is an impost on the acquisition of immovable property in terms of the Transfer Duty Act (40 of 1949).

This duty becomes payable upon the acquisition of property by (or the enhancement of the value of property in the case of a renunciation in favour of) any person or entity. The person who acquires the property, or whose property is enhanced in value, is liable for the payment of the transfer duty towards the registration of the property at the deeds office (SARS, 2007:31).

Table 25: Classification of transfer duty in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Transfer duty is a compulsory impost on the acquisition of immovable property and is regulated by the Transfer Duty Act (40 of 1949).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Transfer duty contributes to the National Revenue Fund for the purposes of public expenditure (National Treasury, 2011a:157; SARS, 2007:6).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Transfer duty contributes to the National Revenue Fund, and is therefore unrequited. It is used by the government to fund general expenditure to the common benefit of the public as a whole (National Treasury, 2011a:163).
Conclusion: Based on the criteria above, transfer duty in South Africa is deemed in essence to be a tax and not a user charge. The impost is compulsory, with the purpose of raising revenue for the government to fund expenditure to the common benefit of the public as a whole.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	Transfer duty, in essence, depends on a specific event (the acquisition of immovable property) and hence it is a random tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	Transfer duty is deemed a wealth tax on the transfer of property (Muller, 2010:23-25).
Conclusion: Based on Criteria 8 and 9, transfer duty is classified as a direct random tax burden.		

3.10.2 Securities transfer tax

The impost on the transfer of securities in South Africa is referred to as securities transfer tax (National Treasury, 2011a:157). Securities are defined in section 1 of the Securities Transfer Tax Act (25 of 2007) as 'any share or depository receipt in a company; any member's interest in a close corporation; or any right or entitlement to receive any distribution from a company or close corporation'.

Table 26: Classification of securities transfer tax in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	In South Africa, securities transfer tax is a compulsory impost governed by the Securities Transfer Tax Act (25 of 2007).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Revenue from securities transfer tax contributes to the National Revenue Fund for the purposes of public expenditure (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Securities transfer duty contributes to the National Revenue Fund, and is therefore unrequited. It is used by the government to fund general expenditure to the common benefit of the public as a whole (National Treasury, 2011a:163).
Conclusion: Criteria 1, 2, and 3 indicate that securities transfer tax is in essence a tax, and not a user charge. The impost is compulsory and used to raise revenue for the government, with no direct return of specific goods and services by government. Therefore, the impost is classified as a tax.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	Securities transfer tax is, in essence, a tax that depends on a specific event (the transfer of securities), and hence it is not deemed to be a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	Securities transfer duty is deemed a wealth tax on the transfer of securities (Muller, 2010:23-25).
Conclusion: Based on Criterion 8, securities transfer tax is classified as a direct random tax burden.		

3.11 IMPOST ON VALUE-ADDED TRANSACTIONS IN SOUTH AFRICA

Imposts on value-added transactions in South Africa consist of an impost labelled value-added tax (VAT). This is the second largest source of government revenue from taxes in South Africa, as it currently contributes approximately 30% to the National Revenue Fund (National Treasury, 2011a:159).

Value-added tax is imposed and collected at different stages by different enterprises, from the production stage to the supply of the final product. It is destination-based, which means that only the consumption of goods and services in South Africa is taxed (Steenekamp, 2012:258). Vendors[81] are required to register and are burdened with the statutory obligation of collecting the tax on behalf of the government. The supply of most goods and services is taxed at a standard rate of tax. However, provision is made for some exempt supplies, where the supply of goods and services is not taxed, and for zero-rated supplies, where the goods and services are taxed at a rate of 0% (SARS, 2010c:8; Steenekamp, 2012:265-266; Value-added Tax Act (89 of 1991)).

Table 27: Classification of value-added tax in South Africa

Criteria	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Value-added tax in South Africa is a compulsory impost regulated under the Value-Added Tax Act (89 of 1991).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of value-added tax is to raise revenue for the National Revenue Fund (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The government uses the National Revenue Fund for general public expenses, and therefore no direct benefit is returned to the taxpayer for paying the impost (National Treasury, 2011a:163).

[81] Vendors are defined in section 1 of the Value-Added Tax Act (89 of 1991).

Criteria	Yes/No	Rationale
Conclusion: Based on the criteria above, value-added tax is classified as a tax and not as a user charge. The impost is compulsory, with the purpose of raising revenue, but no direct benefit is returned by the government, in essence indicating that the impost is a tax.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and no	Value-added tax is levied on both consumer goods and user goods. (For the purposes of this study, a distinction is made between value-added tax on consumer goods (goods of a non-capital nature) and value-added tax on user goods (goods of a capital nature)). Value-added tax on **consumer goods** affects the ongoing burden of a taxpayer, because consumer goods are normally replaced on an ongoing basis, thus making the impost a recurrent tax. Value-added tax on **user goods** is normally only payable on the purchase transaction date, and user goods are not replaced on an ongoing basis, so that value-added tax only affects the tax burden on a random basis during the lifetime of a taxpayer.
Criterion 9: Is it imposed directly on income or wealth?	No	Value-added tax is an indirect tax, imposed on commodities or market transactions. These imposts are generally classified as a tax on consumption and not as a tax on income or wealth (Gildenhuys, 1989:284; Muller, 2010:31; Steenekamp, 2012:166).
Conclusion: Based on the criteria and discussion above, value-added tax can be classified both as an indirect recurrent tax burden and as an indirect random tax burden, depending on the nature of the goods that it is imposed on. Value-added tax imposed on consumer goods is deemed to be an indirect recurrent indirect tax burden, while value-added tax imposed on user goods is deemed to be an indirect random tax burden.		

3.12 IMPOSTS ON TURNOVER IN SOUTH AFRICA

Imposts on turnover in South Africa consist of an impost referred to as turnover tax on micro businesses. This is an annual presumptive tax payable by registered micro businesses (SARS, 2011:2). A micro business is defined, in terms of Paragraphs 2 and 3 of the Sixth Schedule to the Income Tax Act (58 of 1962) , as a business with a qualifying turnover that does not exceed R1 million (currently) for a year of assessment, and which is not specifically disqualified (SARS, 2011:1).

The impost is essentially a package that consists of a turnover tax as a substitute for income tax, capital gains tax (CGT) and secondary tax on companies[82] (STC). Turnover tax is optional, meaning that a micro business can decide if it wants to use this impost option or use the usual current tax system. It is available to sole proprietors (individuals), partnerships, close corporations, co-operatives and companies (SARS, 2011:3).

Table 28: Classification of turnover tax for micro businesses in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The impost on turnover is regulated in terms of the Sixth Schedule to the Income Tax Act (58 of 1962). It is deemed to be compulsory because it is merely an alternative impost, in lieu of other compulsory imposts, for instance, income tax (SARS, 2011:3).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Revenue from the impost on turnover of micro businesses contributes to the National Revenue Fund (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The purpose of the National Revenue Fund is to provide the government with funding towards general public expenditure. Hence, the impost is deemed to be unrequited (National Treasury, 2011a:163).
Conclusion: Based on Criteria 1, 2, and 3, the impost is classified as a tax and not as a user charge. The impost is compulsory and unrequited, with a purpose of raising revenue for the government, indicating that the impost is, in essence, a tax.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Turnover tax is impost on an ongoing basis over a period of time. Although it is only

[82] Only up to a maximum amount of R200 000 (Section 64B(5)(l) of the Income Tax Act (52 of 1962)). Note that STC has been replaced in South Africa from 1 April 2012.

Criteria from Figure 1	Yes/No	Rationale
		imposed annually on a year of assessment, it is deemed to be recurrent. The recurrent nature of the tax is also indicated in a sense by the obligation of micro businesses to make two six-monthly *interim* (provisional) payments during a given year of assessment (SARS, 2011:3).
Criterion 9: Is it imposed directly on income or wealth?	Yes	Turnover tax is directly imposed on the turnover of a micro business, which is in essence the income of the business. Income taxes are normally deemed to be direct imposts (Steenekamp, 2012:166).
Conclusion: Turnover tax on micro businesses is deemed to be a direct recurrent impost based on the criteria above. Hence, the tax is classified as a direct recurrent tax burden.		

3.13 EXCISES IMPOSED IN SOUTH AFRICA

In South Africa, excises are divided into specific excise duties and *ad valorem* excise duties (SARS, 2009:6). Specific excise duties are imposed on the quantity of listed consumer goods, whereas *ad valorem* excise duties are imposed on the value of listed user goods (SARS, 2009:5-6).

3.13.1 Specific excise duties

Specific excise duties are imposed in terms of Schedule No 1 Part 2A of the Customs and Excise Act (91 of 1964). This schedule regulates excise duties imposed on petroleum products, tobacco products, malt beer, traditional African beer, spirits/liquor products, wine and other fermented beverages.

Table 29: Classification of specific excise duties in South Africa

Criteria	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Specific excises are compulsory imposts regulated in terms of the Customs and Excise Act (91 of 1964), and are imposed on specific goods.

Criteria	Yes/No	Rationale
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Specific excises are used by government to raise revenue for the National Revenue Fund (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The purpose of raising revenue for the National Revenue Fund is to finance general expenditure for the benefit of the wider public (National Treasury, 2011a:163).
Conclusion: Based on the criteria above, specific excises imposed on consumer goods are classified as taxes. These imposts are compulsory, with the purpose of raising revenue for government to fund general public expenditure for the wider benefit of the public.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Specific excise duties are imposed on the ongoing consumption of goods, and therefore the duties are considered to be recurrent imposts on taxpayers.
Criterion 9: Is it imposed directly on income or wealth?	No	Specific excise duties are imposed on the consumption of goods, which are imposts that are normally viewed as indirect taxes (Gildenhuys, 1989:284; Steenekamp, 2012:258).
Conclusion: The specific excise duties imposed in South Africa are classified as an indirect recurrent tax burden, based on the criteria above.		

3.13.2 *Ad valorem* excise duties

Ad valorem excise duties in South Africa are similar to specific excise duties, except for the fact that they are not imposed on the quantity of consumer goods, but on the value of user goods, also known as 'luxury goods' (SARS, 2009:5-6). User goods on which these excises are imposed include television sets, hi-fi equipment, motor vehicles, cell phones and cosmetic items (SARS, 2009:8).

Table 30: Classification of *ad valorem* excise duties in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	*Ad valorem* excises are compulsory imposts regulated in terms of Schedule No 1 Part 2B of the Customs and Excise Act (91 of 1964), and are imposed on the value of specific

Criteria from Figure 1	Yes/No	Rationale
		goods.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	*Ad valorem* excises are imposed on listed user goods, with the purpose of raising revenue for the National Revenue Fund (National Treasury, 2011a:157).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The purpose of raising revenue for the National Revenue Fund is to finance general expenditure for the benefit of the wider public (National Treasury, 2011a:163).
Conclusion: Based on Criterion 3 above, *ad valorem* excises are classified as taxes. These imposts are compulsory, with the purpose of raising revenue for government to fund general public expenditure for the wider benefit of the public.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	The payment of a*d valorem* excises by a taxpayer depends on the purchase of luxury goods and is not levied on a recurrent basis on the goods over a period of time, and hence only affects the random tax burden over the lifetime of a taxpayer.
Criterion 9: Is it imposed directly on income or wealth?	No	A*d valorem* excise duties are imposed on the consumption of goods, which are imposts that are normally viewed as indirect taxes (Gildenhuys, 1989:284; Steenekamp, 2012:258).
Conclusion: Based on the random nature of affecting the tax burden of taxpayers indirectly, a*d valorem* excises are classified as an indirect random tax burden.		

3.14 IMPOSTS ON SPECIFIC SERVICES IN SOUTH AFRICA

Government revenue from imposts in this category in South Africa consists mainly of casino taxes and horse racing taxes (Gauteng, 2011:15; KwaZulu-Natal, 2011:47; National Treasury 2009a:11; Western Cape, 2011a:36).

Casino and horse racing taxes in South Africa are levied at the provincial government sphere in terms of provincial legislation. These taxes consist of both licence fees[83] and levies on the income of the entities providing these services (CASA, 2008:12-23; KwaZulu-Natal, 2010:2-7). These taxes are compulsory imposts and form part of the provincial government's funds for

[83] Licences are analysed in Section 3.16.

general expenses to the benefit of the wider public in the province (Gauteng, 2011:15; KwaZulu-Natal, 2011:47; National Treasury 2009c:39; Western Cape, 2011a:36). Casino and horse racing taxes are mainly imposed on the corporate entities providing these services and not on individual taxpayers as such. Therefore it is assumed that these taxes are shifted onto individuals in the form of price, payroll or shareholder shifting, as explained in Section 2.2.6.2. These imposts were therefore not examined further in this study.

3.15 IMPOSTS ON THE USE OF MOTOR VEHICLES IN SOUTH AFRICA

In South Africa, imposts on the use of motor vehicles can be divided into imposts on motor vehicles, imposts on the use of fuel, and imposts on the drivers of motor vehicles.

3.15.1 Imposts on motor vehicles

Imposts on motor vehicles consist of *ad valorem* excise duties imposed on motor vehicles, an impost on the CO_2 emissions of motor vehicles, and motor vehicle licences.

3.15.1.1 Ad valorem excise duties on motor vehicles

Ad valorem excise duties on the value of motor vehicles are levied in terms of Schedule No 1 Part 2B of the Customs and Excise Act (91 of 1964) on the import and production of motor vehicles. As already explained in Section 3.13.2, *ad valorem* excises are deemed to be taxes that affect the random tax burden of individual taxpayers. Thus, *ad valorem* excises imposed on the use of motor vehicles in South Africa are classified as an indirect random tax burden for the purposes of this study.

3.15.1.2 CO_2 motor vehicle emissions tax

A compulsory environmental levy on the carbon dioxide (CO_2) emissions of new and imported motor vehicles is imposed under Schedule No 1 Part 3D of the Customs and Excise Act. The purpose of the impost is to promote fuel efficiency and the use of public transport (National Treasury, 2009d:66-67). This tax is, in essence, an *ad valorem* excise duty, and therefore it is classified as an indirect random tax burden for the purposes of this study, as explained in Section 3.13.2.

3.15.1.3 Motor vehicle licences

Motor vehicle licences are regulated in terms of the National Road Traffic Act (93 of 1996). All vehicles used on South African roads must be roadworthy and must be licensed as roadworthy.

Table 31: Classification of motor vehicle licences in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Motor vehicle licences are regulated in terms of the National Road Traffic Act (93 of 1996), and are deemed to be compulsory, as they originate from legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The income from motor vehicle licences contributes to the provincial revenue funds (Gauteng, 2011:15; KwaZulu-Natal, 2011:47; Western Cape, 2011a:36).
Criterion 3: Is there a direct return of specific goods and services by government?	It is necessary to distinguish between the initial issuing of these licences and the annual renewal thereof.	
	No	Initial issuing of licence (Registration of the vehicle) The requirement to register a vehicle is in essence a formality in terms of which the applicant must submit the required documentation. No inspection service is

Criteria from Figure 1	Yes/No	Rationale
		necessarily required in terms of which government itself must inspect the vehicle.[84] (South African Government Services, n.d.)
	No	Annual renewal of licence The annual renewal payment of the licence is unrequited, as no inspection of the motor vehicle is in essence required for the issue of the licence – it is merely an administrative function performed by government (South African Government Services, n.d.)
Conclusion: Based on the criteria above, the payment towards motor vehicle licences are deemed a tax and not a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	The initial registration of the vehicle depends on a specific event: the change of ownership. Therefore the initial registration is deemed to be a random tax.
	Yes	The renewal of motor vehicle licences is normally imposed once per year on a vehicle, but it is a charge for using the vehicle over a given period, and therefore it is classified as a recurrent impost on taxpayers.
Criterion 9: Is it imposed directly on income or wealth?	Yes	Motor vehicles licences are deemed to be an impost on the assets of a taxpayer (wealth) and hence it is classified as a direct tax burden (Gildenhuys, 1989:432).
Conclusion: Motor vehicle licences are classified as a direct random (registration of vehicle) and as a direct recurrent (annual) tax burden, based on the criteria above.		

3.15.2 Imposts on fuel

Imposts on the consumption of fuel in South Africa are imposed on motorists as part of the fuel price. The fuel price consists of different components, as summarised in Table 32.

[84] Although a roadworthy certificate is required for the registration of a vehicle, the certificate can be issued by an accredited entity which is not necessarily a public institution. In some instances, a police clearance certificate is required, but the fee to register the vehicle itself is not directly linked to the inspection service by the South African Police Service (South African Government Services, n.d.). Therefore for the purposes of this study, no direct inspection service is deemed to be provided by government for the registration of a vehicle.

Table 32: Fuel price components in South Africa

Component		Description
A	Basic fuel price (BFP)	The BFP is based on the international market price of petroleum products, reflecting what the actual import of the product (crude oil) to South Africa would cost.
B	Inland transport costs	Refined petroleum products are transported by road, rail, pipeline, and by a combination thereof from coastal refineries to inland depots.
C	Delivery costs	This element compensates marketers for actual depot-related costs (storage and handling) and distribution costs from the depot to the end user at service stations.
D	Wholesale margin	Money paid to the oil company through whose branded pump the product is sold, to compensate for marketing activities. This margin is controlled by the government.
E	Retail margin	The retail profit margin is fixed by the Department of Energy and is determined on the basis of the actual costs incurred by the service station operator in selling petrol. In this cost structure, all proportionate driveway-related costs (such as rental, interest, labour, overheads and entrepreneurial compensation) are taken into account.
F	Equalisation fund levy	The equalisation fund levy consists of a levy to equalise fuel prices in the country.
G	General fuel levy	The general impost on fuel is labelled the general fuel levy.
H	Road Accident Fund levy	A portion of the general fuel levy is specifically earmarked for funding the Road Accident Fund.
I	Customs and excise duties on petroleum products	Specific customs and excise duties imposed on the importation and production of fuel.
J	Slate levy	The slate levy on fuel is a levy to recover money ‘owed’ to the fuel companies due to a time delay in the adjustment of the petrol price. The basic fuel price is calculated on a daily basis, and this calculation is either higher or lower than the basic fuel price that is part of the fuel price paid by motorists at the time. This calculation is done over a month and the cumulative result is either an over- or under-recovery of the basic fuel price. The slate levy is used to fund any under-recovery in the slate account.
K	Demand-side management levy	The demand-side management levy is an impost on the inland supply and consumption of 95 octane petrol.

Component		Description
L	Illuminating paraffin tracer dye levy	An illuminating paraffin tracer dye levy is imposed by government on diesel to prevent the unlawful mixing of diesel and illuminating paraffin. The purpose of the levy on diesel is to fund the expenses relating to the cost of dyeing the illuminating paraffin.
M	Petroleum pipeline levy[85]	The petroleum pipeline levy consists of a levy imposed on licensed petroleum pipeline suppliers.

Source: Department of Energy (n.d.) and Sasol (2007)

The supply cost of fuel consists of:

- Component A – the basic fuel price (BFP);
- Component B – the inland transport cost;
- Component C – the delivery cost; and
- Components D and E – the whole and retail margins.

All these components form part of the cost for supplying fuel in South Africa, and are therefore deemed to be neither a tax nor a user charge, for the purposes of this study.

In addition, the equalisation fund levy (Component F) and the slate levy (Component J) are also deemed to be part of the supply cost of fuel in South Africa, because these two levies are inherently linked to the BFP, in the sense that their purpose is not to raise revenue for government, but to stabilise the fuel price over a given period (Department of Energy, n.d.). Hence, these two imposts are also deemed to be neither a tax nor a user charge, for the purposes of this study.

The remaining components (G, H, I, K, L and M) of the fuel price in Table 32 need to be analysed further to classify each of the remaining imposts by government as a tax or a user charge.

[85] The petroleum pipeline levy is analysed in Section 3.17.7.

3.15.2.1 General fuel levy and the Road Accident Fund levy

The general fuel levy (Component G) is regulated in terms of Schedule No 1 Part 5A of the Customs and Excise Act (91 of 1964; SARS, 2009:7), making it in essence a specific excise duty on fuel. Around 30% of the levy (National Treasury, 2011a:75,105) is specifically earmarked for funding the Road Accident Fund (Component H) in terms of section 5 of Road Accident Fund Act[86] (56 of 1996). The purpose of the fund is to provide insurance cover to all users of the road for injuries and death resulting from the use of motor vehicles. These road users include pedestrians. The remaining portion of the fuel levy is a source of revenue for the National Revenue Fund (National Treasury, 2011a:75).

Based on the explanation in Section 3.13.1, a specific excise duty is deemed an indirect recurrent tax, and therefore the general fuel levy imposed on motorists in South Africa is classified as an indirect recurrent tax burden for the purposes of this study.

3.15.2.2 Specific customs and excise duty on fuel

The specific customs and excise duty (Component I) imposed on the import and production of fuel is regulated in terms of Schedule No 1 Part 2A of the Customs and Excise Act (91 of 1964). As already explained in Section 3.13.1, specific excises are deemed to be taxes that affect the indirect recurrent tax burden of individual taxpayers. Hence, specific excises imposed on the use of motor vehicles in South Africa are classified as an indirect recurrent tax burden for the purposes of this study.

3.15.2.3 Demand-side management levy

The demand-side management levy (Component K) is an impost on the inland supply and consumption of 95 octane petrol (Department of Energy, n.d.)

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[86] See Section 3.4.4.3.

Table 33: Classification of the demand-side management levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The demand side management levy on 95 octane petrol is imposed in terms of a ministerial directive issued in line with the Central Energy Fund Act (38 of 1977) (Department of Energy, n.d.), and hence it is deemed to be compulsory in nature for the purposes of this study.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The government uses this levy to raise revenue for funding public-related services provided by government in the supply of fuel, in the sense that the purpose is to protect the environment by curbing the inland use of 95 octane petrol.
Criterion 3: Is there a direct return of specific goods and services by government?	No	There is no direct supply of specific public goods and services by government in return for the payment of the impost.
Conclusion: Based on the criteria above, the demand-side management levy on 95 octane fuel is classified as a tax.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The payment of the tax on fuel is deemed to be imposed on a continuous basis on the consumption of fuel. Hence, the tax is classified as a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	No	The tax is imposed on the consumption of 95 octane petrol. This kind of impost is normally regarded as an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Based on the criteria above, the demand-side management levy imposed on the inland consumption of 95 octane petrol is classified as an indirect recurrent tax burden.		

3.15.2.4 Illuminating paraffin tracer dye levy

An illuminating paraffin tracer dye levy (Component M) is imposed by government on diesel to prevent the unlawful mixing of diesel and illuminating paraffin (Department of Energy, n.d.).

Table 34: Classification of the illuminating paraffin tracer dye levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The illuminating paraffin tracer dye levy imposed on diesel is regulated in terms of a ministerial directive issued in line with the Central Energy Fund Act (38 of 1977) (Department of Energy, n.d.) , and hence it is deemed to be compulsory in nature for the purposes of this study.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of this levy is to fund the expenses relating to the cost of dyeing the illuminating paraffin (Department of Energy, n.d.). Hence, this is a levy that government uses to raise revenue for providing a public-related service.
Criterion 3: Is there a direct return of specific goods and services by government?	No	The impost does not relate to public goods and services provided directly by government in return for the levy.
Conclusion: The illuminating paraffin tracer dye levy imposed on diesel, based on the criteria above, is classified as a tax and not as a user charge for the purposes of this study.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The payment of the tax on diesel is deemed to be imposed on a continuous basis on the consumption of diesel. Hence, the tax is classified as a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	No	The tax is imposed on the consumption of diesel. This kind of impost is normally regarded as an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Based on the criteria above, the illuminating paraffin tracer dye levy imposed on diesel is classified as an indirect recurrent tax burden.		

3.15.3 Impost on drivers of motor vehicles

Imposts on the drivers of motor vehicles in South Africa consist mainly of drivers' licences, and fines for traffic violations.

3.15.3.1 Drivers' licences

Imposts on the drivers of motor vehicles in South consist of fees related to the issuing and renewal of drivers' licences. Drivers' licences are regulated in terms of the National Road Traffic Act (93 of 1996), and only persons in possession of a drivers' licence are allowed to drive a vehicle in South Africa.

Table 35: Classification of drivers' licences in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Drivers' licences are compulsory for drivers of motor vehicles and are regulated in terms of the National Road Traffic Act (93 of 1996). Thus, these licences are deemed to be compulsory in nature, as this imposition originates from legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The income from drivers' licences forms part of the provincial revenue funds (Gauteng, 2011:15; KwaZulu-Natal, 2011:47; Western Cape, 2011a:36).
Criterion 3: Is there a direct return of specific goods and services by government?	It is necessary to distinguish between the initial issuing of these licences and renewal thereof every five years.	
	Yes	Initial issuing of a drivers' licence Before a drivers' licence can be issued, the person applying for the licence must pass a driving licence test at one of the testing grounds operated by government (South African Government Services, n.d.). Hence, it is deemed that government provides a direct inspection service for the payment required when a drivers' licence is applied for and issued.
	No	Renewal of drivers' licences (every five years) Drivers' licences must be renewed every five years. The renewal payment of the licence is

Criteria from Figure 1	Yes/No	Rationale
		deemed to be unrequited, as no inspection (testing)[87] of the competency of the driver is required for the renewal of the licence – it is merely an administrative function performed by government (South African Government Services, n.d.)
Conclusion: The initial issuing of a drivers' licence must be analysed further to determine the inherent nature thereof, but the renewal of a drivers' licence is classified as a tax based on Criterion 3.		
Renewal of drivers' licences		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	A drivers' licence is an impost of a recurrent nature as the licence needs to be renewed on an ongoing basis every five years.
Criterion 9: Is it imposed directly on income or wealth?	No	A drivers' licence is imposed on a driver for making use of a vehicle, therefore the impost is classified as an indirect tax.
Conclusion: Based on the criteria above, the renewal fee for a drivers' licence is classified as an indirect recurrent tax burden.		
Issuing of a drivers' licence		
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The fees charged for issuing a drivers' license is normally a fixed fee, which strengthens the assumption that the licence fees are in proportion to the cost of the public service provided by government (South African Government Services, n.d.)
Criterion 5: Is the benefit exclusive to persons making the payment?	Yes	The benefit of the government service provided in issuing a drivers' licence is exclusive to the persons paying for licences, in the sense that persons who do not pay for the service are excluded from the benefits related to the ownership of a drivers' licence.
Criterion 6: Does the user charge regulate access to a right or privilege?	Yes	A person is only permitted to drive a vehicle on public roads in South Africa if the person is in possession of a drivers' licence regulated in terms of the National Road Traffic Act.
Conclusion: The licence fee related to issuing a drivers' licence in South Africa is classified as a user charge, to be specific, as an administration fee.		

[87] Although it is possible to argue that an eye test is a requirement, it is not a requirement that the eye test be done by the government entity. An eye test for purposes of the renewal of a drivers' licence can be done by an optometrist of choice (South African Government Services, n.d.).

3.15.3.2 Fines for traffic violations

Imposts on traffic violations in South Africa consist of fines issued by authorities at a provincial and local level of government and are regulated in terms of the National Road Traffic Act (93 of 1996).

Table 36: Classification of fines for traffic violations in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Imposts for traffic violations are regulated in terms of the National Road Traffic Act (93 of 1996), and hence, they are deemed to be compulsory imposts in terms of legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	No	The purpose of fines is to deter traffic violations and not primarily to raise revenue for government (National Treasury, 2009c:39).
Conclusion: These imposts are classified as penalties mainly because their purpose is not to raise revenue for government, but to deter traffic violations.		

3.16 IMPOSTS ON THE USE OF GOODS AND ON THE PERMISSION TO USE GOODS, OR ON THE PERMISSION TO PERFORM SERVICES

These imposts in South Africa refer mainly to licences that regulate industries (for instance, liquor licences and other business licences) and other licences that regulate the use of goods (for instance, television licences and firearm licences) (see Table 17). These imposts on regulated goods and services can be classified as follows in terms of Figure 1.

3.16.1 Firearms licences

Firearms licences are regulated and administered by the national government (see Table 10 and Table 37).

Table 37: Classification of firearms licences in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The ownership and use of a firearm is regulated in terms of the Firearms Control Act (60 of 2000).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The license revenue forms part of the administration fees under the non-tax revenue in the National Revenue Fund (National Treasury, 2011a:161).
Criterion 3: Is there a direct return of specific goods and services by government?	It is necessary to distinguish between the initial issuing of these licences and the annual renewal thereof.	
	Yes	Initial application The issuing of a firearm licence depends on an assessment process, including an inspection of the firearm by the South African Police (South African Government Services, n.d.). Hence, government is deemed to render a direct service in issuing the licence.
	No	Renewal of licence (every 5 years) The licence is renewed every five years and no specific inspection services from government is required (South African Government Services, n.d.).
Conclusion: The fees charged for the renewal of a firearm licence is classified as a tax. The initial applications fees for a firearm licence need to be analysed further.		
Renewal of firearm licences		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	A firearms licence needs to be renewed continuously on a five-year cycle.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The licence fee is imposed for the renewal of a firearms licence (every five years) as a direct impost on the ownership of an asset, hence the impost is directly on the wealth of the taxpayer.

Criteria from Figure 1	Yes/No	Rationale
Conclusion: Based on the criteria above, the regular renewal of a firearms licence is classified as a direct recurrent tax burden.		
Issuing of a firearm licences		
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The fees charged for issuing a firearms license is normally a fixed fee, which strengthens the assumption that the licence fees are in proportion to the cost of the public service provided by government (South African Government Services, n.d.).
Criterion 5: Is the benefit exclusive to persons making the payment?	Yes	The benefit of the government service for issuing a firearms licence is exclusive to the persons paying for these licences, in the sense that persons who do not pay for the service are excluded from the benefits related to the ownership of a firearm licence.
Criterion 6: Does the user charge regulate access to a right or privilege?	Yes	A person is only permitted to own a firearm in South Africa if the person is in possession of a firearm licence.
Conclusion: The licence fee related to issuing a firearm licence in South Africa is classified as a user charge, to be specific, an administration fee.		

3.16.2 Liquor licences

Liquor licences are regulated and administered by the various provincial governments (see Table 11 and Table 38).

Table 38: Classification of liquor licences in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Liquor licences in South Africa are regulated in terms of the Liquor Act (59 of 2003)
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of liquor licences is to raise revenue for provincial governments and this revenue forms part of the provincial revenue funds (Gauteng, 2011:15; KwaZulu-Natal, 2011:51; Western Cape (2011a:45).
Criterion 3: Is there a direct return of specific goods and	It is necessary to distinguish between the initial issuing of these licences and the annual renewal thereof.	

Criteria from Figure 1	Yes/No	Rationale
services by government?	Yes	Initial application The issuing of a liquor licence depends on an assessment process, including an inspection by the South African Police Service (Gauteng, n.d.; Western Cape, 2011b). Hence, government is deemed to render a direct service in issuing the licence.
	No	Annual renewal of licence The licence is renewed annually and no specific inspection-related services from government are required (Gauteng, n.d.; Western Cape, 2011b).
Conclusion: The annual renewal licence fee for a liquor licence is classified as a tax. The initial applications fees for a liquor licence need to be analysed further.		
Renewal of liquor licences		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Annual renewal of liquor licences is of a recurrent nature, as a licence needs to be renewed on an ongoing basis.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The annual fee is imposed for the renewal of a liquor licence as a direct impost on the revenue of the person holding the liquor licence.
Conclusion: Based on the criteria above, the annual renewal of a liquor licence is classified as a direct recurrent tax burden.		
Issuing of a liquor licences		
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The fees charged for issuing a liquor license is normally a fixed fee, which strengthens the assumption that the licence fees are in proportion to the cost of the public service provided by government (Gauteng, n.d.; Western Cape, 2011b).
Criterion 5: Is the benefit exclusive to persons making the payment?	Yes	The benefit of the government service for issuing a liquor licence is exclusive to the persons paying for these licences, in the sense that persons who do not pay for the service are excluded from the benefits related to the ownership of a liquor licence.
Criterion 6: Does the user charge regulate access to a right or privilege?	Yes	A person is only permitted to sell liquor in South Africa if the person is in possession of a liquor licence.
Conclusion: The licence fee related to the issuing of a liquor licence in South Africa is classified as a user charge, to be specific, an administration fee.		

3.16.3 Business licences

Various business-related licences are regulated and administered by the national (see Table 10) and provincial (see Table 11) governments, as well as by municipalities (see Table 12) and some public enterprises (see Table 15).

Table 39: Classification of business licences in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The regulation of businesses in South Africa is subject to different legislative regulations, and therefore the fees imposed on such goods by government are deemed to be compulsory in nature.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	All imposts relating to these licences are part of government funds, at a provincial, or municipal level (see Table 17)
Criterion 3: Is there a direct return of specific goods and services by government?	It is necessary to distinguish between the initial issuing of these licences and the periodic renewal thereof.	
	Yes and no	Initial application The issuing of a business licences may depend on an assessment process, including an inspection service, depending on the type of licence. Hence, it is necessary to classify each type of business licence according to its own unique circumstances.
	Yes and no	Periodic renewal of licence Business licences are normally renewed on an annual basis. However, the renewal may or may not depend on the requirements of each individual licence. Hence, it is necessary to classify each type of business licence according to its own unique circumstances.
Conclusion: The issuing and periodic renewal licence fee for a business licence can be classified as either a tax or a user charge, depending on the unique requirements of each licence.		

Criteria from Figure 1	Yes/No	Rationale
Business licences that are classified as a tax		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and no	The initial issuing of a business licence may depend on a specific event or transaction and is inherently not of a recurrent nature. Business licences normally need to be renewed continuously on an annual basis, making the renewal an activity-based tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes and no	Depending on the type of licence, it may be imposed on income, wealth, or consumption.
Conclusion: Based on the criteria above, a business licences, deemed to be a tax, can be classified as both a (direct or an indirect) recurrent tax burden or a (direct or an indirect) random tax burden, depending on the unique basis of the licence itself.		
Business licences that are not classified as a tax, but as a user charge		
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The fees charged for issuing a business license are normally a fixed fee, which strengthens the assumption that the licence fees are in proportion to the cost of a public service provided by government.
Criterion 5: Is the benefit exclusive to persons making the payment?	Yes	The benefit of owning a business licence is normally an exclusive benefit to the persons willing to pay for it.
Criterion 6: Does the user charge regulate access to a right or privilege?	Yes	The inherent nature of a licence is to regulate goods or services.
Conclusion: Licence fees, classified as user charges, can specifically be classified as administration fees.		

3.16.4 Television licences

Television licences in South Africa are regulated and administered by the SABC, a major public entity (see Table 14).

Table 40: Classification of television licences in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The ownership of a television set in South Africa is regulated in terms of the Broadcasting Act (4 of 1999).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Television licence fees are used as source of revenue by the SABC (Table 14).
Criterion 3: Is there a direct return of specific goods and services by government?	No	Issuing and annual renewal of licence The licence is renewed annually and no specific inspection services from government are required for the issuing or renewal thereof (South African Government Services, n.d.).
Conclusion: The annual renewal licence fee for a television licence is classified as a tax. The initial applications fees for a television licence need to be analysed further.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and no	The initial issuing of a television licence depends on a specific transaction, namely the purchase of a television. The annual renewal of a television licence is inherently recurrent in nature and therefore a television licence is classified as an activity-based tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	A television licence is imposed on the ownership of a television set and it is therefore deemed to be a direct impost on wealth.
Conclusion: Based on the criteria above, the renewal of a television licence is classified as a direct recurrent tax burden. The initial issuing of a television licence is classified as a direct random tax burden.		

3.17 OTHER IMPOSTS ON THE USE OF GOODS AND SERVICES IN SOUTH AFRICA

Other imposts on goods and services in South Africa consist mainly of an impost on electricity, an impost on the use of plastic bags, an impost on the use of incandescent light bulbs, an impost on the exploration of exhaustible resources, imposts on municipal services, an impost on the suppliers of telecommunication services, imposts on the suppliers of electricity, piped gas, and pipeline petroleum, an impost on air passengers, an impost on aviation fuel, an impost on maritime services, an impost on the use of roads, and an impost on the use of water (see Table17).

3.17.1 Electricity environmental levy

There is an impost on the use of electricity in South Africa. This is referred to as the electricity environmental levy. This impost on the use of electricity is prescribed in terms of Schedule No 1 Part 3B of the Customs and Excise Act (91 of 1964). The levy is a compulsory impost on the use of electricity, and the main purpose of the levy is to raise revenue for the National Revenue Fund to finance general public expenditure (National Treasury, 2008:66). In essence, this impost is a specific excise imposed on the use of electricity.

As already explained in Section 3.13.1, specific excises are deemed to be taxes that affect the indirect recurrent tax burden of individual taxpayers. Hence, the electricity environmental levy in South Africa is classified as an indirect recurrent tax burden for the purposes of this study.

3.17.2 Plastic bags levy

The impost on the use of plastic bags in South Africa is labelled the plastic bags levy. The plastic bags levy is an impost on the use of plastic bags in South Africa under Schedule No 1 Part 3 of the Customs and Excise Act (91 of 1964).

The levy was earmarked to address environmental objectives, particularly the promotion of recycling plastic waste and raising environmental awareness in society (National Treasury, 2004:1). In essence, this impost is a specific excise impost on the usage of plastic bags.

As already stated in Section 3.13.1, specific excises are deemed to be taxes that affect the indirect recurrent tax burden of individual taxpayers. Therefore, the specific excises imposed on the use of plastic bags in South Africa are classified as an indirect recurrent tax burden for the purposes of this study.

3.17.3 Incandescent light bulb levy

The impost on the use of incandescent light bulbs is referred to as the incandescent light bulbs levy. The levy was introduced to promote the use of electricity-saving light bulbs. It is levied under Schedule No 1 Part 3C of the Customs and Excise Act (91 of 1964) and is therefore deemed to be a specific excise duty.

As set out in Section 3.13.1, specific excises are deemed to be taxes that affect the indirect recurrent tax burden of individual taxpayers. Therefore, the specific excise imposed on the use of incandescent light bulbs in South Africa is classified as an indirect recurrent tax burden.

3.17.4 Minerals and petroleum royalties, prospecting fees and surface rentals

Imposts on the exploration of exhaustible resources in South Africa consist of royalties on the extraction of minerals and petroleum, prospecting fees, and surface rentals (National Treasury, 2011a:157).

Table 41: Classification of imposts on mineral and petroleum resources in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	These imposts are regulated in terms of the Minerals and Petroleum Resources Royalty Act (28 of 2008), the Mineral and Petroleum Resources Royalty (Administration) Act (29 of 2008), the Mineral and Petroleum Resources Development Act (28 of 2002) and the Petroleum Resources Development Regulations (R.527 of 2004)(South Africa, 2004).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The income from these imposts is used as revenue in the National Revenue Fund (National Treasury, 2011a:161).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The income is used in the National Revenue Fund to fund general expenditure to the benefit of the general public (National Treasury, 2011a:157).
Conclusion: In terms of Criteria 1, 2, and 3, the imposts on minerals and petroleum in South Africa are classified as taxes and not as user charges.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	These taxes are imposed on a continuous basis and do not depend on a specific event or transaction.
Criterion 9: Is it imposed directly on income or wealth?	Yes	These taxes are imposed on the income that entities or person earn from the exploitation of mineral and petroleum resources in South Africa. Hence, it is deemed to be a direct tax.
Conclusion: Based on the criteria above, these taxes are classified as direct recurrent tax burdens.		

3.17.5 Levy on suppliers of telecommunication services

The impost on suppliers of telecommunication services in South Africa consists of compulsory contributions to the universal service and access fund by holders of telecommunication licences (National Treasury, 2011b:605). This compulsory contribution by licence holders is regulated by the Telecommunications Act (103 of 1996). The biggest licence holders are Telkom SA, Vodacom, MTN and

CellC. In terms of section 67 of the Act, each licence holder must make an annual contribution to the fund. The purpose of the fund is to subsidise telecommunication services to needy people in terms of section 66 of the Act, making these contributions earmarked imposts. The contributions to the universal service fund by the licence holders, mainly corporate entities, are deemed to be shifted onto natural persons in the form of price, payroll or shareholder shifting, and the impost was therefore not analysed further for the purposes of this study.

3.17.6 Levy on educators

The Education Labour Relations Council (ELRC) imposes a levy on both employees and employers in education in South Africa (ELRC, 2007) to fund the activities of the ELRC. The ELRC derives its authority from the Labour Relations Act (66 of 1995). An 'employee' for the purposes of this levy means an educator, as defined in the Employment of Educators Act (76 of 1998), in other words,

> …any person who teaches, educates or trains other persons or who provides professional educational services, including professional therapy and education psychological services, at any public school, further education and training institution, departmental office or adult basic education centre and who is appointed in a post on any educator establishment under this Act;…

An 'employer', for the purposes of this levy, is in essence defined in the Employment of Educators Act as the Department of Education and any provincial department of education. Therefore, it is assumed for the purposes of this study that the levy placed on the employers of educators is borne by the departments of education, and that the levy does not affect the tax burden of individual taxpayers in South Africa.

However, the levy imposed on the individual educators needs to be analysed and classified in terms of the criteria from Figure 1.

Table 42: Classification of the levy on educators in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The levy on educators is imposed in terms of legislation through the collective agreement established under the Labour Relations Act (66 of 1995). It is deemed to be a compulsory levy imposed on these individuals.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	This levy is earmarked to finance the activities of the ELRC, a public entity, and therefore it is deemed that the purpose of this levy is to raise revenue to fund public expenditure (ELRC, 2011:135).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The levy is used to fund the general activities of the ELRC, which renders an indirect service in the form of labour negotiation services (ELRC, 2007:2) to its members. According to the mission of the ELRC, the core business of the council is to provide an independent and impartial forum for the resolution of disputes in the education sector and to provide a forum for negotiations and consultations in matters of mutual interest in the sector at both national and provincial level (ELRC 2011:14). Hence, it is deemed that no direct service is returned by government for paying the levy.
Conclusion: In terms of Criteria 1, 2, and 3, the levy on educators is deemed to be a tax for the purposes of this study. The impost is compulsory in terms of legislation, it is used to fund government expenditure, and no specific goods or services are directly provided to the person paying the levy.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The levy is imposed on a monthly basis on the remuneration of educators (ELRC, 2007:2). Hence, it is deemed to be recurrent.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The levy is deducted on a monthly basis from the remuneration (income) of educators by the employers (ELRC, 2007:2-3).
Conclusion: Based on the criteria above the levy on educators is classified as a direct recurrent tax burden.		

3.17.7 Levies on the suppliers of electricity, pipeline petroleum and piped gas

Imposts on the suppliers of pipeline petroleum consist of a levy on electricity, a levy on gas, and a levy on fuel (NERSA, 2011:141). These levies are imposed on licensed suppliers of these products in terms of the National Energy Regulator Act (40 of 2004), the Petroleum Pipelines Levies Act (28 of 2004), and the Gas Regulators Levies Act (75 of 2002). These levies partially fund the National Energy Regulator of South Africa (NERSA), which is the regulatory authority for electricity, gas and petroleum, as established in terms of section 3 of the National Energy Regulator Act (40 of 2004). These levies on suppliers are imposed mainly on corporate entities supplying these products, for instance, Eskom, Transnet, and Sasol Limited. Hence, these levies are deemed to be inherently shifted onto natural persons in the form of price, payroll or shareholder shifting[88] and therefore they were not analysed further for the purposes of this study.

3.17.8 Levy on medical schemes

The Council for Medical Schemes (CMS) is the regulatory entity for the medical schemes industry in South Africa (CMS, 2010:7). The industry is regulated in terms of the Medical Schemes Act (131 of 1998). The CMS is funded from a levy imposed on medical schemes. Medical schemes in South Africa consist mainly of corporate entities (CMS, n.d.), therefore these imposts on medical schemes are deemed to be inherently shifted onto natural persons in the form of price, payroll or shareholder shifting, and they were not analysed further for the purposes of this study.

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[88] See Section 2.2.6.2 for an explanation.

3.17.9 Levy on suppliers of private security services

In terms of the Private Security Industry Levies Act (23 of 2002), a levy is imposed on the providers of private security services in South Africa in order to fund the Private Security Industry Regulator Authority (PSIRA, 2010:52).

Table 43: Classification of the levy on the suppliers of private security services in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The levy on the suppliers of private security services in South Africa are regulated in terms of the Private Security Industry Levies Act (23 of 2002).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	This levy is earmarked to finance the activities of the PSIRA, a public entity, and therefore it is deemed that the purpose of this levy is to raise revenue to fund public expenditure (PSIRA, 2010:52).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The mission of the PSIRA is to protect the constitutional rights of all people to life, safety and dignity through effective promotion and regulation of the private security industry (PSIRA, 2010). Hence, it is deemed that the levy is used to fund the general activities of the PSIRA, whose main purpose is to regulate the private security industry in South Africa and therefore does not render a direct service to the persons paying the impost.
Conclusion: In terms of Criteria 1, 2, and 3, the levy on private security service providers is deemed to be a tax for the purposes of this study. The impost is compulsory in terms of legislation, it is used to fund government expenditure, and no specific goods or services are directly returned to the person paying the levy.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The levy is imposed annually and is therefore deemed to be a recurrent impost.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The levy is imposed directly on the income of these service providers on an annual basis.
Conclusion: Based on the criteria above, the levy on private security service providers is classified as a direct recurrent tax burden.		

3.17.10 Aircraft passenger safety charge

The impost on aircraft passengers is labelled the aircraft passenger safety charge. This charge is a fixed amount imposed on all international and domestic air passengers, and it is regulated under the Civil Aviation Act (13 of 2009).

Table 44: Classification of the aircraft passenger safety charge in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The aircraft passenger safety charge is regulated in terms of the Civil Aviation Act (13 of 2009), and is deemed to be compulsory because the impost originates from legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	This charge is earmarked for funding the activities of the South African Civil Aviation Authority (SACAA) in terms of section 74 of the Civil Aviation Act (13 of 2009), and therefore it is deemed to raise revenue for government-related expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	No	The purpose of the charge is to fund the general activities of the SACAA, referring to the safety and security oversight of the aviation industry in South Africa (SACAA, 2011:93), and therefore no specific public goods or services are directly returned by government to the person paying the charge, but a service is rendered indirectly to the aviation industry as a whole.
Conclusion: In terms of Criteria 1, 2 and 3, the aircraft passenger safety charge is deemed be a tax and not a user charge. The impost is compulsory in terms of legislation, it is used to fund government expenditure, and no direct benefit is returned for paying the safety charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and no	This classification depends on the specific circumstances of the taxpayer. Some taxpayers may be frequent flyers, and for them the impost may be of a recurrent nature. Other passengers rarely fly (non-frequent flyers), and for these taxpayers the impost can be classified as a random tax.

Criteria from Figure 1	Yes/No	Rationale
Criterion 9: Is it imposed directly on income or wealth?	No	This is an impost on the consumption of goods and services and it is therefore deemed to be an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Depending on each taxpayer's unique circumstances, the aircraft passenger safety charge can be classified as a recurrent indirect tax burden for frequent flyers, or as an indirect random tax burden for non-frequent flyers.		

3.17.11 Aviation fuel levy

The impost on aviation fuel in South Africa is labelled the aviation fuel levy. This levy is regulated under the South African Civil Aviation Authority Levies Act (41 of 1998) and is imposed on the sale of aviation fuel in South Africa. This levy is not applicable only to aviation fuel sold to airline companies, but also to aviation fuel sold to all other users of aviation fuel, which includes individuals.

Table 45: Classification of the aviation fuel levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The aviation fuel levy is imposed and regulated under the South African Civil Aviation Authority Levies Act (41 of 1998), and thus it is deemed to be a compulsory levy underpinned by legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	This impost is earmarked to finance the activities of the SACAA (see section 74 of the Civil Aviation Act), and therefore it is regarded as a form of funding raised by government for public expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	No	No direct benefit is conferred by government in return for the levy. The purpose of the aviation fuel levy is to fund the general activities of the SACAA, referring to the safety and security oversight of the aviation industry in South Africa (SACAA, 2011:93 & 106).
Conclusion: Based on the criteria above, the aviation fuel levy is classified as a tax and not as a user charge. The impost is compulsory in terms of legislation, it is used to fund government expenditure, and no direct benefit is provided for paying the levy.		

Criteria from Figure 1	Yes/No	Rationale
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	For the purposes of this study, it is assumed that taxpayers who own private aeroplanes use these aeroplanes on a regular basis and therefore frequently have to pay for aviation fuel. This tax is therefore classified as a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	No	This is an impost on the consumption of goods and services, and therefore it is deemed an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Based on the criteria above, the aviation fuel levy is classified as a recurrent indirect tax burden.		

3.17.12 Maritime safety levy

The safety levy impost on maritime vessels consists of a levy on ships and fishing boats on the ocean. The levy is imposed and regulated in terms of the South African Maritime Safety Authorities (SAMSA) Levies Act (6 of 1998).

Table 46: Classification of the maritime safety levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The levy on the owners of maritime vessels in South Africa is regulated in terms of the South African Maritime Safety Authorities Levies Act (6 of 1998).
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	This levy is earmarked to finance the activities of the SAMSA, a public entity, and therefore it is deemed that the purpose of this levy is to raise revenue to fund public expenditure (SAMSA, 2010:69).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The aim of the levy is to promote South Africa's maritime interests, and develop and position the country as an international maritime centre, while ensuring maritime safety, health and environmental protection (SAMSA, 2010). Hence it is deemed that the levy is used to fund the general activities of the SAMSA, whose main purpose is to regulate the maritime industry in South Africa

Criteria from Figure 1	Yes/No	Rationale
		and therefore does not render a direct service or other benefit to the persons paying the impost.
Conclusion: In terms of Criteria 1, 2, and 3, the maritime safety levy is deemed a tax for the purposes of this study. The impost is compulsory in terms of legislation, it is used to fund government expenditure, and no specific goods or services are directly returned to the person paying the levy.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and No	The levy is imposed on ships entering a harbour in South Africa and therefore depends on such an event. If the ship frequently enters the harbour the levy is of a recurrent nature, otherwise it is a random tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The levy is imposed indirectly on the owners of these ships for using South African harbours.
Conclusion: Based on the criteria above, the maritime safety levy is classified as a direct recurrent or random tax burden, depending on the frequency of the ship entering the harbour.		

3.17.13 Water research levy

An impost on the use of water in South Africa is labelled the water research levy. The Water Research Commission is responsible for water research in South Africa and is funded by the research levy imposed on the use of water. The water research levy is regulated in terms of the Water Research Act (34 of 1971). This levy is earmarked for funding water research in South Africa.

Table 47: Classification of the water research levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The water research levy is imposed and regulated in terms of the Water Research Act (34 of 1971), and it is deemed to be compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover	Yes	The purpose of the levy is to fund water research in South Africa, which is the responsibility of the Water Research

Criteria from Figure 1	Yes/No	Rationale
public expenditure?		Commission (National Treasury, 2011b:897; Sections 2 and 11 of the Water Research Act). Therefore it can be argued that the levy is directly linked to a public expense.
Criterion 3: Is there a direct return of specific goods and services by government?	No	The water research levy is used to fund general water research in South Africa to the common benefit of the population, and no specific public goods or services are directly returned by government to the person paying the levy.
Conclusion: The water research levy is classified as a tax, based on the criteria above. The levy is a compulsory impost in terms of legislation to fund public expenditure towards the common benefit of all persons in South Africa.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The water research levy is imposed on an ongoing basis on the usage of water, and therefore it is classified as a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	No	The water research levy is imposed on the consumption of goods and services, so it is deemed to be an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Based on the criteria above, the water research levy is deemed an indirect recurrent tax burden.		

3.18 IMPOSTS ON INTERNATIONAL TRADE AND TRANSACTIONS

The examination of this source of government revenue in South Africa was limited to customs and other duties, and taxes on exports, because the government only imposes customs duties and taxes on imports, which are imposts on individuals.

3.18.1 Custom duties

Customs duties are, in essence, similar to excise duties in South Africa, except that excises are levied on local goods, whereas custom and import duties are levied on imports (Bird & Oldman, 1964:276-277; Gildenhuys, 1989:402-403; SARS, 2009:7; Steenekamp, 2012:258). Hence, custom duties are classified according to the same criteria as for the excise duties analysed in Section 3.13.

3.18.2 Diamond export levy

The impost on the export of diamonds is referred to as the diamond export levy. This levy is regulated under the Diamond Export Levy Act (15 of 2007) and is imposed on unpolished diamonds exported from South Africa. The purpose of the levy is to promote the development of the local economy, develop skills, and create employment (SARS, 2009:8). For the purposes of this study, the levy on diamond exports is deemed to be imposed mainly on corporate entities that export unpolished diamonds. Hence, the levy is deemed to be inherently shifted onto natural persons in the form of price, payroll or shareholder shifting, and therefore it was not analysed further for the purposes of this study.

Table 48: Classification of the diamond export levy in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The diamond export levy is regulated under the Diamond Export Levy Act (15 of 2007). Hence it is deemed to be compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The diamond export levy is used as a source of revenue for the National Revenue Fund (National Treasury, 2011a:159).
Criterion 3: Is there a direct return of specific goods and services by government?	No	The purpose of the levy is to promote the development of the local economy, develop skills, and create employment (SARS, 2009:8).
Conclusion: The diamond export levy is classified as a tax, based on the criteria above. The levy is a compulsory impost in terms of legislation to fund public expenditure towards the common benefit of all persons in South Africa.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The diamond export levy is imposed on an ongoing basis on the export of diamonds from South Africa, and therefore it is classified as a recurrent tax.
Criterion 9: Is it imposed directly on income or wealth?	Yes	The diamond export levy is imposed directly on the income of the person exporting diamonds from South Africa.
Conclusion: Based on the criteria above, the diamond export levy is deemed a direct recurrent tax burden.		

3.18.3 Air passenger tax

The impost on international air passengers in South Africa refers to an impost called the air passenger tax on international passengers departing from South African airports. This impost is regulated in terms of Section 47B of the Customs and Excise Act (91 of 1964).

Table 49: Classification of the air passenger tax in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The air passenger tax is regulated and imposed in terms of the Customs and Excise Act (91 of 1964), and is thus a compulsory impost on air passengers.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of the impost is to raise revenue for the National Revenue Fund (National Treasury, 2011a:157) for funding general public expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	No	No direct benefit is rendered by government to the passenger in return for paying the levy (National Treasury, 2000:96).
Conclusion: From the criteria above, it is possible to classify the levy on departing international air passengers as a tax and not as a user charge. The impost is compulsory in terms of legislation, and its purpose is to raise general revenue for government without rendering any direct benefit in return for the payment.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and no	This classification depends on the specific circumstances of the air passengers. Some may be frequent flyers, and for them the impost may be recurrent. Other passengers may fly rarely (non-frequent flyers) and for these taxpayers, the impost can be classified as a random tax.
Criterion 9: Is it imposed directly on income or wealth?	No	This is an impost on the consumption of goods and services, and hence it is deemed to be an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Depending on each taxpayer's unique circumstances, the air passenger tax can be classified as an indirect recurrent tax burden for frequent flyers, or as an indirect random tax burden for non-frequent flyers.		

3.19 SOCIAL SECURITY CONTRIBUTIONS IN SOUTH AFRICA

In South Africa, social security contributions are used to finance the Unemployment Insurance Fund and the Compensation Fund for medical expenses and loss of income due to injury on duty (National Treasury, 2011a:104-106). Other social contributions in South Africa are made to the Government Employees Pension Fund (GEPF).

Social security insurance funds, such as unemployment funds and compensations funds, are often referred to as mandated employer-provided insurance benefits (Anderson & Meyer, 1995; Feldstein & Altman, 2007; Gruber & Krueger, 1990). In essence, unemployment insurance is levied to provide income protection for employees against hardship that would otherwise be caused by unemployment (Feldstein & Altman, 2007), while workers' compensation insurance provides medical protection for employees who incur a work-related injury or illness (Gruber & Krueger, 1990). Summers (1989:177) argues that '[e]ssentially mandated benefits are like public programs financed by benefit taxes'. Summers (1989:177) explains that universal access to public goods is sometimes provided directly by the government, using taxes to fund this universal access, but in other instances the government mandates that employers provide fringe benefits to employees, of which workman's compensation insurance is a good example (Summers, 1989:177). Similarly, Gruber and Krueger (1990:1) also refer to government's mandating an employer to provide specific goods and services to workers and their dependants, referring specifically to workman's compensation insurance as an example. Stansel (1998:1-2) explains this phenomenon from a different perspective, arguing that these government mandates on employees are nothing other than hidden taxes that mask the true cost of public services provided by the government, leading people to believe that the tax burden imposed on them to finance these services is not that high.

It must be acknowledged that the interpretation of social security contributions by employers, referred to as a tax in the previous paragraph, is open to debate.

However, it is beyond the scope of the current study to pursue this debate at length. For the purposes of the current study, the interpretation that government-mandated employer-provided insurance benefits in essence impose a tax burden upon the employer was adopted.

3.19.1 Contributions to the Unemployment Insurance Fund

Unemployment Insurance Fund (UIF) contributions in South Africa are imposed on both the employer and the employee in terms of the Unemployment Insurance Act (63 of 2001) and the Unemployment Insurance Contributions Act (4 of 2002). The employee contributes 1% and the employer 1% of the employee's monthly remuneration, as defined in paragraph 1 of the 4th Schedule in the Income Tax Act (58 of 1962). These monthly contributions are collected by SARS as part of the Pay-As-You-Earn (PAYE) system, and are paid over to the fund by SARS (SARS, 2010a:4-6).

Table 50: Classification of the contributions to the Unemployment Insurance Fund

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Contributions to the fund are imposed and regulated in terms of the Unemployment Insurance Act (63 of 2001) and the Unemployment Insurance Contributions Act (4 of 2002), and thus they are compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Contributions to the Unemployment Insurance Fund are earmarked for purposes of the activities of the fund (National Treasury, 2011b:382), and therefore it can be argued that they are used for funding public expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	Employees Contributions by employees to this fund do confer a (contingent) entitlement (benefit) to receive a future benefit (Section 12 of the Unemployment Insurance Act).
	No	Employers Employers' contributions are mandated by government to make provision for a fringe

Criteria from Figure 1	Yes/No	Rationale
		benefit to their employees in the form of insurance benefits in case they become unemployed (see Section 3.19 above for a detailed explanation).
Criterion 4: Is the impost in proportion to the cost of the goods and services? (Contributions by employees)	No	Section 13(3) of the Unemployment Insurance Act states that 'a contributor's entitlement to benefits in terms of the Chapter accrues at a rate of one day's benefit for every completed six days of employment as a contributor subject to a maximum accrual of 238 days benefit in the four year period immediately preceding the date of application'. This provides an indication that the contribution to the fund is clearly not in proportion to the value or costs of the benefits (contingent).
Conclusion: Based on the criteria above, all contributions to the Unemployment Insurance Fund are classified as a tax and not as a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	The contributions to the fund are made on a monthly basis and therefore the tax is deemed to be recurrent in nature.
Criterion 9: Is it imposed directly on income or wealth?	No	Employers The UIF contributions for employers are deemed to be an indirect impost on the employers' use of the services of the employee (consumption) and not a direct impost on the income or wealth of the employer.
	Yes	Employees Their contributions are imposed directly on their remuneration from the payroll and therefore are deemed to be imposed directly on the employees' income.
Conclusion: Contributions to the Unemployment Insurance Fund are classified as an indirect recurrent tax burden for employers and as a direct recurrent tax burden for employees.		

3.19.2 Contributions to the Compensation Fund

Contributions to the Compensation Fund are made by employers only, in terms of the Compensation for Occupational Injuries and Diseases Act (130 of 1993). An annual return must be submitted by employers declaring the annual earnings of their employees. The Compensation Commissioner then uses specific tariffs to raise an assessment which must be paid by the employer.

Table 51: Classification of the contributions to the Compensation Fund

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The contributions to the Compensation Fund are imposed and regulated in terms of the Compensation for Occupational Injuries and Diseases Act (130 of 1993), and is therefore deemed to be compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose is to raise revenue to fund the activities of the Compensation Commissioner (a public entity); therefore these contributions are deemed to be imposed to raise revenue for the government. Contributions by employers are remitted directly to the Compensation Fund.
Criterion 3: Is there a direct return of specific goods and services by government?	No	Employers' contributions are mandated by the government to make provision for a fringe benefit to employees in the form of medical insurance towards injuries or illnesses that are work-related (see Section 3.19 above for a detailed explanation).
Conclusion: Based on the criteria above, contributions to the Compensation Fund are classified as a tax and not as a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Contributions to the Compensation Fund are made annually, on an ongoing basis, and so the tax is deemed to be recurrent.
Criterion 9: Is it imposed directly on income or wealth?	No	These contributions are imposed indirectly on the use of services provided by employees to their employers and therefore these imposts are deemed to be an impost on consumption and not an impost on income or wealth.
Conclusion: Contributions to the Compensation Fund are classified as an indirect recurrent tax burden.		

3.19.3 Contributions to the Government Employees Pension Fund

Other social contributions in South Africa to government consist of contributions to the Government Employees Pension Fund (GEPF). The GEPF is regulated in terms of the Government Employees Pension Law (21 of 1996). All government employees as defined in section 2 of the Act must contribute to the fund.

Table 52: Classification of the contributions to the Government Employees Pension Fund

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Contributions to the fund are imposed and regulated in terms of the Government Employees Pension Law (21 of 1996), and the contributions are deemed compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of the fund is to make provision for retirement benefits for members of the fund, as well as to fund the administration of the fund (GEPF, 2010:85). Hence, it is possible to argue that contributions to this fund are used by the government for public-related expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	Contributions to this fund confer a direct benefit to the persons making contributions, in the form of a pension fund that bestows (non-contingent) future benefits on the persons contributing to the fund.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	Contributions to the fund are deemed to be below the value of the benefits that employees of government will receive. The reason for this is that this pension is a defined benefit fund which in essence bestows minimum benefits on the employees, so that the benefits are deemed to be greater than the contributions (GEPF, 2010:5).
Criterion 5: Is the benefit exclusive to persons making the payment?	Yes	Only members and their dependents, as defined in the Government Employees Pension Law, can benefit from the fund, and therefore it is deemed to be an exclusive benefit which excludes persons who do not contribute to the fund.

Criteria from Figure 1	Yes/No	Rationale
Criterion 6: Does the user charge regulate access to a right or privilege?	No	Pension funds are not a regulated service provided by government. These contributions are not deemed to be a user charge towards a regulated service for the purposes of this study.
Criterion 7: Are the goods and services consumed?	No	This is in essence a financial asset for the employees and is therefore not a consumable product.
Conclusion: Based on the criteria above, contributions to the Government Employees Pension Fund are classified, in essence, as a user charge, to be specific, a user levy.		

3.20 GOVERNMENT TRANSFERS IN SOUTH AFRICA

The transfer between government units is in essence not a tax, a user charge, or a penalty, and therefore this category of government revenue was not analysed further for the purposes of this study.

3.21 REVENUE FROM PROPERTY

Government revenue in South Africa from taxes and user charges is supplemented by income from interest, dividends and rent (see Table 17). These sources of income are in essence not a tax, a user charge, or a penalty, and therefore these sources of income were not analysed further for the purposes of this study.

3.22 SALE OF PUBLIC GOODS AND SERVICES IN SOUTH AFRICA

Public goods and services in South Africa are provided mainly by government business enterprises, which are classified as market establishments. Market establishments sell or dispose of all or most of their outputs at prices that are economically significant or market-related (IMF, 2001:60; National Treasury, 2009c:43). These entities are usually monopolies that render socio-economic services on behalf of the government, under the control of the government

(Calitz, 2012:10-11; King, 1984:245). They include the main public entities[89] and other public entities at a national and provincial level[90] (mainly government business enterprises).

At first glance, some of these government business enterprises appear to be pure market establishments, but when one looks at their price structures, one finds that their fares, fees or tariffs are not necessarily determined by normal market forces – they are sometimes determined and structured by the government units themselves. These fares, fees or tariffs generally consist of more than one impost, each serving its own purpose. This provides government with an opportunity to 'hide' the true nature of these imposts,[91] which are in essence taxes, because they are inherently part of the price structure of these public entities. It is therefore important and necessary to examine the substance of each of these fares, fees and tariffs that contribute to the overall price of the public goods and services provided to be able to classify each as either a tax or a user charge in terms of the criteria in Figure 1.

However, for the purposes of this study, some fees or tariffs imposed by particular market establishments are deemed to be inherently user charges, rather than taxes. These fees and tariffs are determined on the basis of normal market forces that exist in the particular industry, where a government market establishment renders goods or services in competition with other role-players[92] in that particular industry, on an equal basis.[93]

3.22.1 Municipal services in South Africa

Municipal services in South Africa consist mainly of electricity supply services, water supply services, sanitation services, and refuse services (National Treasury, 2011c:58). Although other services are rendered by municipalities, for

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[89] See Section 3.4.4.2.
[90] See Sections 3.4.4.3 and 3.4.4.4.
[91] Also see Section 2.2.1 and Section 3.2 for an explanation.
[92] Other role-players refer to privately owned entities, or public entities owned by government units that are not part of the South African public sector.
[93] 'On an equal basis' implies that the government does not use monopolist powers to gain an advantage over other role-players in the industry.

instance, urban passenger road transport services, the income from these services for municipalities is not substantial (National Treasury, 2011c:58), and therefore it was assumed that these services do not have a material impact on the imposed tax burden of individual taxpayers. Hence, these services were not analysed further.

3.22.1.1 Electricity service fees

Electricity supplied by municipalities consists mostly of electricity obtained in bulk from Eskom, which generates 95% of all the electricity in South Africa (Eskom, 2011b:1). Electricity is mainly supplied to end-users by municipalities (around 55%) and by Eskom itself (around 45%) (Eskom, 2011b:1).

Municipalities impose a service fee on the supply of electricity (National Treasury, 2011c:36). Electricity service fees imposed by municipalities consist of Eskom tariffs[94] and a municipal surcharge (Eskom, 2011a:7; National Treasury, 2011c:42)[95]. Municipalities are authorised in terms of sections 227 and 229 of the Constitution to impose surcharges on the supply of electricity to consumers. It is therefore necessary to analyse the substance of municipal surcharges imposed on the supply of electricity in terms of the criteria from Figure 1, to classify the surcharge as either a tax or as a user charge.

Table 53: Classification of municipal surcharges on the supply of electricity in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Municipal surcharges on electricity supply are provided for in terms of sections 227 and 229 of the Constitution and are governed in terms of the Municipal Fiscal Powers and

[94] For the purposes of this study, it is assumed that municipalities purchase all their electricity from Eskom, although some municipalities do generate electricity themselves. This assumption is based on the fact that Eskom supplies 95% of all electricity generated in South Africa. The substance of Eskom's tariffs is analysed in Section 3.22.3.1.

[95] Some municipalities also use inclining block tariff structures. This is dealt with in Section 3.22.1.1 and Section 3.22.3.1 in the discussion of Eskom's tariff structures.

Criteria from Figure 1	Yes/No	Rationale
		Functions Act (12 of 2007), the Local Government: Municipal Systems Act (32 of 2000), the Local Government: Municipal Finance Management Act (56 of 2003), and the Electricity Regulations Act (4 of 2006) (National Treasury, 2011c:36). Hence, municipal surcharges are deemed to be compulsory, because they can be imposed by municipalities in terms of legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Municipal surcharges on electricity are used to raise revenue for municipalities, in addition to revenue transfers from other government units (National Treasury, 2011c:36; Section 227 of the Constitution). Income from these surcharges is generally applied by municipalities towards the funding of public expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	Municipalities provide a direct service in return to the taxpayers for paying the surcharge as part of the electricity service fees. This benefit takes the form of electricity supplied by government, available for the consumption of the persons making the payment.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	No	Section 229 of the Constitution authorises municipalities to impose surcharges on the services provided by municipalities(National Treasury, 2011c:36). The purpose of municipal surcharges is to raise additional revenue for municipalities, over and above transfers received from the national and provincial governments (National Treasury 2011c:36-37). The fact that the purpose of the surcharges is not to recover the costs of supplying electricity, but to raise additional revenue for municipalities, strengthens the notion that municipal surcharges are in essence a tax and not a user charge.
Conclusion: Municipal surcharges on electricity, for the purposes of this study, are classified as taxes, based on the criteria above. Municipal surcharges on electricity are deemed to be compulsory imposts in terms of legislation: the purpose is to raise revenue for general municipal expenses, and although municipalities render direct benefits in return, service fees are deemed to be disproportionate to the cost of the service, mainly due to surcharges imposed by municipalities over and above the cost of		

Criteria from Figure 1	Yes/No	Rationale
these services.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
<u>*Criterion 8*</u>: Is it an activity-based tax?	Yes	Municipal services are rendered on an on-going basis and therefore surcharges on electricity supply services are deemed to be recurrent taxes.
<u>*Criterion 9*</u>: Is it imposed directly on income or wealth?	No	These surcharges are imposed on the consumption of goods and services. These imposts are normally classified as indirect taxes (Gildenhuys, 1989:284; Steenekamp, 2012:166).
<u>Conclusion</u>: Municipal surcharges on electricity in terms of the criteria above are deemed to be imposed indirectly, on an on-going basis, on the consumption of electricity. Hence municipal surcharges on electricity are classified as indirect recurrent tax burdens.		

Important considerations related to the supply of electricity by municipalities:

- *Free basic electricity*

  Some municipalities, for instance, the City of Tshwane, provide free basic electricity for some groups of residents in their municipal areas (Tshwane Metropolitan Municipality, 2011a:380). Hence, it is possible to argue that the benefit that persons who pay for their total electricity consumption receive is not an exclusive benefit as defined in this study.[96] Therefore, the portion of the revenue used to pay for the free basic electricity that some residents receive is deemed to be a tax imposed on persons who do not get the same benefit. This tax is classified as an indirect recurrent tax burden for these persons.

- *Inclining block tariffs on the consumption of electricity*

  Some municipalities, for instance, the City of Tshwane, use inclining block tariff structures on the consumption of electricity (Tshwane Metropolitan Municipality, 2011a:380). Inclining block tariffs are based on the principle of the higher the consumption, the higher the tariff imposed. The purpose of block tariff structures is normally to provide a cross-subsidy for lower usage

[96] See Section 2.2.4.3.

customers (Eskom, 2011a:29). In terms of Criterion 4 in Figure 1, imposing inclining block tariffs on the consumption of electricity has the effect making the charge disproportionate to the cost of providing the service. Hence any inclining block tariff on electricity is deemed to be a tax for the purposes of this study, to be specific, an indirect recurrent tax burden in terms of Criterion 8 and Criterion 9 in Figure 1.

3.22.1.2 Water service fees

Water supply services in South Africa are divided into two kinds of services, namely water resources management, guided by the National Water Act (36 of 1998), and water provision services, regulated by the Water Services Act (108 of 1997). Water resource management[97] is the exclusive domain of the national level of government, while the water services provision is mainly the responsibility of the Department of Water Affairs, various water boards,[98] and municipalities (National Treasury, 2011c:125-129).

Municipalities in general purchase potable water in bulk from the water boards, although some municipalities do not depend on water boards for their water supply (National Treasury, 2011c:128). However, since 2007, the number of municipalities contracting water boards for the supply of bulk water has increased significantly (National Treasury, 2011c:128).

Municipalities impose a service fee for supplying potable water to consumers in their jurisdiction (National Treasury, 2011c:36). Municipalities purchase bulk water from the water boards and then impose a surcharge on the tariffs of the water boards, which then in total constitute the service fee for the water supplied to the consumer. However, as stated in the paragraph above, municipalities do not always depend on the Water Boards for their water supply, and in such instances it is also possible for a municipality to impose a surcharge on the cost of supplying the water itself. Municipalities are authorised in terms of

[97] Imposts on these services are analysed in Section 3.22.10.
[98] Services supplied by the Department of Water Affairs and water boards are analysed in Section 3.22.10.3.

sections 227 and 229 of the Constitution to impose surcharges on the supply of water to consumers. It is therefore necessary to analyse the substance of municipal surcharges on the supply of water in terms of the criteria in Figure 1, to classify the surcharge as either a tax or as a user charge.

Table 54: Classification of the municipal surcharges on the supply of water in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Municipal services fees are provided for in terms of sections 227 and 229 of the Constitution and are governed in terms of the Municipal Fiscal Powers and Functions Act (12 of 2007), the *Local Government:* Municipal Systems Act (32 of 2000), the *Local Government:* Municipal Finance Management Act (56 of 2003), and the National Water Act (36 of 1998) (National Treasury, 2011c:36). Hence, municipal service fees are deemed compulsory imposts regulated in terms of legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Municipal surcharges on the water supply are used to raise revenue for municipalities, in addition to revenue transfers from other government units (National Treasury, 2011c:36; section 227 of the Constitution).
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	Municipalities provide a direct service in return to taxpayers for paying the surcharge, in the form of potable water available for consumption.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	No	Section 229 of the Constitution authorises municipalities to impose surcharges on the services provided by municipalities (National Treasury, 2011c:36). The purpose of municipal surcharges is to raise additional revenue for municipalities, over and above transfers received from the national and provincial governments (National Treasury, 2011c:36-37). The fact that the purpose of surcharges is not to recover the cost of supplying water but

Criteria from Figure 1	Yes/No	Rationale
		to raise additional revenue for municipalities strengthens the notion that municipal surcharges are in essence a tax, and not a user charge.
Conclusion: Municipal surcharges on the supply of water, for the purposes of this study, are classified as taxes, based on the criteria above. Municipal surcharges on the supply of water are deemed to be compulsory imposts in terms of legislation: the purpose is to raise revenue for general municipal expenses, and although municipalities render direct benefits in return, service fees are deemed to be disproportionate to cost of the service, mainly due to surcharges imposed by municipalities over and above the cost of the service.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Municipal services are rendered on an on-going basis and therefore surcharges on water supply services are deemed recurrent taxes.
Criterion 9: Is it imposed directly on income or wealth?	No	These surcharges are imposed on the consumption of goods and services. Such imposts are normally classified as indirect taxes (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Municipal surcharges on the supply of water, in terms of the criteria above, are deemed to be imposed indirectly on an ongoing basis on the consumption of water. Hence municipal surcharges on water are classified as an indirect recurrent tax burden.		

Important considerations related to the supply of water by municipalities:

- *Free basic water*

  Some municipalities, for instance, the City of Tshwane, provide free basic water for some groups of residents in their municipal areas (Tshwane Metropolitan Municipality, 2011b:412). Hence, it is possible to argue that the benefit received by persons who pay for their total consumption of water is not an exclusive benefit as defined in this study.[99] Therefore, the portion of the revenue used to pay for free basic water that some residents receive is deemed to be a tax imposed on other persons who do not get the same benefit. This tax is classified as an indirect recurrent tax burden for these persons.

[99] See Section 2.2.4.3.

- *Inclining block tariffs on the consumption of water*

  As explained in Section 3.22.1.1, some municipalities use inclining block tariff structures on the consumption of electricity. However, inclining block tariff structures are also imposed by some municipalities on the consumption of water, for instance the City of Tshwane (Tshwane Metropolitan Municipality, 2011b:412). Similar to inclining block tariff structures for electricity, these imposts are also classified a recurrent indirect tax burden imposed on taxpayers.

3.22.1.3 Sanitation service fees

In terms of Schedule 5B of the Constitution, the provision of sanitation services is one of the functional areas of local government. Municipalities impose a service fee for these services (National Treasury, 2011c:36). Municipalities are authorised in terms of sections 227 and 229 of the Constitution to impose surcharges on the supply of sanitation services. However, it is assumed for the purposes of this study that municipalities in general do not add a surcharge to the cost of providing sanitation services. The reason for this assumption is the fact that sanitation services are normally not economically self-supporting and must be subsidised from property rates and other funds. This is evident when one looks at the sanitation services' operating expenditure budgets, for example, for the period from 2011 to 2012, which indicate that the operating expenditure is R9 451million (National Treasury, 2011c:135), while the budgeted income for sanitation services, for the same period, is R7 719 million (National Treasury, 2011c:58). It is therefore necessary to analyse municipal service fees according to the criteria in Figure 1 to classify the service fee either as a tax or as a user charge.

Table 55: Classification of municipal sanitation service fees in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of	Yes	Municipal services fees are provided for in sections 227 and 229 of the Constitution and

Criteria from Figure 1	Yes/No	Rationale
legislation?		are governed in terms of the Local Government: Municipal Fiscal Powers and Functions Act (12 of 2007), the Municipal Systems Act (32 of 2000), the Local Government: Municipal Finance Management Act (56 of 2003), and the National Water Act (36 of 1998) (National Treasury, 2011c:36). Hence, municipal service fees are deemed to be compulsory imposts regulated in terms of legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Municipal service fees for sanitation services are used to raise revenue for municipalities in addition to revenue transfers from other government units (National Treasury, 2011c:36; Section 227 of the Constitution).
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	Municipalities provide a direct service in return to taxpayers for paying the service fee, in the form of sanitation services.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The service fees of municipalities are deemed to be below the cost of providing the service (see the discussion above under Section 3.22.1.3 regarding the operating expenditure and the income from sanitation services).
Criterion 5: Is the benefit exclusive to the persons making the payment?	No	The benefit from paying for sanitation services is deemed not to be exclusive to the persons making the payment. The reason for this is that some households in South Africa do receive the benefit of free basic sanitation services without paying for the services. In 2009 it was estimated that around 9.5 million households received free basic sanitation services (National Treasury, 2011c:133).
Conclusion: Municipal service fees for sanitation services, for the purposes of this study, are classified as a tax, based on the criteria above. Municipal service fees for sanitation services are deemed to be compulsory in terms of legislation: the purpose is to raise revenue for municipal expenses, and although municipalities render direct benefits in return, the benefit is deemed not to be exclusive to those persons paying for sanitation services, based on the fact that the benefit is also available free of charge to others.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Municipal services are rendered on an ongoing basis and therefore service fees for

Criteria from Figure 1	Yes/No	Rationale
		sanitation are deemed to be recurrent taxes.
Criterion 9: Is it imposed directly on income or wealth?	No	These surcharges are imposed on the consumption of goods and services, a kind of impost normally classified as an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: In terms of the criteria above, municipal service fees for sanitation services are deemed to be imposed indirectly on an on-going basis, and therefore they are classified as indirect recurrent tax burdens.		

3.22.1.4 Refuse removal service fees

Refuse services in South Africa are primarily a local government function. Section 156(1)(a) of the Constitution, read with Schedule 5, assigns responsibility for refuse removal, the maintenance of refuse dumps, solid waste disposal and cleansing to municipalities (National Treasury, 2011c:176).

It is necessary to analyse municipal service fees according to the criteria in Figure 1 to classify the service fee either as a tax or as a user charge.

Table 56: Classification of municipal refuse removal service fees in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Municipal services fees are provided for in terms of sections 227 and 229 of the Constitution and are governed in terms of the Municipal Fiscal Powers and Functions Act (12 of 2007), the Local Government: Municipal Systems Act (32 of 2000), the Local Government: Municipal Finance Management Act (56 of 2003), and the National Water Act (36 of 1998) (National Treasury, 2011c:36). Hence, municipal service fees are deemed to be compulsory imposts regulated in terms of legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Municipal service fees for refuse services are used to raise revenue for municipalities in addition to revenue transfers from other government units (National Treasury,

Criteria from Figure 1	Yes/No	Rationale
		2011c:36; section 227 of the Constitution).
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	Municipalities provide a direct service in return to taxpayers for paying the service fee, in the form of refuse services.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The service fees of municipalities for refuse services are deemed to be below the cost of providing the service. Waste removal and management services are deemed not to be economically self-supporting and must be subsidised from property rates and other funds (National Treasury, 2011c:184; Statistics South Africa, 2010:31).
Criterion 5: Is the benefit exclusive to the persons making the payment?	No	The benefit from paying for refuse services is deemed not to be exclusive to the persons making the payment, because some consumers in South Africa are subsidised and receive free basic refuse removal. It is estimated that during 2009 around 1.9 million consumers received free basic refuse services (National Treasury, 2011c:182-183).
Conclusion: Municipal service fees for refuse services, for the purposes of this study, are classified as a tax, based on the criteria above. Municipal service fees for refuse services are deemed to be compulsory in terms of legislation: the purpose is to raise revenue for municipal expenses, and although municipalities render direct benefits in return, the benefit is deemed not to be exclusive to persons paying for the services. This is based on the fact that the benefit of refuse services is also available free of charge to other consumers.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Municipal services are rendered on an on-going basis and therefore service fees for refuse services are deemed to be recurrent taxes.
Criterion 9: Is it imposed directly on income or wealth?	No	These surcharges are imposed on the consumption of goods and services. Such imposts are normally classified as indirect taxes (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: In terms of the criteria above, municipal service fees for refuse services are deemed to be imposed indirectly on an on-going basis, and are therefore classified as indirect recurrent tax burdens.		

3.22.2 Communication services in South Africa

Communication services in South Africa provided by market establishments consist of broadcasting services, broadcasting network services, telecommunication services, and postal services. These communication services are regulated in terms of the Broadband Infraco Act (33 of 2007), the Electronic Communications Act (36 of 2005), the Broadcasting Act (4 of 1999), the Telecommunications Act (103 of 1996) and the Postal Services Act (124 of 1998). The regulations are enforced in the form of licences issued in terms of the Acts referred to above.

Compliance with the Acts mentioned above and the conditions of licence agreements are monitored by the Independent Communications Authority of South Africa (ICASA), which was established in terms of the Independent Communications Authority of South Africa Act (13 of 2000). One of ICASA's main functions is to promote competition and the efficient provision of communication services at affordable and competitive tariffs (ICASA, 2011:19).

3.22.2.1 Broadband infrastructure rental tariffs

The long-distance broadband infrastructure in South Africa is provided and maintained by Broadband Infraco (Pty) Ltd. The main purpose of this company is to improve market efficiency in long-distance broadband connectivity, both national and international, and to provide capacity to stimulate private sector development and innovation in telecommunications services (Broadband Infraco, 2011). This company was established in terms of the Broadband Infraco Act (33 of 2007).

Broadband Infraco's broadband infrastructure is mainly rented to corporate entities, for instance, Neotel (Pty) Ltd in the communication industry (Broadband Infraco, 2011:11-12), and therefore Broadband Infraco's tariffs are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. Therefore these tariffs were not analysed further for the purposes of this study.

3.22.2.2 Air broadcasting service tariffs

Broadcasting services in South Africa consist of both television and radio broadcasting services, which are regulated in terms of the Broadcasting Act (4 of 1999) and the Electronic Communications Act (36 of 2005).

The principal public entity that provides broadcasting services in South Africa is the South African Broadcasting Corporation Limited (SABC).[100] The main source of income for the SABC is tariffs imposed on airtime provided mainly for advertisements, both on radio and television (SABC, 2011:135). These tariffs are monitored and approved by ICASA, but are not determined by them (ICASA, 2011:19). Hence, and because the SABC is not the only licence holder for broadcasting services in South Africa,[101] the SABC's tariffs are deemed for the purposes of this study to be determined on the basis of normal market forces and are therefore deemed inherently to constitute a user charge and not a tax. Because these airtime tariffs do not regulate access to a right or privilege (Criterion 6 of Figure 1), and the airtime is deemed to be consumed[102] (Criterion 7 of Figure 1), the SABC's tariffs for airtime are classified as user levies for the purposes of this study.

3.22.2.3 Broadcasting network service tariffs

Broadcasting network services are regulated by the Electronic Communications Act (36 of 2005) in the form of licences issued in terms of this Act.

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[100] See Section 3.4.4.2.

[101] Other broadcasting licence holders that compete on an equal basis with the SABC include MNet and MultiChoice.

[102] Entities or persons that use the SABC's broadcasting network do not purchase and consume the network, but only use the service.

Sentech Limited (Sentech) is the main public entity that provides broadcasting network services in South Africa (Sentech, 2010:4). Sentech mainly provides these broadcasting network services to corporate entities in the communication industry (Sentech, 2010:5-7), and therefore tariffs relating to Sentech services are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. Therefore these tariffs were not analysed further for the purposes of this study.

3.22.2.4 Telecommunication service tariffs

Telecommunication services are regulated in terms of the Telecommunications Act (103 of 1996) and the Electronic Communications Act (36 of 2005). Telecommunication services are regulated in the form of licences issued in terms of the Acts referred to above.

The principal public entity that provides telecommunication services in South Africa is Telkom SA Limited (Telkom).[103] Telkom's main source of revenue is tariffs imposed on telecommunication and data transfer services (Telkom, 2010:232). Telecommunication tariffs are monitored and approved by ICASA, but are not determined by them (ICASA, 2011:19). Hence, and because Telkom is not the only licence holder for telecommunication services in South Africa,[104] for the purposes of this study, Telkom's tariffs are deemed to be determined on the basis of normal market forces, and therefore they inherently constitute a user charge and not a tax. As Telkom's tariffs do not regulate access to a right or privilege (Criterion 6 in Figure 1), and the telecommunication services are deemed not to be consumed[105] (Criterion 7 in Figure 1), these tariffs are classified as user levies for the purposes of this study.

[103] See Section 3.4.4.2.
[104] Other telecommunication licence holders that compete with Telkom include Neotel, CellC, Vodaphone and MTN.
[105] Entities or persons who use the telecommunication network supplied by Telkom do not consume the network, but make use of it.

3.22.2.5 Postal service tariffs

Postal services in South Africa are regulated in terms of the Postal Services Act (124 of 1998). Compliance with the Postal Services Act and licence conditions is monitored by ICASA. One of the main functions of ICASA is to monitor postal tariffs imposed by licence holders to ensure that these tariffs remain competitive and affordable (ICASA, 2011:19).

The main public entity that provides postal services in South Africa is the South African Post Office Limited (SAPO).[106] The main source of revenue for the SAPO is income from tariffs imposed on postal and courier services (SAPO, 2010:126). SAPO tariffs are monitored by ICASA, but are not determined by this body (ICASA, 2011:19). Hence, and because SAPO is not the only licence holder for postal and courier services in South Africa,[107] SAPO's tariffs are deemed for the purposes of this study to be determined on the basis of normal market forces and therefore they inherently constitute a user charge, and not a tax. As SAPO's tariffs do not regulate the access to a right or privilege (Criterion 6 in Figure 1), and the postal and courier services are deemed not to be consumed[108] (Criterion 7 in Figure 1), SAPO's tariffs are classified as user levies for the purposes of this study.

3.22.3 Energy supply services in South Africa

Energy supply services in South Africa consist of electricity supply services, regulated in terms of the Electricity Regulation Act (4 of 2006), gas supply services, regulated in terms of the Gas Act (48 of 2001), and petroleum supply services, regulated in terms of the Petroleum Pipelines Act (60 of 2003). The regulations in these Acts are enforced in the form of licences issued in terms of these Acts. Compliance with these Acts, as well as with the conditions of the licence agreements, are monitored and enforced by the National Energy

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[106] See Section 3.4.4.2.

[107] Other postal licence holders that are deemed to compete on an equal basis with the SAPO include Postnet and DHL couriers.

[108] Entities or persons who use SAPO's postal distribution network only use the network, but do not purchase or consume the network.

Regulator of South Africa (NERSA, 2011:7). NERSA was established in terms of the National Energy Regulator Act (40 of 2004). One of NERSA's main functions is to regulate and approve the tariffs imposed on energy supply services (NERSA, 2011:21-36).

Electricity, gas and petroleum are not the only sources of energy in South Africa. Nuclear energy, which is supplied by the Nuclear Energy Corporation Limited (NECSA),[109] is another source of energy used in South Africa. NECSA was established in terms of the Nuclear Energy Act (46 of 1999). NECSA is responsible, *inter alia,* for undertaking and promoting research and development in the field of nuclear energy and radiation sciences, as well as for processing source material, including uranium enrichment, and cooperating with other institutions, locally and abroad, on nuclear-related matters (NECSA, 2010:2).

It is necessary to examine the tariff structures of each of these energy sources to be able to classify these tariff structures as either a tax or a user charge in terms of the criteria set out in Figure 1.

3.22.3.1 Electricity supply tariffs

Electricity in South Africa is mainly generated by Eskom and is supplied directly to end-users, but may also be supplied indirectly to end-users through municipalities (Eskom, 2011b:1). Eskom's main source of revenue is income derived from the sale of electricity at regulated tariffs to municipalities, business corporations and individual users (Eskom, 2011a:1-2; 2011b:note 29). These regulated tariffs consist of various imposed components, each with a different purpose (Eskom, 2011a:3). These components, in combination, are referred to as Eskom's tariff structure.

Eskom's tariff structure and the category of user to which each of the components in the tariff structure applies are summarised in Table 57. It is

[109] See Section 3.4.4.2.

important to note that electricity to each of these categories of users can be supplied directly by Eskom or indirectly through municipalities (Eskom, 2011a:1-2).

Table 57: Eskom tariff structure for electricity supply in South Africa

Label of impost in the tariff structure	User category		
	Urban[110]	**Residential**[111]	**Rural**[112]
Service charge	✓		✓
Administration charge	✓		✓
Distribution network demand charge	✓		✓
Distribution network access charge	✓		✓
Network access charge	✓		✓
Transmission network charge	✓		
Active energy charge (Tou[113])	✓		✓
Active energy charge (non-Tou)	✓	✓	✓
Re-active energy charge	✓		✓
Electrification and rural subsidy (ERS)	✓		
Upfront connection charge/fee	✓		✓

Source: Eskom (2011a:3 & 11-12)

In order to determine whether each of the different imposts contained in Eskom's tariff structure is in essence a tax or user charge, it is necessary to measure each according to the criteria set out in Figure 1. The classification of these imposts is summarised in Table 58 overleaf.

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[110] 'Urban' refers mainly to large and small businesses in an urban area, and also includes churches, schools, old-age homes, and public lighting (Eskom, 2011a:13-21).
[111] 'Residential' refers to bulk home power (sectional titles and multiple housing units) and standard home power (residential houses) (Eskom 2011a:29-34).
[112] 'Rural' refers to users in rural areas. They can be either businesses or residences (Eskom, 2011a:35-43).
[113] The abbreviation 'Tou' stands for 'time of use', which refers to a tariff that has different energy rates for different periods and seasons (Eskom, 2011a:3).

Table 58: Classification of imposts in the electricity tariff structure of Eskom

Impost included in the tariff structure of Eskom	*Criterion 1*: **Compulsory?**	*Criterion 2*: **Raise revenue?**	*Criterion 3*: **Direct benefit?**	*Criterion 4*: **Proportional?**	*Criterion 5*: **Exclusive benefit?**	**Classification** *Note 9*
Service charge	Yes *Note 1*	Yes *Note 2*	Yes *Note 3*	Yes *Note 6*	Yes *Note 8*	**Consumer tariff**
Administration charge	Yes *Note 1*	Yes *Note 2*	Yes *Note 3*	Yes *Note 6*	Yes *Note 8*	**Consumer tariff**
Distribution network demand charge	Yes *Note 1*	Yes *Note 2*	No *Note 4*	→		**Indirect recurrent tax burden**
Distribution network access charge	Yes *Note 1*	Yes *Note 2*	No *Note 4*	→		**Indirect recurrent tax burden**
Network access charge	Yes *Note 1*	Yes *Note 2*	No *Note 4*	→		**Indirect recurrent tax burden**
Transmission network charge	Yes *Note 1*	Yes *Note 2*	No *Note 4*	→		**Indirect recurrent tax burden**
Active energy charge (Tou)	Yes *Note 1*	Yes *Note 2*	Yes *Note 3*	Yes *Note 7*	Yes *Note 8*	**Consumer tariff**
Active energy charge (non-Tou)	Yes *Note 1*	Yes *Note 2*	Yes *Note 3*	Yes *Note 7*	Yes *Note 8*	**Consumer tariff**
Re-active energy charge	Yes *Note 1*	Yes *Note 2*	Yes *Note 3*	Yes *Note 7*	Yes *Note 8*	**Consumer tariff**
Electrification and rural subsidy (ERS)	Yes *Note 1*	Yes *Note 2*	No *Note 5*	→		**Indirect recurrent tax burden**
Upfront connection charge/fee	Yes *Note 1*	Yes *Note 2*	Yes *Note 3*	*Yes* *Note 6*	Yes *Note 8*	**Consumer tariff**

Note 1: All electricity tariffs charged by Eskom are regulated in terms of the Electricity Regulation Act (4 of 2006) and the National Energy Regulator Act (40 of 2004). In terms of these Acts, all Eskom tariffs must be approved by NERSA (Eskom, 2011a:6). Hence all imposts that form part of the tariff structure are deemed to be compulsory imposts.

Note 2: The purpose of these imposts is to generate revenue for Eskom as part of Eskom's tariff structure (Eskom, 2011b:note 29).

Note 3: In return for paying the electricity tariffs, the person or entity making the payment is assumed to receive a direct return, in the form of the electricity supply from Eskom.

Note 4: These network imposts recover costs associated with the provision of the electricity network. The costs of the network include capital, operations, maintenance and refurbishments (Eskom, 2011a:9-10). The main characteristic of these imposts is that the payment thereof does not bestow an exclusive benefit on those making the payment, because these imposts are used to maintain and expand the electricity network in South Africa to the common benefit of the general public (Eskom,2011a:9-10; NERSA, 2010:2-3). Hence, these imposts are deemed to be a tax and not a user charge.

Note 5: Payment of this impost is deemed not to render a direct benefit, as this impost is used for subsidising electricity to other users (Eskom, 2011a:9). Therefore this impost is classified as a tax.

Note 6: The purpose of these imposts is to recover costs (Eskom, 2011a:8-12), therefore, these imposts are deemed to be in proportion to the costs for the purposes of this study.

Note 7: This impost refers to the charge per kilo-watt hour (kWh) of electricity used (Eskom, 2011a:11). For the purposes of this study, it is assumed that these imposts are in proportion to the cost to Eskom of providing the service.

Note 8: These imposts provide a direct benefit to the person or entity paying them (refer to Note 3 above) and it is deemed that these direct benefits received in return are exclusive to the persons paying for them and legally exclude a person or entity who is not prepared to pay this impost.

Note 9: Tax imposts on electricity are deemed to be an indirect recurrent tax burden, because these taxes are imposed indirectly on the consumption of electricity and not directly on income or wealth (Criterion 9 in Figure 1), and are deemed to be taxes imposed on an ongoing basis over a given period (Criterion 8 in Figure 1). Imposts classified as user charges are deemed to be consumer tariffs, because these charges do not regulate access to a right or privilege (Criterion 6 in Figure 1), and the electricity is consumed and needs to be replaced continuously (Criterion 7 in Figure 1).

Important consideration related to the supply of electricity by Eskom:

Since 24 February 2010, an inclining block tariff structure has been implemented by NERSA (Eskom, 2011a:29; NERSA, 2010:3). The inclining block tariff structure is based on the principle that the higher the electricity consumption, the higher the average energy tariff that is imposed. The purpose of the inclining block structure is to provide a cross-subsidy for lower usage customers (NERSA, 2010:3), in terms of the electricity pricing policy (EPP) (South African Electricity Supply Industry, 2008:position 48). In terms of Criterion 4 in Figure 1, the imposition of inclining block tariffs has the effect of rendering the energy charge for consumption in kWh to become disproportionate to the cost of providing the service. Hence any inclining block tariff imposed over and above the average energy charge (NERSA, 2010:3) is deemed to be a tax for the purposes of this study, to be specific, a recurrent indirect tax burden (see Note 9 to Table 58).

3.22.3.2 Nuclear energy supply tariffs

Nuclear energy in South Africa is regulated by the National Nuclear Regulators Act (47 of 1999). In terms of this Act, a National Nuclear Regulator (NNR) was established. The role of the NNR in terms of the Act is to provide for the protection of persons, property and the environment against nuclear damage (NNR, 2010:2).

The supply of nuclear energy products and services in South Africa is the responsibility of NECSA, and is regulated by the Nuclear Energy Act (46 of 1999), as well as by the National Nuclear Regulators Act (47 of 1999). NECSA engages in commercial business mainly through its wholly owned commercial subsidiaries, NTP Radioisotopes (Pty) Ltd, which is responsible for a range of radiation-based products and services for healthcare, life sciences and industry, and Pelchem (Pty) Ltd, which supplies fluorine and fluorine-based products. Both subsidiaries supply local and foreign markets (NECSA, 2010:2). It is assumed, for the purposes of this study, that NECSA provides nuclear energy products and services mainly to corporate entities and not to individual taxpayers. Therefore, tariffs and prices relating to NECSA's products are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. These tariffs and prices were therefore not analysed further for the purposes of this study.

3.22.4 Human settlement services

According to the Housing Consumers Protection Measures Act (95 of 1998), all home builders in South Africa are obliged to register with the National Home Builders Registration Council (NHBRC) and to pay the prescribed fees (levies), (NHBRC, 2010:57). The NHBRC is a regulator body of the home building industry with the purpose of assisting and protecting housing consumers against building contractors who deliver housing units of substandard quality (NHBRC, 2010:6-7). The prescribed fees are imposed on both corporate entities and individual persons acting as home builders in South Africa. Therefore, from the point of view of individual taxpayers, it is necessary to analyse and classify this impost in terms of the criteria in Figure 1.

Table 59: Classification of the NHBRC levies on home builders in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	These levies are imposed in terms of the Housing Consumers Protection Measures Act (95 of 1998), and therefore, the impost is deemed to be compulsory for the purposes of this study.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of these levies is to fund the activities of the NHBRC, and also to provide funding to the government in order to protect consumers against unscrupulous home builders (NHBRC, 2010:6-7)
Criterion 3: Is there a direct return of specific goods and services by government?	No	Home builders who pay these levies do not receive any direct goods or services from the public entity in return for paying the impost, as the benefit is actually derived by the home

Criteria from Figure 1	Yes/No	Rationale
		owners who are protected against home builders who do substandard work (NHBRC, 2010:6-7).
Conclusion: In terms of the criteria above, the levies imposed on home builders in South Africa by the NHBRC are classified as a tax and not a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	These imposts are of a recurrent nature in the sense that builders have to register each new home before the commencement of the project and have to pay the prescribed levies (section 7 of the Housing Consumers Protection Measures Act).
Criterion 9: Is it imposed directly on income or wealth?	Yes	These levies are imposed directly on the income of the homebuilder.
Conclusion: In terms of the criteria above, the NHBRC's levies imposed on home builders are deemed to be imposed directly, on an ongoing basis, and are therefore classified as a direct recurrent tax burden.		

3.22.5 Public order and safety services

The sale of military goods and services by Armscor (2010) is deemed for the purposes of this study not to relate to individuals *per se*, and due to the nature of the goods and services, it is assumed that the clients are corporate, and may be the governments of other countries. The basis for this assumption is that ARMSCOR is the officially appointed acquisition organisation for the South African Department of Defence, and with the approval of the South African Minister of Defence also renders a professional acquisition service to other government departments and public entities (Armscor, n.d.).Therefore this source of government revenue was not analysed further in this study.

3.22.6 Air transport services in South Africa

Air transport services provided by government and public entities in South Africa consist mainly of air traffic and navigation services, airport services, and airline services. These services are provided primarily by large public entities. Although some of these services may also be provided by the Gateway Airport

Authority Limited[114] and some municipal airports,[115] this study only analysed the services rendered by the major public entities. The reason for this is that the services rendered by the major business enterprises are deemed to be those that are most generally available to all individual taxpayers in South Africa, and these are also the services that are considered to have the biggest general impact on the tax burden of individual taxpayers in South Africa.

3.22.6.1 Air traffic and navigation service fees

Air traffic and navigation services in South Africa are the responsibility of the Air Traffic and Navigation Services Company Limited (ATNS), which is regulated by the Air Traffic and Navigation Services Company Act (45 of 1993).

In terms of section 1 of the Act, air traffic services refer to services related to airport control, aircraft approach control, flight information, and air traffic advice; while air navigation services refer to the planning, provision and maintenance of air navigation infrastructure. The ATNS raises revenue mainly from tariffs imposed on air traffic and navigation services provided to airline companies (ATNS, 2011:113; National Treasury, 2011b:852-853). Hence, ATNS's tariffs imposed on air traffic and navigation services are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. Therefore these tariffs were not analysed further for the purposes of this study.

3.22.6.2 Airport service fees

Airport services in South Africa are provided by the Airports Company of South Africa (ACSA) at all major government-operated airports in South Africa. ACSA was established by and is regulated in terms of the Airports Company Act (44 of 1993). ACSA's main source of income is tariffs imposed on airport services

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[114] A provincial government business enterprise (see Section 3.4.4.4).

[115] Municipal airports are not a main function of municipalities (National Treasury, 2011c:33), although they do exist, for instance, the Wonderboom Airport, which belongs to the Tshwane Metropolitan Municipality (Wonderboom, 2009).

rendered to both airlines and air travelling passengers who use the airport (ACSA, 2011:81).

- *Airport services to airlines*

  Airport services provided by ACSA to airlines in terms of section 1 of the Airports Company Act refer mainly to services related to the landing, parking, and taking-off of aeroplanes from various airlines that use the major South African airports. Hence, ACSA's tariffs imposed on airlines for airport services are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. Therefore ACSA's tariffs imposed on airlines were not analysed further for the purposes of this study.

- *Airport services to air travelling passengers*

  Airport services provided by ACSA to air travelling passengers in terms of section 1 of the Airports Company Act refer mainly to services in connection with passengers' arrival at, or departure from, one of the major airports in South Africa. ACSA's tariffs imposed on air travelling passengers are in essence a direct impost on individual taxpayers. Hence, it is necessary to analyse the substance of these tariffs to be able to classify the tariffs as either a tax or a user charge using the criteria in Figure 1. The results of the analysis are summarised in Table 60.

Table 60: Classification of imposts on airport services in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	ACSA's imposts on airport services are imposed in terms of the Airports Company Act (44 of 1993), and they are therefore deemed to be compulsory imposts.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of these imposts is to fund ACSA's activities (ACSA, 2011:76). ACSA is a public entity and therefore the entity's expenses are public-related.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	ACSA's services are deemed to be provided directly to passengers arriving and passengers departing from airports in South

Criteria from Figure 1	Yes/No	Rationale
		Africa.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	No	ACSA is a major public entity classified as a market establishment. There are not really any competitors in the market for providing airport services in South Africa, and therefore ACSA is deemed to operate in a monopolist environment where tariffs are not structured by normal market forces. In addition, it is possible to assume that one of ACSA's objectives is to generate profits from the tariffs imposed on airport services. This assumption is supported by the fact that ACSA's operating profit for 2011 was 24% and for 2010 it was 36% (ACSA, 2011:76). Based on ACSA's monopoly and profit objective with tariffs, it is possible to assume that the tariffs from ACSA can be divided into a surcharge (tax) portion and a portion for the recovery of costs (user charge) of rendering the services.
Conclusion: Based on the criteria above, ACSA's surcharge imposed on air travelling passengers for airport services is classified as primarily a tax and not as a user charge.		
Classification of the tax imposed by ACSA on its services		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes and no	This classification depends on the specific circumstances of the air passengers. Some passengers may be frequent flyers, and for them the impost may be of a recurrent nature. Other passengers may rarely fly (non-frequent flyers) and for these taxpayers the impost can be classified as a random tax.
Criterion 9: Is it imposed directly on income or wealth?	No	This is an impost on the consumption of goods and services and therefore it is deemed to be an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Depending on each taxpayer's unique circumstances, ACSA's tax on air passengers can be classified as an indirect recurrent tax burden for frequent flyers, and as an indirect random tax burden for non-frequent flyers.		
Classification of the user charge imposed by ACSA on its services		
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	It is possible to argue that the service upon arrival and departure of air travelling passengers are exclusive to the persons

Criteria from Figure 1	Yes/No	Rationale
		paying for the service.
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of ACSA's charges is not to regulate goods or services.
Criterion 7: Are the goods and services consumed?	No	The infrastructure provided by ACSA in support of passengers is normally not consumed by the passengers, but rather used by them.
Conclusion: Based on the criteria above, the cost recovery portion of ACSA's tariffs is classified as a user charge, specifically, as a user levy.		

3.22.6.3 Air passenger transport fares

Airline charges in the form of tickets are paid to public business enterprises, referring to South African Airways (Pty) Limited (SAA) and South African Express (Pty) Limited (SAExpress). These public entities operate in a competitive market with other airlines. Therefore it is assumed that air ticket prices imposed by SAA and SAExpress are determined in line with normal business practices. Thus the fees paid for tickets sold by these entities are deemed to be similar to fees paid to any other airline. Hence, the fee is classified neither as a tax nor as a user charge for the purposes of this study.

However, airline tariffs in South Africa do contain other government imposts. These imposts were analysed in this study under other categories, namely the aircraft passenger safety charge (see Section 3.17.10), air passenger tax (see Section 3.18.3), and the airport service fees (see Section 3.22.6.2).

3.22.7 Rail transport services in South Africa

Rail transport services in South Africa consist of passenger rail services and freight rail services. Passenger rail services in South Africa are rendered by the Passenger Rail Agency of South Africa (PRASA) (National Treasury, 2011b:846), whereas the freight rail services are the responsibility of Transnet (Transnet, 2010:1).

3.22.7.1 Passenger rail transport fares

PRASA is responsible for passenger rail transport in South Africa. This agency is a public business enterprise and provides urban passenger rail services under the name Metrorail, and long-distance passenger rail services under the name of Shosholoza Meyl (National Treasury, 2011b:215 & 846). PRASA is governed by the Legal Succession to the South African Transport Service Act (9 of 1989) (PRASA, 2011:9).

Table 61: Classification of passenger rail transport fees in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	PRASA is governed under legislation, namely the Legal Succession to the South African Transport Service Act (9 of 1989), and therefore any tariffs imposed by PRASA are deemed to be compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	PRASA uses revenue from imposts on rail passengers to raise revenue for its operations (PRASA, 2011:97-100), which are public-related, based on the fact that this is a public entity.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	PRASA provides a direct benefit, in the form of rail travel, in return for payment of the tariff imposed on the service.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	Although the Rail Agency is a business enterprise, the entity is not economically self-supporting, and it receives more than 50% of its funding from government transfers (National Treasury, 2011b:846; PRASA, 2011:79). Based on this, it is assumed for the purposes of this study that any fees paid towards urban and long-distance rail travel are below or in proportion to the cost of the service.
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	The benefit is deemed, for the purposes of this study, to be exclusive, as only paying passengers are allowed to use the service.
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of the impost on rail passengers is not to regulate a right or privilege, but to impose a tariff on the use of rail travel services.

Criteria from Figure 1	Yes/No	Rationale
Criterion 7: Are the goods and services consumed?	No	For the purposes of this study, it is deemed that the passengers merely make use of the rail network for transport and do not purchase and consume the network itself.
Conclusion: Based on the criteria above, the tariffs imposed by PRASA on passenger rail travel are classified as user charges, to be specific, user levies.		

3.22.7.2 Freight rail transport tariffs

Transnet is the largest freight transporter in South Africa (Transnet, n.d.). For the purposes of this study, it is possible to assume that Transnet's freight consists mainly of bulk transport services for corporate entities. This assumption is supported by the fact that the major customers of Transnet using freight rail services include corporate entities, for instance, BP Southern Africa, Shell SA, Engen, Sasol Oil, Caltex, Total SA, Afrox, BMW, Ford, Nissan, Eskom, BHP Billiton, and a number of others (Transnet, n.d). Hence, tariffs relating to Transnet's freight rail services are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. Therefore these tariffs were not analysed further for the purposes of this study.

3.22.8 Road transport services in South Africa

Public road transport services provided by the government in South Africa mainly consist of toll roads, which attract a toll fee from persons who use these roads, and public road transport services, which attract a fare from persons who use the service.

3.22.8.1 Toll fees

The impost on the use of roads in South Africa is referred to as toll fees. The South African National Roads Agency (SANRAL) receives revenue from toll fees imposed on motorists who use designated roads. Toll fees in South Africa are regulated in terms of the South African National Roads Agency Limited and National Roads Act (7 of 1998).

In terms of section 28 of the South African National Roads Agency Limited and National Roads Act, SANRAL is authorised to enter into agreements with third parties. In terms of these agreements, the third parties are authorised to impose toll fees in exchange for managing and maintaining particular roads on behalf of SANRAL. Currently there are three such concessions, namely Trans Africa concessionaires (TRAC), N3 Toll concessions (N3TC), and Bakwena concessionaires (Bakwena) (SANRAL, n.d.) However, for the purposes of this study, it is irrelevant which entity or party imposes toll fees, because the substance of toll fees itself is deemed to remain the same.

Table 62: Classification of toll fees in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Toll fees in South Africa are imposed and regulated in terms of the South African National Roads Agency Limited and National Roads Act (7 of 1998), and they are deemed to be compulsory because they originate from legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	Toll fees are used to fund the operational expenses of SANRAL, as well as the management and maintenance of specific roads (SANRAL, 2011:106; section 28 of the South African National Roads Agency Limited and National Roads Act). This strengthens the argument that these fees are imposed to raise revenue for government to fund public expenditure in South Africa.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	It is possible to argue that government returns a direct benefit to the person paying the toll fee, namely the right to immediately use a particular national road after paying or accruing the toll fee.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	No	Toll fees are deemed to be in proportion to the cost of providing these services. The basis for this assumption is the fact that SANRAL, for the financial years 2009 and 2010, did not make a profit from toll roads (SANRAL, 2011:156).

Criteria from Figure 1	Yes/No	Rationale
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	Toll fees are currently levied on all users of toll roads and hence it is possible to assume that the benefits of using the toll roads are exclusive to the persons paying the toll fees. However, in proposals for implementing an E-toll system in Gauteng, one of the key considerations is exempting public transport (mini-taxis and buses) from these fees (SabinetLaw, 2012). If such proposals are implemented by SANRAL, it is possible to classify the toll fees on these roads as a tax on the users of the toll road who are not exempt. For the purposes of this study, these proposals are not accepted yet and therefore the present toll fees are classified as user charges and not taxes.
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of toll fees is not to regulate the access to a right or privilege, but rather to recover costs in the supply of public goods.
Criterion 7: Are the goods and services consumed?	No	The toll road infrastructure itself is in essence not consumed by the users of the road, but is used by the motorists.
Conclusion: Based on the criteria above, toll fees are classified as a user charge, specifically, as a user levy. However, if some persons are exempt from paying the toll fees imposed on a toll road, the imposts are in essence a tax which affects the recurrent tax burden indirectly.		

3.22.8.2 Passenger road transport fares

Passenger road transport services are mainly provided by government in the form of bus transport services. Urban passenger bus transport services are normally provided by provincial government entities[116] and municipalities[117] (National Treasury, 2011c:33), whereas long-distance bus transport services are provided by PRASA (PRASA, 2011:9). PRASA is the public entity that provides long-distance bus passenger transport services in South Africa. These

[116] For the purposes of this study, the public entity is referred to at a provincial level as Mayibuye Transport Corporation (see Table 16).
[117] Municipal transport services are not deemed to a major municipal service, and hence it was not analysed further for the purposes of this study (see Section 3.22.1).

services are provided under the name of Autopax (National Treasury, 2011b:215,846; PRASA, 2011:9).

Table 63: Classification of passenger road transport fares in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	PRASA is governed by the Legal Succession to the South African Transport Service Act (9 of 1989), and therefore it is deemed that any tariffs imposed by PRASA are in essence compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	PRASA uses revenue from imposts on road travelling passengers to raise revenue for its operations (PRASA, 2011:97-100).
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	PRASA provides a direct benefit, in the form of road travelling, in return for payment of the tariff imposed on the service.
Criterion 4: Is the charge in proportion to the cost of the goods and services?	Yes	Although PRASA is a business enterprise, the entity is not economically self-supporting, and it receives more than 50% of its funding from government transfers (National Treasury, 2011b:846; PRASA, 2011:79). Based on this, it is assumed for the purposes of this study that any fees paid towards long-distance road travel services provided by PRASA are below or in proportion to the cost of providing the service.
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	For the purposes of this study, the benefit is deemed exclusive, as only paying passengers are allowed to use the service.
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of the impost on road passengers is not to regulate a right or privilege, but to impose a tariff on the use of the long-distance road travel services provided by Autopax.
Criterion 7: Are the goods and services consumed?	No	For the purposes of this study, the passengers are deemed merely to use the road transport infrastructure provided by Autopax, but not necessarily to consume the service.
Conclusion: Based on the criteria above, the tariffs imposed by PRASA on passenger long-distance road travelling are classified as user charges, to be specific, as user levies.		

3.22.9 Marine transport services in South Africa

Transnet is responsible for providing and managing port terminal services in South Africa (Transnet, n.d.). These port terminal services relate to container terminals, car terminals, and multi-purpose terminals. The main customers of the port terminal services provided by Transnet are the shipping industry, vehicle manufacturers, agriculture, timber and forest products, the mining industry and exporters of minerals, metals and granite (Transnet, n.d.) Although it is possible to argue that not all clients who use these services are corporate entities, it is possible to assume that most of the customers who use these services are corporate entities.Therefore, for the purposes of this study, it is assumed that Transnet's port terminal services consist mainly of services to corporate entities. Hence, tariffs relating to Transnet's port terminal services are deemed to be shifted to individual taxpayers as part of payroll, price, and/or shareholder shifting. Therefore these tariffs were not analysed further for the purposes of this study.

3.22.10 Water supply services in South Africa

Water is a scarce resource in South Africa. Its supply is regulated under the Water Services Act (108 of 1997) and the National Water Act (36 of 1998). In South Africa, there are different categories of water consumers, including households, farms, businesses and mines. Each of these categories of consumers pay a different tariff for water, depending on factors such as the purpose of the water use, the type of water services rendered and the geographic area, according to section 10 of the Water Services Act. Households normally consume potable water, the supply of which is one of the priority functions of municipalities (National Treasury, 2011c:33).

As already explained in Section 3.22.1.2, the water supply in South Africa consists of services related to water resource management, and services related to water provision. The services related to water resource management are mainly the responsibility of the national government, while the water supply services are primarily a joint function of municipalities, the water boards, and the national government (National Treasury, 2011c:125). In Section 3.22.1.2, the surcharges imposed by municipalities on the supply of potable water were analysed. Potable water is purchased in bulk from the water boards. This section of the study analyses the substance of the water board tariffs imposed on municipalities, as well as on other consumers of bulk water supplied by these water boards. This analysis was extended to include all other imposts by the national government on the management and supply of bulk water in South Africa, in other words, all imposts in the water supply chain in the country, as considered in this study.

A logical point of departure for analysing imposts on the water supply chain is the point of origin, or where the process of water supply in South Africa starts. The Department of Water Affairs is responsible for ensuring that the country's water resources are protected, managed, developed, conserved and controlled (National Treasury, 2011b:864). In fulfilling its mandate, the Department of Water Affairs uses different public entities, such as the Water Trading Entity, the Trans Caledon Tunnel Authority, and various water boards (National Treasury, 2011b:86-897). The imposts by government on the water supply chain generally consist of a water management charge, a consumptive water use charge, a charge on the sale of bulk water, a Trans Caledon Tunnel Authority charge, and a surcharge imposed by the water boards. The substance of each impost by government was examined to classify each as either a tax or a user charge. These imposts were examined based on the public entity to which each applies.

3.22.10.1 Water Trading Entity

In terms of the National Water Act (36 of 1998), the Department of Water Affairs is responsible for regulating water use in South Africa, and makes provision for the recovery of the cost for services provided to water users by the Department. To be able to recover these costs, the Department uses the Water Trading

Entity, which is basically a fund under the control of the Department. The Water Trading Entity is funded from the National Revenue Fund, as well as from imposts on various water schemes in the country. These imposts consist of water management charges, consumptive charges on water usage and the sale of bulk water (Department of Water Affairs, 2011:61-62).

Table 64: Classification of imposts by the Water Trading Entity in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The National Water Act (36 of 1998) regulates the use of water in South Africa. This Act makes provision for the recovery of costs from consumers, and therefore these imposts on consumers are deemed compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of imposts by the Water Trading Entity is to recover the government's expenses in providing water.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	The person or entity paying the Water Trading Entity's imposts receives a direct return from the government, namely raw bulk water (National Treasury, 2011b:884).
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The imposts by the Water Trading Entity are below or in proportion to the cost of providing bulk raw water. The reason is that in terms of section 57(5) of the National Water Act, no charge in terms of the Act may be imposed as a tax, levy or duty. It is therefore assumed for the purposes of this study that charges by the Water Trading Entity are in proportion to the cost of rendering the services.
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	It is possible to argue that the benefit is not exclusive to those that pay for raw bulk water, due to unauthorised usage of raw water, but it is assumed for the purposes of this study that the benefit is theoretically exclusive. The reason for this assumption is the fact that the National Water Act applies to all users of raw water, and therefore everyone is obliged to pay towards these imposts by the Water Trading Entity for the

Criteria from Figure 1	Yes/No	Rationale
		benefit of using raw water.
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of the Water Trading Entity is in essence the management of water resources and the supply of water infrastructure (National Treasury, 2011b:883). Hence the user fees imposed by the Entity are deemed not to be a regulatory charge, but a consumer charge.
Criterion 7: Are the goods and services consumed?	Yes	For the purposes of this study, the raw bulk water is deemed to be consumed on a continuous basis.
Conclusion: Based on the criteria above, the imposts (the water management charges, the consumptive charges on water use, and the sale charge of bulk water) by the Water Trading Entity *a*re classified as user charges, to be specific, as consumer tariffs.		

3.22.10.2 The Trans Caledon Tunnel Authority

The Trans Caledon Tunnel Authority is regulated in terms of the National Water Act (36 of 1998). It is classified as a major public entity in Schedule 2 of the Public Finance Management Act (1 of 1999). This authority is mandated to raise off-budget finance with the aim of developing bulk raw water infrastructure for industry and consumers in a cost-effective manner (National Treasury, 2011b:886-887).

Table 65: Classification of the Trans Caledon Tunnel Authority impost on the supply of water in South africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The National Water Act regulates the use of water in South Africa. This Act makes provision for the recovery of costs from consumers, and therefore these imposts on consumers are deemed compulsory.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose is to raise revenue to fund the activities of the Trans Caledon Tunnel Authority (National Treasury, 2011b:889).
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	The person or entity paying towards the bulk water supplied by the Trans Caledon Tunnel Authority receives a direct return from

Criteria from Figure 1	Yes/No	Rationale
		government, namely raw bulk water (National Treasury, 2011b:888).
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	The imposts by the Trans Caledon Tunnel Authority are deemed to be below or in proportion to the cost of providing bulk raw water, because, according to section 57(5) of the National Water Act, no charge may be imposed as a tax, levy or duty. It is therefore assumed for the purposes of this study that charges by the Trans Caledon Tunnel Authority are in proportion to the cost of rendering the services.
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	It is possible to argue that the benefit is not exclusive to those that pay for raw bulk water, due to unauthorised usage of raw water, but it is assumed for the purposes of this study that the benefit is theoretically exclusive. The reason for this assumption is the fact that the National Water Act applies to all users of raw water, and therefore everyone is obliged to pay towards these imposts of the Water Trading Entity for the benefit of using raw water.
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of the Trans Caledon Tunnel Authority is in essence the supply of water infrastructure (National Treasury, 2011b:888). Hence, the user fees imposed are deemed not to be a regulatory charge, but to be in fact a consumer charge.
Criterion 7: Are the goods and services consumed?	Yes	For the purposes of this study, the raw bulk water is deemed to be consumed on a continuous basis.
Conclusion: Based on the criteria above, the imposts by the Trans Caledon Tunnel Authority on the supply of raw bulk water *a*re classified as a user charge, to be specific, a consumer tariff.		

3.22.10.3 Water boards

Water boards are government business entities that provide potable water to municipalities, mines and industries, and are governed by the Water Service Act (108 of 1997). There are a number of water boards – Rand Water and Umgeni Water are the biggest (National Treasury, 2011b:895).

The tariffs of water boards consist of the tariff paid to the Water Trading Entity, and, in some instances, also to the Trans Caledon Tunnel authority, for the purchase of bulk water, and a 'surcharge' imposed on the cost of the bulk raw water (National Treasury, 2011b:896). This 'surcharge' imposed by water boards is used to fund the activities of the water boards, but also to make a profit on the sale of bulk water (National Treasury, 2011b:896). It is therefore important to analyse the substance of the 'surcharge' imposed by the water boards to determine whether it is a tax or a user charge in terms of the criteria set out in Figure 1. The remaining portion of the water board tariffs (without the surcharge) is deemed to be in relation to the costs recovered for the services rendered by the water boards. Hence these imposts are classified as user charges. Their purpose is not to regulate a right or a privilege (Criterion 6). Because the water is consumed by the persons paying for it (Criterion 7), these imposts are specifically classified as consumer tariffs.

Table 66: Classification of surcharge by water boards in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	The National Water Act regulates the use of water in South Africa, and water boards are also regulated in terms of the Water Services Act. Hence any impost by water boards is deemed to be compulsory, as regulated in terms of legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose of imposts by water boards on the supply of bulk potable water is to raise revenue for their activities (National Treasury, 2011b:896). Because these are public entities, it can be argued that their expenses are public-related.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	The person or entity paying for the bulk potable water supplied by the water boards receives a direct return from government, namely bulk potable water (National Treasury, 2011b:895).
Criterion 4: Is the impost in proportion to the cost of the goods and services?	No	As business enterprises listed in Schedule 3B of the Public Finance Management Act (1 of 1999), these entities are classified as market establishments that sell bulk potable

Criteria from Figure 1	Yes/No	Rationale
		water at economically viable prices. The tariffs applied by the water boards determine the substance of the impost. The tariffs can be analysed by using Rand Water, the main water board in South Africa (National Treasury, 2011b:895), as a test case. Rand Water's gross profit percentage on the sale of water was an average of 52% from 2008 to 2010, and the average net profit after tax for the same years was 12.8% (Rand Water, 2010:97,103). Hence, tariffs imposed by water boards are deemed to be out of proportion to the cost of supplying bulk water. This is also supported by the fact that the gross profit percentage in essence consists of a surcharge on the tariff that water boards pay for purchasing raw water from the Water Trading Entity. It may be argued that the purpose of tariffs charged by the water boards to the municipalities is to recover costs, but it is also possible to argue that as a market establishment, the purpose of a water board is to make a profit, which is confirmed in the case of Rand Water by its 12.8% average profit margin.
Conclusion: Based on the fact that imposts by water boards are out of proportion to the supply of costs, the surcharge imposed by water boards is classified as a tax and not as a user charge.		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	Yes	Due to the nature of water, the impost is deemed to be a tax imposed on a continuous basis over a given period on the consumption of water.
Criterion 9: Is it imposed directly on income or wealth?	No	This is an impost on the consumption of goods and services and therefore it is deemed an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Based on the criteria above, the surcharge imposed by water boards is classified as an indirect recurrent tax burden.		

3.23 ADMINISTRATIVE SERVICES

These charges usually take the form of a fee charged for services by government relating to regulatory or administrative services. These fees are normally not levied on the value of the transaction, but are levied as a fixed amount for the service (IMF, 2001:54; National Treasury, 2009c:44). Administration fees are levied, for instance, in the form of licenses, permits, and other fees for miscellaneous services. Administration fees for miscellaneous services refer to fees charged for issuing identity documents and passports, examination fees, and any other fees charged for administrative services rendered by the government (National Treasury, 2009c:44).

The substance of these fees can be analysed in terms of the criteria set out in Figure 1.

Table 67: Classification of administration fees in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Administration fees are normally all imposed in terms of relevant legislation, and therefore they are deemed compulsory imposts on the specific services provided by the government.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose is normally to raise revenue towards the funding of government expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	The person or entity paying towards the regulatory services normally receives a direct return from government, in the form of a right or a privilege.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	For an impost to be classified in this category, the impost must be below or in proportion to the cost of the service, otherwise it is classified as a tax (see Section 2.2.4.2).
Criterion 5: Is the benefit exclusive to the persons making the payment?	Yes	These services are deemed to provide exclusive benefits to the person paying the impost, and exclude persons who are not

Criteria from Figure 1	Yes/No	Rationale
		willing to pay for the benefits.
Criterion 6: Does the user charge regulate access to a right or privilege?	Yes	These imposts are normally used to control the access to some or other privilege (National Treasury, 2009:c44)
Conclusion: Based on the criteria above, administration fees are, for the purposes of this study, classified as user charges, to be specific, as administration fees.		

3.24 INCIDENTAL SALES BY NON-MARKET ESTABLISHMENTS

Incidental sales by non-market establishments refer to revenue from the sale of goods and services produced or partially produced by a government unit, but the fee charged is below the cost of providing the service, and the sale of the goods and services is incidental to the usual social or community activities of the government unit in question (IMF, 2001:61; National Treasury, 2009c:44-45).

The main categories referred to in this study are healthcare fees, public school fees, and tertiary tuition fees, income from medical research contracts, grants and services, and laboratory service fees (see Table 17). Services rendered relating to medical research and laboratory services are deemed, for the purposes of this study, to be normally rendered to corporate entities, and therefore do not affect the tax burden of individual taxpayers directly.

The substance of these kinds of fees can be analysed in terms of the criteria set out in Figure 1.

Table 68: Classification of incidental sales by non-market establishments in South Africa

Criteria from Figure 1	Yes/No	Rationale
Question 1: Is the impost a tax or a user charge?		
Criterion 1: Is the impost compulsory in terms of legislation?	Yes	Healthcare service fees are regulated in terms of section 41 of the National Health Act (61 of 2003), and fees are prescribed in the Uniform Patient Fee Schedule (UPFS) (Department of Health, 2009). As these fees originate from legislation, they are deemed to

Criteria from Figure 1	Yes/No	Rationale
		be compulsory imposts. School fees are compulsory imposts for parents of pupils in most public schools in terms of section 40 of the South African Schools Act (84 of 1996), and therefore they are deemed to be compulsory in nature, as they are imposed on the basis of legislation. Tertiary education fees are imposed and regulated in terms of section 40 of the Higher Education Act (101 of 1997), and therefore are deemed to be compulsory imposts for the purposes of this study, as they originate from legislation.
Criterion 2: Is the purpose to raise revenue for government either to fund or recover public expenditure?	Yes	The purpose with these kinds of impost is normally to raise revenue towards the recovery of the entity's expenditure (National Treasury, 2009c:44-45). As these are government-related entities, it is possible to argue that the fees imposed on such services are used for funding public expenditure.
Criterion 3: Is there a direct return of specific goods and services by government?	Yes	The person or entity paying a fee towards these services normally receives a direct return from the government unit, for instance, hospital services, school education, and/or tertiary education.
Criterion 4: Is the impost in proportion to the cost of the goods and services?	Yes	It is assumed for the purposes of this study that such service fees are normally below or in proportion to the cost of providing the services (IMF, 2001:61; National Treasury, 2009c:44). The underlying assumption is that these entities normally receive a substantial subsidy from the government to assist in funding their activities.
Criterion 5: Is the benefit exclusive to the persons making the payment?	It is necessary to analyse each service separately to determine whether the benefits are exclusive to the persons paying for the specific services.	

Criteria from Figure 1	Yes/No	Rationale
	No	Healthcare services In terms of the UPFS (Department of Health, 2009:2-3), some patients who receive public health care are exempt from paying for public healthcare services. Hence, the benefit of public healthcare services in South Africa is not exclusive to the persons paying for service. Therefore, if a person pays for public healthcare services, the impost is classified as a tax on the person who makes the payment and not as a user charge.
	No	Public school fees Although school fees for public schools are compulsory in terms of section 40 of the South African Schools Act (84 of 1996), some parents of pupils are exempt from paying school fees for public schools in terms of Regulation 1052 issued by the Department of Education (Department of Education, 2006). Hence, parents who are not exempt from paying these public school fees do not receive an exclusive benefit for the payment of these school fees, and therefore the impost of public school fees is classified as a tax and not as a user charge.
	Yes	Tertiary education fees Government introduced a national student financial aid scheme (exclusively to assist some students with their education fees) (National Treasury, 2011b:357-358), however, the fees themselves for tertiary education services in South Africa in essence render an exclusive benefit to the person paying for the service. Hence, these fees are deemed to be user charges and not taxes.
Conclusion: Based on the criteria above, payments towards government-supplied healthcare services and public school fees are deemed in essence to be taxes, and not user charges. Tertiary education fees are classified as user charges.		

Criteria from Figure 1	Yes/No	Rationale
Classification of public healthcare service fees and public school fees		
Question 2: Is it a recurrent or a random (direct or indirect) tax burden?		
Criterion 8: Is it an activity-based tax?	No	Healthcare services In the case of hospital fees, it is possible to argue that such payments do depend on the occurrence of specific events in a person's life (becoming ill), and thus the impost is normally not recurrent over time.
	Yes	Public school fees In the case of public school fees, it is possible to argue that these kinds of fee are paid on a continuous basis over a period of time, and that these payments do not depend on a specific event or transaction.
Criterion 9: Is it imposed directly on income or wealth?	No	This is an impost on the consumption of goods and services and therefore it is deemed to be an indirect tax (Gildenhuys, 1989:284; Steenekamp, 2012:166).
Conclusion: Based on the criteria above, public healthcare fees are classified as an indirect random tax burden, and public school fees are classified as an indirect recurrent tax burden.		
Classification of tertiary education fees		
Criterion 6: Does the user charge regulate access to a right or privilege?	No	The purpose of this kind of impost is not to regulate something, but rather to recover costs for public services rendered by government.
Criterion 7: Are the goods and services consumed?	No	The students do not consume the tertiary education services *per se*, but rather use the services to obtain an education.
Conclusion: Based on the criteria above, fees imposed on tertiary education are classified as user charges, specifically, as user levies.		

3.25 FINES, PENALTIES, AND FORFEITS

Government revenue from this category is based on compulsory transfers imposed by courts of law, or quasi-judicial bodies, for violations of laws or administrative regulations (IMF, 2001:61; National Treasury, 2009c:47).

Although penalties and fines are compulsory imposts by government, the purpose of the impost is not to raise general or specific funds for government.

Their main purpose is to deter unlawful acts by raising assessments for infringements of laws and regulations (IMF, 2001:61; Weier, 2006:6). Hence, these imposts are classified in this study as penalties, and not as a tax.

This category of income, although compulsory, does not have the purpose of raising revenue for general public expenditure or for specific earmarked funds. Hence, this kind of payment is not defined as a tax or as a user charge for the purposes of this study, but is classified as a penalty. This type of impost is not normally charged on an ongoing basis, but depends on specific events or transactions which can usually be avoided, and is therefore categorised as a random economic burden.

3.26 VOLUNTARY TRANSFERS AND MISCELLANEOUS INCOME

Government revenue in South Africa from taxes and user charges are supplemented by incidental income from voluntary transfers and miscellaneous income that, for instance, includes the sale of capital assets (see Table 10, for example). These sources of income are in essence not taxes, user charges, or penalties, and therefore these sources of income were not analysed further for the purposes of this study.

3.27 IMPOSED TAX BURDEN IN SOUTH AFRICA

The imposed tax burden criteria in Figure 1 were used to classify all the identified government imposts in South Africa. The results are summarised in Table 69, overleaf, which provides a theoretical framework of taxes and user charges in South Africa that is used in this study as a basis for measuring and evaluating the imposed tax burden of an individual as a taxpayer in South Africa.

Table 69: Classification of government imposts in South Africa

Government impost	Admin fee	Consumer tariff	User levy	Tax	Penalty	None		Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden
Revenue from imposts on income:											
Imposts on income and profits:											
• Income tax (Section 3.5.1)				✓				✓			
• Dividends tax (Section 3.5.3)				✓						✓	
Imposts on payroll and workforce:											
• Skills development levy (employers) (Section 3.6)				✓					✓		
Revenue from imposts on wealth:											
Imposts on capital gains:											
• Capital gains tax (Section 3.7)				✓						✓	
Recurrent imposts on immovable property:											
• Property rates (Section 3.8)				✓				✓			
Imposts on estates, inherences, and donations:											
• Estate duty (Section 3.9.1)				✓						✓	
• Donations tax (Section 3.9.2)				✓						✓	
Imposts on financial and capital transactions:											
• Transfer duties (Section 3.10.1)				✓						✓	
• Securities transfer tax Section 3.10.2)				✓						✓	
Revenue from imposts on consumption:											
Imposts on value-added transactions:											
• Value-added tax (consumer goods) (Section 3.11)				✓					✓		

Government impost	Admin fee	Consumer tariff	User levy	Tax	Penalty	None	Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden
• Value-added tax (user goods) (Section 3.11)				✓						✓
Imposts on turnover:										
• Turnover tax for micro businesses (Section 3.12)				✓			✓			
Excises:										
• Specific excise duties (Section 3.13.1)				✓				✓		
• *Ad valorem* excise duties (Section 3.13.2)				✓						✓
Imposts on the use of motor vehicles:										
• Imposts on motor vehicles:										
○ *Ad valorem excise* duties on motor vehicles (Section 3.15.1.1)				✓						✓
○ CO_2 tax - motor vehicle emissions (Section 3.15.1.2)				✓						✓
○ Motor vehicle licences – initial registration/ annual renewal (Section 3.15.1.3)				✓			✓		✓	
• Imposts on fuel:										
○ Basic fuel price (Section 3.15.2)						✓				
○ Inland transport cost and delivery (Section 3.15.2)						✓				
○ Wholesale and retail margins (Section 3.15.2)						✓				
○ Slate levy (Section 3.15.2)						✓				
○ Equalisation fund levy (Section 3.15.2)						✓				
○ General fuel levy (Section 3.15.2.1)				✓				✓		
○ Road accident fund levy (Section 3.15.2.1)				✓				✓		
○ Specific excise duties on fuel (Section 3.15.2.2)				✓				✓		
○ Demand side management levy (Section				✓				✓		

Government impost	Admin fee	Consumer tariff	User levy	Tax	Penalty	None		Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden
3.15.2.3)											
○ Illuminating paraffin dye levy (Section 3.15.2.4)				✓					✓		
• Imposts on drivers of motor vehicles:											
○ Drivers' licences – initial/renewal (Section 3.15.3.1)	✓			✓					✓		
○ Fines for traffic (Section 3.15.3.2)					✓						
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services:											
• Firearms licences – initial/renewals (Section 3.16.1)	✓			✓				✓			
• Liquor licences – initial/renewals (Section 3.16.2)	✓			✓				✓			
• Business licences– initial/renewals (Section 3.16.3)	✓			✓				✓	✓	✓	✓
• Television licences– initial/renewals (Section 3.16.4)				✓				✓		✓	
Other imposts on the use of goods and services:											
• Electricity environmental levy (Section 3.17.1)				✓					✓		
• Plastic bags levy (Section 3.17.2)				✓					✓		
• Incandescent light bulb levy (Section 3.17.3)				✓					✓		
• Minerals and petroleum royalties, prospecting fees and surface rentals (Section 3.17.4)				✓				✓			
• Levy on educators (Section 3.17.6)				✓				✓			
• Levy on suppliers of private security services (Section 3.17.9)				✓				✓			
• Aircraft passenger safety charge (Section 3.17.10)				✓					✓		✓
• Aviation fuel levy (Section 3.17.11)				✓					✓		
• Maritime safety levy (Section 3.17.12)				✓					✓		✓

Government impost	Admin fee	Consumer tariff	User levy	Tax	Penalty	None		Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden
• Water research levy (Section 3.17.13)				✓					✓		
Customs and import duties:											
• Customs duties specific excise duties (Section 3.18.1)				✓					✓		
• Customs duties *Ad valorem* excise duties (Section 3.18.1)				✓							✓
• Diamond export levy (Section 3.18.2)				✓				✓			
Other imposts on international trade and transactions:											
• Air passenger tax (Section 3.18.3)				✓					✓		✓
Revenue from social contributions:											
Social security contributions:											
• Contributions to the Unemployment Insurance Fund – employees (Section 3.19.1)				✓				✓			
• Contributions to the Unemployment Insurance Fund – employer (Section 3.19.1)				✓					✓		
• Contributions to the Compensation Fund – employers (Section 3.19.2)				✓					✓		
Other social contributions:											
• Contributions to the GEPF – employees (Section 3.19.3)			✓								
Revenue from grants:											
• Government transfers (Section 3.20)						✓					
Revenue from property:											
• Interest, dividends and rent (Section 3.21)						✓					

Government impost	Admin fee	Consumer tariff	User levy	Tax	Penalty	None		Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden
Revenue from the sale of public goods and services:											
Sales by market establishments:											
• Municipal services:											
○ Surcharge on electricity supply services (Section 3.22.1.1)				✓					✓		
○ Free basic electricity (Section 3.22.1.1)				✓					✓		
○ Inclining block tariffs on electricity consumption (Section 3.22.1.1)				✓					✓		
○ Surcharge on water supply services (Section 3.22.1.2)				✓					✓		
○ Free basic water(Section 3.22.1.2)				✓					✓		
○ Inclining block tariffs on water consumption (Section 3.22.1.2)				✓					✓		
○ Sanitation service fees (Section 3.22.1.3)				✓					✓		
○ Refuse service fees (Section 3.22.1.4)				✓					✓		
• Communication services:											
○ Air broadcasting service tariffs (Section 3.22.2.2)			✓								
○ Telecommunication service tariffs (Section 3.22.2.4)			✓								
○ Postal service tariffs (Section 3.22.2.5)			✓								
• Energy supply services: Eskom electricity supply tariffs:											
• Service charge (Section 3.22.3.1)		✓									
• Administration charge (Section 3.22.3.1)		✓									
• Distribution network demand charge (Section 3.22.3.1)				✓					✓		

Government impost	Admin fee	Consumer tariff	User levy	Tax	Penalty	None	Direct recurrent tax burden	Indirect recurrent tax burden	Direct random tax burden	Indirect random tax burden
• Distribution network access charge (Section 3.22.3.1)				✓				✓		
• Network access charge (Section 3.22.3.1)				✓				✓		
• Transmission network charge (Section 3.22.3.1)				✓				✓		
• Active energy charge (Tou) (Section 3.22.3.1)		✓								
• Active energy charge (non-Tou) (Section 3.22.3.1)		✓								
• Re-active energy charge (Section 3.22.3.1)		✓								
• Electrification and rural subsidy (ERS) (Section 3.22.3.1)				✓				✓		
• Upfront connection charge/fee (Section 3.22.3.1)		✓								
• Inclining block tariffs on electricity (Section 3.22.3.1)				✓				✓		
Human settlement services:										
• Levy on home builders (Section 3.22.4)				✓			✓			
Air travel services:										
• Airport service fees on air passengers (Section 3.22.6.2)			✓	✓				✓		✓
• Air passenger transport fares (Section 3.22.6.3)						✓				
Rail transport services:										
• Passenger rail transport fares (Section 3.22.7.1)			✓							
Road transport services:										
• Toll fees (Section 3.22.8.1)			✓							
• Passenger road transport fares (Section 3.22.8.2)			✓							

Government impost	**Admin fee**	**Consumer tariff**	**User levy**	**Tax**	**Penalty**	**None**		**Direct recurrent tax burden**	**Indirect recurrent tax burden**	**Direct random tax burden**	**Indirect random tax burden**
Water supply services:											
• Bulk water tariffs (Section 3.22.10.1)		✓									
• Trans Caledon Tunnel Authority impost (Section 3.22.10.2)		✓									
• Water Boards tariffs (Section 3.22.10.3)		✓		✓					✓		
Administration fees:											
• Permit, licence, certification and registration fees (Section 3.23)	✓										
• Administration fees (Section 3.23)	✓										
• Examination fees (Section 3.23)	✓										
Incidental sales by non-market establishments:											
• Health care service fees (Section 3.24)				✓							✓
• Public school fees (Section 3.24)				✓					✓		
• Tertiary tuition fees (Section 3.24)			✓								
Revenue from fines, penalties, and forfeits:											
• Fines, penalties, and forfeits (Section 3.25)					✓						
Revenue from voluntary transfers and miscellaneous income:											
• Voluntary transfers (Section 3.26)						✓					
• Miscellaneous income (Section 3.26)						✓					

Source: Results from Chapter 3, based on the criteria in Figure 1.

3.28 CONCLUSION

The results from examining the imposed tax burden in South Africa, using the criteria in Figure 1 as an underpinning, indicate that the questions of whether government provides a direct benefit in return for an impost,[118] and of whether the impost is in proportion to the cost of the benefit,[119] generally emerged as the main decisive criteria for classifying a government impost in South Africa as either a tax or a user charge. The classification of government imposts in South Africa in Table 69 provides a basis from which the imposed tax burden of a taxpayer in South Africa can be determined and evaluated. This study does not claim that this is the only possible interpretation of the imposed tax burden of individual taxpayers in South Africa, but rather proposes that the conceptual framework developed in this study can form a basis from which the phenomenon of the tax burden in South Africa can be debated and researched further.

The imposed tax burden in South Africa may not necessarily reflect how taxpayers regard and estimate the tax burden. The concept of the fiscal illusion held by taxpayers in South Africa is a highly contentious issue in the media, but one that has – to date – not really been researched. Prior studies in South Africa have mainly focused on determining people's perceptions and attitudes towards tax (Oberholzer, 2008; HSRC, 2000, 2004). These studies did not fully explore the factors that contribute to the creation of taxpayers' perceptions in South Africa and the effect these factors may have on how taxpayers' regard and estimate the tax burden imposed on them. It was therefore necessary and important not just to refer to the **imposed tax burden** when evaluating the tax burden, but also to consider how taxpayers regard and estimate their imposed tax burden, which is referred to as the **perceived tax burden** for the purposes of this study. The theoretical construct of the perceived tax burden is clarified in the next chapter.

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118 See Criterion 3 in Figure 1.
119 See Criterion 4 in Figure 1.

CHAPTER 4: THE PERCEIVED TAX BURDEN

4.1 INTRODUCTION

The objective of this study is to develop a conceptual framework that can be used to evaluate the tax burden of individual taxpayers in South Africa. As has already been explained in Chapter 2, the tax burden can be evaluated objectively by looking at the actual taxes imposed on a taxpayer by government, but it is also important to evaluate the tax burden as it is subjectively perceived by taxpayers. The attitudes of taxpayers towards their government and taxes may be influenced by the number of official taxes imposed on them and the amount by which they are taxed, but their attitude may also be influenced by how they perceive their tax burdens (Hundsdoerfer *et al.*, 2010:6; Kirchler, 2007:49). The importance of taking the construct of the perceived tax burden into account when tax burdens are evaluated is also stressed by Fochmann *et al.* (2010:2), who argue that the tax burden as perceived by individuals may be vastly different from their real or effective tax burden.

To ensure that the conceptual framework developed in this study incorporates all the relevant aspects required for evaluating the tax burden as perceived by individual taxpayers in South Africa, the construct of the **perceived tax burden** is defined in this chapter on the basis of an analysis of the relevant literature. As this study is concerned with the individual taxpayer in South Africa, the analysis of the perceived tax burden is followed by an analysis that specifically relates to the tax burden as perceived by individual taxpayers in South Africa.

4.2 THE PERCEIVED TAX BURDEN AS A CONSTRUCT

The Beatles, the famous British band from Liverpool, satirise the way people perceive the tax burden in the lyrics of their hit song 'Taxman' (Harrison, 1966):

> Should five per cent appear too small,
> Be thankful I don't take it all.
> 'Cause I'm the taxman,
> Yeah, I'm the taxman.
>
> (if you drive a car, car;) – I'll tax the street;
> (if you try to sit, sit;) – I'll tax your seat;
> (if you get too cold, cold;) – I'll tax the heat;
> (if you take a walk, walk;) – I'll tax your feet.

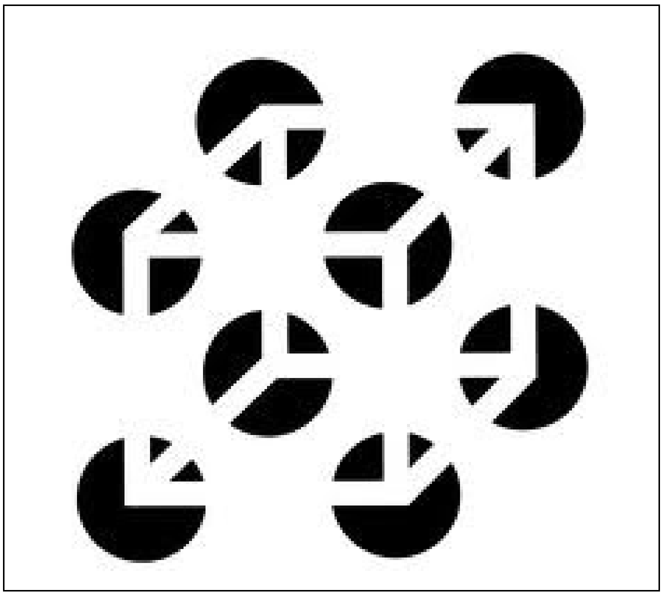
The lyrics suggest that people might perceive the tax burden in a very different way from the way it is normally interpreted if one were to refer to the imposed tax burden from only the legal, administrative and economic perspectives. Lewis (1982:16) comments that '[t]here may well be a vast difference between the actual preferences of taxpayers and those that theoreticians and policy-makers have identified'. How individual taxpayers perceive the tax burden is a concept central to the main purpose of the current study. Taxpayers' views and experience of their tax burden may differ from the tax burden imposed and measured by government (Fochmann *et al.*, 2010:2).

In order to enhance understanding of the construct of the perceived tax burden, it is important to clarify what is meant by 'perceive'. The verb 'to perceive' is defined in the *Oxford Dictionary and Thesaurus* (2009:677) as '[to] understand or interpret something in a particular way'. The *Cambridge Advanced Learner's Dictionary* (2008:1053) defines 'perceive' as '[to] to come to an opinion about something or have a belief about something'.

People's perceptions are subjective and are influenced by their culture, language, gender, and various other factors (Lumsden, Lumsden & Wiethoff, 2010:92; Robbins, 2001:122-124). Lumsden *et al.* (2010:89-92) acknowledge that people's perceptions are influenced by three main factors. The first factor is that people perceive selectively and that their needs, drives, motives, wants and experiences may prevent them from seeing something that is unacceptable or unknown to them. The second factor is that people's background affects their perceptions. Their culture, language, gender and previous experiences all play a role in creating their perceptions about something. The last factor is that people multiply their misperceptions regarding other people. This means that people cannot really ascertain how another person interprets or experiences something. In this regard, Katona (1963:3) explains that both people's perceptions of their environment and their behaviour are shaped by their attitudes, motives and frame of reference. Kirchler (2007:192), citing Lewis (1978), suggests that people's attitudes, judgements and behavioural intentions are more affected by what they think than by what actually is. Lumsden *et al.* (2010:92) argue that perception is the 'way people do – or do not – pay attention to a stimulus and how they interpret that stimulus for themselves'.

Another way of demonstrating people's perceptions is to refer to an illustration such as the Necker cube in the Figure 2 below.

Figure 2: The subjective Necker cube



Source: Bradley and Petry (1977:254)

A cube can be seen overlying a white surface and eight black discs with illusory contours corresponding to the bars of the cube extending between the discs. The illusory bars of the cube disappear when the discs are seen as 'holes' in an interposing surface through which the corners of a partially occluded cube are viewed; curved subjective contours are then seen demarcating the interior edges of the 'holes' (Bradley & Petry, 1977:254).

The verb 'to perceive' is synonymous with the verbs 'to estimate' and 'to regard' something (*Oxford Dictionary and Thesaurus*, 2009:677). To 'regard' something means to think of it in a particular way (*Oxford Dictionary and Thesaurus*, 2009:774). To 'estimate' something means '[to] guess the cost, size, value, etc. of something' (*Cambridge Advanced Learner's Dictionary,* 2008:478). For the purposes of this study, the term 'perceive' must be interpreted to refer to how taxpayers **estimate** and **regard** their tax burdens.

Lavin, Epping and Davies (2004:162) claim that

> …policymakers must study the individual circumstances of the taxpayers in question. Income levels and source, family and employment status, education, gender and age are just a few of the numerous factors that can influence how the tax law impacts citizens.

Taxes are an inevitable part of life and usually have a serious impact on taxpayers' economic spending or saving abilities. Throughout history, tax was a factor in both the prosperity and the decline of nations. Even if governments do not realise or admit to it, taxes are powerful stimuli that can provoke people – and angry taxpayers are a critical threat to governments that institute oppressive taxes (Adams, 1993:xvii).

In the United States, in the Supreme Court case of *McCulloch v. Maryland* 17 U.S. (4 Wheat.) 316, 4 L.Ed. 579 (1819), Chief Justice Marshall said that 'the power to tax involves the power to destroy'. Similarly, Head (1993:3) warns: 'Single-minded pursuit of short-term political benefits or sectional interest under a system of majority voting will not produce meaningful or durable reform.' These two comments strengthen the argument that although a government may need taxes to fulfil its functions, it also needs to consider how taxes affect taxpayers' tax burdens before it formulates policies that can be damaging to both the government and the taxpayers in the long term.

The way that taxpayers perceive the tax burden plays a very important role in taxpayers' attitudes towards a government's tax policies and administration. For instance, in 1969, in the United States, the public's perception that some of the wealthy did not pay tax was supported by evidence regarding the use of tax shelters, and this in turn led to reforms in United States tax legislation (McLure & Zodrow, 1994:206). The attitude of taxpayers is often also expressed in their willingness or unwillingness to comply with tax legislation. If there is a perception that individual taxpayers with a certain level of income pay more tax than other taxpayers at the same income level, tax evasion is likely to increase (Kirchler, 2007:194).

In order to understand taxpayers' economic and other behavioural manifestations, it is important to study subjective variables. Studying the attitudes, motives and expectations of taxpayers may contribute to an understanding of taxpayers' economic spending and saving patterns, as well as their compliance with tax legislation (Katona, 1963:3). Various studies have been concerned with the perceived tax burden (Blaufus *et al.*, 2010; Dollery & Worthington, 1996; Fochmann *et al.*, 2010; Fuji & Hawley, 1988; Hundsdoerfer *et al.*, 2010; Lavin *et al.*, 2004; Pommerehne & Schneider, 1978; Roberts & Hide, 1994; Rupert, Fischer & Carol, 1995; Vogel, 1974). These studies generally refer to aspects such as taxpayers' estimation of their tax burdens, and taxpayers' perceptions of the tax burden, generally commenting on the fairness of the tax burden, the complexity of taxes and the benefits received in exchange for paying taxes. These studies can be broadly categorised as studies that focus on taxpayers' **estimation** of their tax burdens (the **fiscal illusion**) and studies that focus on the **perceptions** of taxpayers of their tax burden (their **fiscal perception**), as explained by Wagner (1976:47-49). These categories, for the purposes of this study, are referred to as the **fiscal illusion of taxpayers** and the **fiscal perception of taxpayers.**

4.2.1 Fiscal illusion of taxpayers

The accuracy of taxpayers' estimation of their real tax burdens is a popular topic in tax research literature. The perceived tax burden, based on taxpayers' estimation of the amount of taxes, or the tax rate, may differ significantly from the actual imposed tax burden. This phenomenon of the difference between the estimated and the imposed tax burden is referred to as the **fiscal illusion** (Da Empoli, 2002:378-381; Mourão, 2008:55; Oates, 1988:65; Pommerehne & Schneider, 1978:381; Wagner, 1976:47-49).

The more substantial taxpayers' misperceptions of their tax burden, the more widespread the fiscal illusion in a community will be (Tyran & Sausgruber, 2000:1). Importantly, the concept of a fiscal illusion suggests that a fiscal illusion is caused mainly by relatively invisible indirect taxes rather than by more visible direct taxes (Tyran & Sausgruber, 2000:1). This phenomenon is known as the 'Mill Hypothesis', referring to John Stuart Mill [1848], which imply that people frequently underestimate their tax burdens due to hidden taxes (Mill, 1994:237, Sausgruber & Tyran, 2005:39). This hypothesis by Mill has been confirmed by a number of studies (Blaufus *et al.,* 2010:5; Dollery & Worthington, 1996:261-262; Sausgruber & Tyran, 2005; Tyran & Sausgruber, 2000:1).

The phenomenon of the fiscal illusion, which refers to taxpayers' estimates of their tax burden, is an important indicator of how taxpayers perceive their tax burden. Therefore the fiscal illusion is an important construct to include in the conceptual framework developed in this study for evaluating the tax burden as perceived by individuals as taxpayers.

4.2.2 Fiscal perceptions of taxpayers

Fiscal perception is one of the consequences of the phenomenal realm of the fiscal illusion and it can also be influenced by the expectations that taxpayers hold (Lewis, 1982:4; Wagner, 1976:48-49). As Potgieter (2011:38) explains, our expectations have a strong influence on our perceptions in life. One person cannot really fathom how another person perceives something (Robbins, 2001:122-124). Such insights suggest that a taxpayer's beliefs about the tax burden may be distorted by the person's economic self-interest. Liberals tend to overestimate the poor's tax burden, while conservatives tend to underestimate the poor's tax burden (Williamson, 1976:23). For instance, the issue of what is 'fair' relies heavily on individual value judgements (Slemrod & Bakija, 1996:14-15). Differences in probability perceptions and the behaviour of individuals arise from their knowledge and personal experience (base rate theory) and from the explicitness of a scenario (support theory) (Pforsich, Gill & Sanders, 2010:4; Tversky & Koehler, 2002:441; Weber & Hilton, 1990:781). Taxpayers' subjective knowledge and mental concepts of tax influence their judgements, evaluations, perceptions of fairness and willingness to comply with tax law. This interpretation by taxpayers of the tax burden is important in understanding why taxpayers behave in the ways that they do (Kirchler, 2007:31).

Taxpayers' fiscal perceptions are a popular topic for research and various other debates. From research and other references found in the literature on the perceptions of taxpayers, it is possible to assume that taxpayers' fiscal perceptions generally originate from factors such as the following:

- the **fairness of taxes** (Davidson, 2004; Hite & Roberts, 1991; Hundsdoerfer *et al.*, 2010; McClellan, 2003; Roberts & Hite,1994; Slemrod & Bakija, 1996; Vogel, 1974; Williamson, 1976);
- the **complexity of taxes** (Blaufus *et al.*, 2010; Fochmann *et al.*, 2010; Lavin *et al.*, 2004); and
- the **taxpayer-government exchange** (Dollery & Worthington, 1996; Hanousek & Palda, 2004; Pommerehner & Schneider, 1978; Vermeend *et al.*, 2008; Vogel, 1974).

4.2.2.1 Fairness of taxes

The first maxim of Adam Smith ([1776] 2003:1231) deals with equity,[120] which is also referred to as the fairness of taxes[121] (Jones & Rhoades-Catanach, 2010:32; Musgrave & Musgrave, 1980:235; Steenekamp, 2012:166-167). Fair and uncomplicated tax policies are necessary for the public to accept, be aware of and have confidence in the tax system (Head, 1993:4; Vermeend *et al.*, 2008:13). The issues of justice and fairness are intrinsically central to tax policy formulation (Green, 1993:87; Head, 1993:3). Countries that regulate fairness, provide effective security, invest in infrastructure and support education are likely to have a positive economy (McClellan, 2003:44).

The requirement that the distribution of tax payments must be 'fair' is a very old demand, and is originally linked to the concept of the ability to pay: 'A man is not rich, because he pays largely; but he is able to pay largely, because he is rich' (Say, 1821:345). Avoiding arbitrariness in taxation was one of the early objectives of governments. This objective gave rise to an alternative theory to the one of ability to pay, namely the benefits theory (Jones & Rhoades-Catanach, 2010:32; Musgrave, 1959:62; Stamp, 1921:6-7; Steenekamp, 2012:167). The benefits theory posits that taxes must be paid in accordance with the benefits received, and not the ability to pay.

The concept of a 'fair tax' is defined as having two dimensions, namely horizontal fairness (also commonly referred to as horizontal equity) and vertical fairness (also commonly referred to as vertical equity) (Gildenhuys, 1989:274-275; Jones & Rhoades-Catanach, 2010:32). Horizontal fairness is based on the equal tax treatment of those with similar circumstances, for instance, a comparison of income after taking into account factors such as marital status, family size and

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[120] In the words of Smith ([1776] 2003:1231), "The subjects of every state ought to contribute towards the support of the government as nearly as possible in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state".

[121] The present study uses the terms 'fairness of taxes' instead of the term 'equity' in this context.

medical expenses. Vertical fairness, by contrast, is based on the tax treatment of those with dissimilar circumstances (Aaron & Boskin, 1980:4; Feldstein, 1976:82; Head, 1993:7; Jones & Rhoades-Catanach, 2010:32-33; McLure & Zodrow, 1994:168; Salanié, 2003:59; Steenekamp, 2012:169).

Income is the most widely used criterion to measure the relative economic positions of citizens (Musgrave, 1959:20). It is important to ensure that, aside from vertical fairness, horizontal fairness is also achieved between people in equal positions.

The use of income as a criterion for the fairness of taxes inherently creates a problem in the design of tax systems. The variety of forms and channels by which people may receive their income differ even between people in equal economic positions (Musgrave, 1959:20). Tax burdens are apportioned between individuals or classes according to their presumed capacity or ability to pay, but the problem is how this capacity or ability to pay is measured to ensure fairness (Hite & Roberts, 1991:47; Seligman, 1914:5). Asking only the question of how large a person’s income is may not be adequate to measure the person’s ability to pay. This quantitative question is complicated by aspects such as the period in which this income is received; whether it is pure income or only the realisation of capital; whether it is earned income or is taken from the taxpayer’s reserves; whether the person can spend all the income personally or whether he or she has a family that must also be provided for; and similar questions (Stamp, 1921:14-15).

It is also important to mention that although the maxim of fairness is widely accepted as one of the requirements for good tax policy, to ensure fairness amongst citizens in a given country, there are still vast differences that need to be taken into account between the economic conditions, cultures and political environments of citizens in different countries. For instance, in underdeveloped countries, governments generally aspire to improve the economy and increase stability to ensure dignity and political freedom for the citizens (Heller, [1954] 1964:3). In advanced economies, inequalities of wealth and income have been reduced, but many less advanced economies are characterised by extremes of wealth and poverty, making a compelling case for a redistribution of resources by government (Heller, [1954] 1964:21).

The concept of the fairness of a tax is an important contributor to taxpayers' perceptions of their tax burden, and is generally found in studies on taxpayers' perceptions (Davidson, 2004; Hite & Roberts, 1991; Hundsdoerfer *et al.*, 2010; McClellan, 2003; Roberts & Hite, 1994; Slemrod & Bakija, 1996; Vogel, 1974; Williamson, 1976). This concept of fairness revolves around one or more references to comparisons between rich and poor, between male and female, between geographic areas, between generations and between individual taxpayers and corporate taxpayers. In the United States, the federal income tax system is regarded as 'unfair' by quite a number of United States citizens. One reason for this is that it is believed that because the tax system is so complicated, it is 'unfair' and that it only benefits a few 'rich people' (Jones & Rhoades-Catanach, 2010:37). Public opinion polls demonstrate that the majority of United States taxpayers are of the opinion that income tax is not equitable, and that there is a perception that the 'rich' are not paying their fair share (Hite & Roberts, 1991:48; McClellan, 2003:14; Slemrod & Bakija, 1996:5; Vermeend *et al.*, 2008:14). The other side of the coin is the perception that 'wealthy' people in the United States are the hardest hit by taxes (Colvin, 2004:52). Another study indicates that the respondents from the higher income group believe that poverty is due to unfavourable personal attributes, as these respondents argue that the poor do not work as hard as the rich, and these respondents therefore believe that too much tax money is spent on welfare programmes (Williamson, 1976:10). There is a myth in Australia that taxes only appear to be high, and that, because of tax avoidance, the rich do not actually pay much tax (Davidson, 2004:31). This perception has led to the opinion that progressive taxes are fair and that the rich can afford to pay more taxes (Davidson, 2004:31).

It is possible to assume from the discussion above that the concept of the fairness of taxes is an important concept which influences how taxpayers perceive their tax burden. Therefore the fairness of taxes is an important issue to include in the conceptual framework developed in this study for evaluating the tax burden as perceived by individuals as taxpayers.

4.2.2.2 Complexity of taxes

Discussions concerning the complexity of tax systems are also commonly found in the literature on the perceptions and experiences of taxpayers (Blaufus *et al.*, 2010; Fochmann *et al.*, 2010; Lavin *et al.*, 2004; Slemrod & Bakija, 1996). In the United States, around the time when tax returns have to be submitted, taxpayers tend to engage in debates around the perceived complexity of the tax system (Lavin *et al.*, 2004:162). Results from a number of studies indicate that taxpayers generally consider fairness to be the most important aspect of a tax system, but the simplicity, or conversely, the complexity, of taxes is also an important factor for taxpayers (Slemrod & Bakija, 1996:2-3). It emerged that the complexity of taxes, together with the frequency of legislative changes, are strong determinants of the tax compliance burden placed upon taxpayers (Evans, 2003:72).

Ruling political parties can have a critical impact on tax policies, and their influence may lead to complicated tax legislation and systems. This in turn undermines lawmakers' objective of simplicity of the law (Vermeend *et al.*, 2008:12). Political debates often only centre on how taxes affect the economy – these debates very rarely look at the process of tax compliance by taxpayers (Slemrod & Bakija, 1996:4). Hence, it is important that taxpayers' experience of the process of complying with tax legislation be considered when evaluating the tax burden of an individual as a taxpayer.

The second, third and fourth maxims of Adam Smith ([1776] 2003:1231) deal with the compliance with tax laws of a country, in essence with the complexity of tax.

The second maxim deals with the requirement that the tax must be certain and not arbitrary. The time, manner and the quantity to be paid must be clear to taxpayers and other persons (Smith, [1776] 2003:1231). Certainty about and the non-arbitrariness of taxes must be achieved by defining taxes clearly so that the amount of tax to be paid and time-frame in which it is to be paid are easily understood by the taxpayers (Salanié, 2003:59). Complex tax systems are difficult to enforce and are excessively harmful to the economy (Slemrod & Bakija, 1996:2). Taxes that are certain not only ensure a stable source of income for government, but also provide taxpayers with a degree of certainty regarding their tax liability (Pope *et al.*, 2003:1-13).

Smith's third maxim requires tax to be levied on the taxpayer in a manner that makes it convenient for the taxpayer to pay the tax (Smith, [1776] 2003:1231). A good tax from the government's point of view must also be convenient to administer and it must be collected and administered in such a way that most taxpayers understand these processes. From a taxpayer's point of view, a tax must be convenient to pay, in the sense that taxpayers must be able to compute their taxes with reasonable certainty and not devote unnecessary time to maintaining records, and to compliance considerations (such as tax returns, the payment of taxes, and so on) (Jones & Rhoades-Catanach, 2010:28; Pope *et al.*, 2003:1-13; Salanié, 2003:59).

Smith's last maxim requires a tax to be administered in an economical manner that does not create an additional tax burden on the taxpayer (Smith, [1776] 2003:1231). In other words, taxes must have low costs, both from an administrative viewpoint and the inefficiencies they cause in the economy of a country (Jones & Rhoades-Catanach, 2010:28; Salanié, 2003:59). From the government's point of view, taxes must be simple to administer and the cost of collecting and enforcing taxes must be reasonable in relation to the total tax (Jones & Rhoades-Catanach, 2010:28). For taxpayers, the cost of compliance and administration must not be overly demanding on their resources (McLure & Zodrow, 1994:168). If the tax compliance burden is large and wasteful, it may anger taxpayers and lead to a revolt by them (Salanié, 2003:59; Slemrod & Bakija, 1996:2-3).

These last three maxims all refer to the process of complying with tax laws as the process is experienced by the taxpayer. Tax law that is complicated, difficult to administer and expensive to comply with may affect a taxpayer's experience of the tax burden (Blaufus, Eichfelder & Hundsdoerfer, 2011:1). Complicated tax systems and difficult administration requirements force taxpayers to seek help from tax practitioners to be able to understand and comply with tax law (Kirchler, 2007:167). This in turn may lead to expenses for the taxpayer that could be interpreted as an additional tax, affecting how the taxpayer perceives the tax burden. Blaufus *et al*. (2011:1) also suggest that taxpayers may interpret expenses they incur to comply with complicated taxes as an additional 'tax effort' that reduces the economic spending ability of the taxpayers.

The complexity of modern tax systems and the effect thereof on the tax burden were found to be some of the main factors that gave rise to an increase in research related to the cost of tax compliance and the cost of tax administration[122] (Slemrod & Blumenthal, 1996:1; Sandford, 2000:126; Tran-Nam, Evans & Walpole, 2000:230). Hence, this also emphasises the notion that the complexity of taxes and the effect of that complexity on the perceived tax burden of individual taxpayers are important constructs for consideration in a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa.

4.2.2.3 The taxpayer-government exchange

Another factor that is often mentioned in studies on the perceptions and opinions of taxpayers is that of public service delivery by government. In a survey in Hungary, Poland, the Czech Republic and Slovakia, strong evidence was found that citizens try to avoid taxes if they perceive the quality of government services as not justifying the taxes that they are required to pay (Hanousek & Palda, 2004:237). According to Slemrod and Bakija (1996:2), when there was a perception in the United States that government was wasting money, many

[122] Together, the administrative cost and compliance cost are referred to as 'operating costs' (Sandford, 2000:126).

voters wanted government to reduce the tax burden by reducing the size of the government. In South Africa, research also indicates that the perceived decline in the standard of public services, especially in health and education, together with the high tax levels, are the main reason for skilled people's emigration from South Africa (HSRC, 2004).

Spicer and Lundstedt (1976:296) argue that there is an exchange relationship between taxpayers and government, in the sense that taxpayers exchange some of their economic spending ability for public services from government. The concept of taxpayers' expectations in terms of government's service delivery in exchange for taxes is labelled the **taxpayer-government exchange** (Wenzel, 2003:53).

Historically, the function of governments has primarily focused on the protection of a country and its citizens. This role was gradually extended to the provision of other services and to other functions (Lewis, 1970:5; McClellan, 2003:13). To be able to understand the effect this shift may have on tax burdens as perceived by taxpayers, it is necessary to explain the functions of governments in relation to taxpayers.

The functions of governments can be divided into three main groups, each with its own unique objectives. These three functions are based on the original distinction made by Musgrave (1959:5) and are widely acknowledged in public finance literature (Black, 2012:29-31; Cnossen, 1988:127; Green, 1993:87; Salanié, 2003:8; Vermeend *et al.*, 2008:12). These three functions can be broadly summarised as the **traditional** function, the **distributional** function and the **stabilisation** function.

The **traditional function** is considered to be the classic function of government. There was a time when the provision of public goods and services was considered to be the only function of government (Musgrave, 1959:17). This function of government has to do with the satisfaction of the public need for certain goods and services. These goods and services must be paid for from the revenue of government and must be supplied free of direct charge to the user. The cost of these public goods and services must be covered by the taxes imposed by a government on the citizens of the country concerned (Musgrave, 1959:12-13).

Adam Smith ([1776] 2003:747-875) explains that any government has specific duties towards its subjects, which all refer to the traditional function of government. The first duty is that of protection against violence and invasion from other independent societies. The second duty is to protect every member of society from injustice or oppression by other members of society. The first and second duties relate to the maintenance of law and order and are often considered the primary functions of government (Lewis, 1970:5; McClellan, 2003:13).

The third duty is that of erecting and maintaining public institutions works necessary for the greater benefit of the society, but which are too expensive for individuals to erect and maintain. The third duty relates to the supply of goods and services, for instance, roads, harbours, airports, schools, healthcare, and fire protection. A need that is not specifically mentioned by Smith, but that can be added to the other three duties, is the need for government to influence the use and conservation of resources (Lewis, 1970:5; McClellan, 2003:13).

An important aspect that needs to be considered under this traditional function is the question of what taxpayers expect in return for the taxes that they pay. Sometimes taxpayers expect to receive benefits from government that correlate with the amount of taxes that they pay. In this regard, in Australia, a study found that households in the top two quintiles pay more in tax than they receive in benefits (Davidson, 2004:33). This aspect of expecting something in return for taxes is discussed by Jones and Rhoades-Catanach (2010:4), who cite Judge Stone in the Supreme Court case of *Carmichael v Southern Coal & Coke Co.*,301 U.S. 495, 522 (1937). Judge Stone said:

> A tax is not an assessment of benefits. It is …a means of distributing the burden of the cost of government. The only benefit to which the taxpayer

> is constitutionally entitled is that derived from his enjoyment of the privileges of living in an organised society, established and safeguarded by the devotion of taxes to public benefit.

The judge's view is only one side of the coin. Taxpayers in reality do have expectations regarding benefits in return for the taxes they pay. The difference between the expected and actual benefits received could be a major contributing factor to the way in which the tax burden is perceived by individuals as taxpayers (Dollery & Worthington, 1996:261-262; McCulloch, [1845] 2007:148).

The traditional service function of government is perhaps the one that is most frequently used by taxpayers to criticise the performance, or lack thereof, of government. Taxpayers may form their judgement of the quality of a government's services by comparing what they receive from their government to what they perceive they should receive (Haywood-Farmer, 1988:19). Taxpayers' disapproval of government spending, or their satisfaction with government services, are two important factors influencing people's willingness to comply with government policies (Dawkins, 2007:5; Green, 1993:88; Kirchler, 2007:167,94-195; Maroney, Rupert & Anderson, 1998:60-61; Spicer & Lundstedt,1976:296).

Taxes are used to a large extent to fund the traditional function of government. Taxpayers are therefore within their rights to expect government to render certain public goods and services in terms of this traditional function. If taxpayers have a perception that their government is not rendering these expected services adequately, this will have an impact on how they perceive the tax burden. An example that clearly illustrates this is where a government does not use the allocated taxes to provide effective police services for protection. Citizens who believe that government is not protecting them may then pay private security companies for protection and interpret this payment as part of the tax burden. These 'perceived taxes' paid by the taxpayer will have a direct impact on the perceptions of taxpayers of the tax burden in a country. The way that taxpayers experience this traditional function of government is therefore essential to consider if the tax burden as perceived by a taxpayer is measured and evaluated in a study.

The **distributional function** of a government deals mainly with inequalities in society. In modern economies, markets tend to create inequalities in the distribution of wealth and income amongst citizens of a country. This distribution depends on a number of factors, for instance, the laws of inheritance, the distribution of innate talents, educational opportunities, social mobility and market structures. One of government's functions is to address these inequalities. To do so, governments use various forms of taxes to alter these inequalities by reallocating resources between private citizens (Black, 2012:29-30; Green, 1993:88; Musgrave, 1959:17-22). This redistribution function assists in reducing the economic and political power held by the 'wealthy' and increasing socio-economic standards for the 'poor'. Governments can achieve this redistribution function, *inter alia*, by levying additional taxes on the wealthier members of society, specifically using progressive taxation and wealth taxes (Muller, 2010:38). This function of government is directly linked to the concept of the **fairness of taxes** (Black, 2012:30; Musgrave & Musgrave, 1980:7), which affects the way that a taxpayer perceives the division of the tax burden. Therefore the distribution function of government, and the effect it may have on the perceived tax burden, for the purposes of this study, is deemed to be inherently part of the fairness of taxes (see Section 4.2.2.1).

The **stabilisation function** of government differs from the traditional and distributional functions in the sense that this function is not concerned with the allocation of resources, but refers to government's macro-economic objectives. This function needs to maintain a high level of resource utilisation and stability in the economy (Musgrave, 1959:22). This function is important, because failure on the part of the private sector to realise the macro-economic objectives of a country makes it necessary for government to correct this failure by means of monetary and fiscal policy (Black, 2012:30-31). Such economic objectives include encouraging economic growth, maintaining reduced inflation, reducing unemployment, creating price stability, and promoting savings and investments.

Of these, reducing unemployment is usually governments' most important objective. Governments formulate tax policies according to these economic objectives (Lewis, 1970:10; Sandford, 1970:8; Vermeend *et al.*, 2008:1). Because it is a macro-economic issue (Black, 2012:30; Musgrave & Musgrave, 1980:13), the stabilisation function of government and the possible effects it may have on the tax burden of individuals as taxpayers fall beyond the scope of this study. For the purposes of this study, it was not necessary to analyse the stabilisation function of government, because this function does not affect the tax burden directly.

4.2.3 Summary

In summary, the tax burden as perceived by individual taxpayers can be evaluated by referring to the concept of **fiscal illusion** and the concept of **fiscal perception**, which consist of three important elements, namely the **fairness of taxes**, the **complexity of taxes** and the **taxpayer-government exchange**. The present research focuses on individual taxpayers in South Africa and it is therefore important to analyse these concepts, and related elements, of the perceived tax burden from a South African perspective.

4.3 THE PERCEIVED TAX BURDEN IN SOUTH AFRICA

The imposed tax burden may not necessarily reflect how taxpayers regard and estimate the tax burden, as Fochmann *et al.* (2010:2) explain. This situation is a real possibility for individual taxpayers in South Africa. A review of a few articles in the popular media (Hartley, 2009; Jooste, 2009; Theunissen, 2005) in South Africa suggest that people speculate about the tax burden in South Africa without any reference to concrete evidence from research to support, or refute, the substance of their speculations. As already mentioned above, research in South Africa related to the tax burden of individual taxpayers has focused mainly on determining taxpayers' perceptions and attitudes towards tax (Oberholzer, 2008; HSRC, 2000, 2004), but has not explored the concepts of the fiscal illusion and the fiscal perceptions of taxpayers in relation to the imposed tax burden in South

Africa. Both these concepts are important to include in the evaluation of the tax burden of individuals as taxpayers in South Africa, and therefore it is necessary to refer briefly to each of them.

4.3.1 Fiscal illusion of taxpayers in South Africa

The fiscal illusion, in short, refers to the phenomenon of the difference between a taxpayer's estimation of the tax burden and the real imposed tax burden. The estimation of the imposed tax burden is a popular topic for debate, especially in the South African media, where people commonly speculate about the imposed tax burden of individual taxpayers. Van Tonder (2007:1), quoting Mike Schüssler, commented that the tax burden in South Africa had increased, although the Minister of Finance has provided income tax relief to individuals over the past decade. Carolyn Freeman, a director of International Executive Services at KPMG, claimed that individuals in South Africa remain amongst the highest taxed in the world (Jooste, 2009:19).

The South African government has historically used a diverse range of imposts to raise revenue, and in the modern tax environment in South Africa, this is still the case.[123] The discussions from the previous section may be an indication that, as with the modern tax systems in other countries, there is a strong possibility that South African taxpayers could be unaware of the total number of taxes imposed on them by government. It is therefore important to include the concept of the fiscal illusion in South Africa in the conceptual framework developed in this study in order to be able to assess the effect this illusion may have on the tax burden as perceived by taxpayers in the country. The importance of including the fiscal illusion in conceptual frameworks is also stressed by Amusa, Mabunda and Mabugu (2008:2), who argue that it is important to explore the fiscal illusion in South Africa, because the fiscal illusion is likely to become an important theme in research geared towards understanding local public choices.

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[123] See Section 3.2 and Table 69 in Section 3.27 of this study.

4.3.2 Fiscal perceptions of taxpayers in South Africa

Studies on the perceptions of taxpayers in South Africa have touched on some issues relating to fiscal perception, but did not extend to research on the underlying factors that create people's fiscal perceptions. These underlying factors are important to explore, as they directly affect how taxpayers regard and estimate their tax burden. The main issues raised in prior studies relating to fiscal perceptions mainly concern the fair distribution of the tax burden, the complexity of tax systems, and the taxpayer-government exchange.

4.3.2.1 Fairness of taxes in South Africa

The fair distribution of the tax burden is a topic that has a bearing on the perceived tax burden of individuals as taxpayers. In a study on the perceptions of taxation, it was found that 63.08% of the respondents believed that rich people should pay a higher tax rate in South Africa (Oberholzer, 2008:102). In another study, the question was raised of whether poor people must pay tax (Steenekamp, 1994:220). Other studies focused on the distribution of the tax burden between males and females in South Africa (Shier, n.d.; Smith, 2000).

In South Africa, poverty and unemployment are arguably the most pressing problems in the economy, and society is characterised by extreme inequalities in the distribution of income (Van der Berg & Bhorat, 1999). Issues such as a lack of job opportunities, the historically skewed allocation of resources, under-nourishment in a large proportion of the population, inadequate housing, poor education for some and limited access to primary healthcare are all factors contributing to a need for government intervention by means of fiscal policy, amongst other methods (Calitz, 2012:5).

The concept of the 'fairness' of taxes is a hotly debated topic among economists, policy-makers, taxpayers, academics and others.[124] This is also true in South Africa, where the concept of the fairness of taxes is frequently mentioned in

[124] See Section 4.2.2.1.

studies relating to taxes (Dorasamy, 2011; Lieberman, 2001; Maroun, Turner & Sartorius, 2011). It is a critical aspect of how taxpayers perceive the tax burden. In order to evaluate the tax burden as perceived by the individual as a taxpayer in South Africa, it was thus important for this study to incorporate the concept of fairness in the conceptual framework developed in this study.

4.3.2.2 Complexity of taxes in South Africa

The complexity of taxes in the form of tax law, and the cost of compliance, are important factors that may influence the perceived tax burden. Tax law was considered to be complex by 37.69% of the participants in a local study on perceptions of taxation, while 24.62% expressed no opinion (Oberholzer, 2008:102). The cost of compliance for small businesses has also been the subject of a number of local studies (Coolidge & Ilic, 2009; FIAS, 2007; Smulders, 2006; Smulders & Stiglingh, 2008). Although similar studies have not yet been done for individuals as taxpayers, the effect on the tax burden is the same for all taxpayers in South Africa.

The complexity of tax laws may have an impact on the cost of compliance for individual taxpayers, and may be interpreted by them as an element of the tax burden, so that it affects their interpretation and experience of the tax burden.[125] It was therefore necessary, for the purposes of this study, to incorporate this element in the conceptual framework that was developed. If the element of the cost of compliance is incorporated into the conceptual framework, future research will be able to assess the effect of this perceived additional tax on the tax burden as perceived by taxpayers.

4.3.2.3 The taxpayer-government exchange in South Africa

The effective functioning of the government is arguably central to a discussion of the perceived tax burden in South Africa. Ernie Lai King, a respected tax practitioner, has stated that '[w]hen comparing what individual taxpayers pay

[125] See Section 4.2.2.2.

and what they get back in terms of State benefits – for example, health, education, security and pensions – the net individual tax rate in SA is quite high' (cited by Jooste, 2009:19). Jooste (2009:19) also cites Stiaan Klue, chief executive of the South African Institute of Tax Practitioners, who claims that the overall 'bang for buck' is very poor in South Africa, when one looks at the results of government expenditure in terms of service delivery. Dawie Roodt, a well-known South African economist, echoed Klue's sentiment, and argued that it is important for taxpayers to receive value for the taxes they pay (cited by Jooste, 2009:19). Theunissen (2006:57) refers to a study by Anthony Altbeker, a senior researcher at the Institute for Security Studies, who determined that in South Africa around R40 billion was spent on private security for the year ending July 2005, in stark contrast to the R30 billion allocated to public policing services in the 2006 budget year.

In terms of Schedule 4 and Schedule 5 of the South African Constitution (108 of 1996), taxpayers can expect to receive benefits from government in return for contributing to taxes, for instance, protection services, education services, transport services and health services. Trust in government to use the taxes imposed on taxpayers effectively to provide the services expected (rightfully) by taxpayers is an important factor that affects taxpayers' decision to comply, or not comply, with tax legislation (Coolidge & Ilic, 2009:2; Fjeldstad, 2004:539). If taxpayers have a perception that the government does not provide these services effectively in return for the taxes citizens pay, it is possible that taxpayers may perceive private expenses relating to these services as an additional tax placed upon them indirectly by government. In South Africa, this assumption is a real possibility. The majority of respondents in a survey on the perceptions of taxpayers in South Africa indicated that they believed that waste and corruption in the South African government were very high, that a large portion of taxes was used by government for meaningless purposes, and that the benefits received in return for taxes were not reasonable (Oberholzer, 2008:102).

Support for this assumption is also found in the popular media. Numerous references are found in the media relating to taxpayers' perceptions regarding the taxpayer-government exchange (Altbeker, 2006:57; Dawkins, 2007:4; Gering 2011; Hartley, 2009:1; Jooste, 2009:16-17; Rademeyer, 2009; Stokes, 2011; Thys, 2010; Visser, 2007:21). Discussions in the media refer mainly to the delivery of public services by the South African government and centres around the argument that, although taxpayers have to pay taxes which government uses for specific public expenditure, the perceived ineffective service delivery by government gives rise to private expenditure to compensate for the ineffective services rendered by government. These debates frequently look at questions such as why citizens should pay taxes to finance things such as a police service, but should then also still need to pay private security services for protection, because the police service is ineffective in protecting the country's citizens; or why taxpayers should pay taxes towards public healthcare if public healthcare services are inadequate, and therefore taxpayers must also pay for private healthcare.

All these debates and discussions can be linked to the way in which taxpayers in South Africa perceive their tax burden in relation to government's responsibility. The debates around poor service delivery by government and the subsequent additional payments by citizens for similar private services may theoretically be an indication that individuals as taxpayers perceive these payments as an additional tax which increases their tax burden. It was therefore important for this study to incorporate the concept of the taxpayer-government exchange in the conceptual framework developed to evaluate the tax burden as perceived by individual taxpayers in South Africa.

4.3.3 Summary

The discussions, speculations, debates and studies in South Africa make it possible to conclude that the imposed tax burden may not necessarily reflect how individual taxpayers in South Africa perceive their tax burden, which may also be vastly different from how theoreticians and policy-makers interpret the tax burden, as Fochman *et al.* (2010:2) explain. Therefore, incorporating the concepts of fiscal illusion and fiscal perceptions in the conceptual framework developed in the study is essential to be able to evaluate the tax burden as perceived by individual taxpayers in South Africa.

4.4 CONCLUSION

The discussion in Chapters 2, 3 and 4 provides a clear indication that it is important not only to evaluate the imposed tax burden of taxpayers, but also to consider the effect of other factors on how the tax burden is estimated and regarded by individuals as taxpayers (the perceived tax burden).

The **perceived tax burden** consists of taxpayers' estimates of their imposed tax burden, as well as taxpayers' perceptions of their tax burden. The perceived tax burden is a phenomenon that must be considered in order to make sense of, and comprehend, how taxpayers look at and judge the tax burden. The theoretical concepts of the **fiscal illusion**, **fair taxes**, the **complexity of tax systems**, and the **taxpayer-government exchange** are considered to be the main contributing factors that influence the way that taxpayers regard and estimate (perceive) their tax burden. These concepts are therefore vital to consider in evaluating the tax burden from a taxpayer's viewpoint. It is therefore important to investigate these concepts in a real-life context order to use them to build onto the theoretical constructs in the framework that have been identified thus far in the study and are included in the conceptual framework. The investigation into these constructs forms part of the research methodology and design set out in Chapter 6.

The theoretical constructs of the imposed tax burden and the perceived tax burden are important in a conceptual framework to evaluate the tax burden of individual taxpayers. Equally important is a platform from which to evaluate and compare the tax burden. Chapter 5 discusses a theoretical basis for evaluating the tax burden, and formulates a conceptual framework that can be used to evaluate the tax burden as perceived by individual taxpayers in South Africa.

CHAPTER 5: FORMULATING THE CONCEPTUAL FRAMEWORK

5.1 INTRODUCTION

McClellan (2003:28) points out that '[h]ow the tax burden is calculated has a big influence on the perception of fairness'. This insight suggests the importance of formulating a comprehensive methodology to underpin the conceptual framework that is developed in the current study.

In Chapter 2, the inherent characteristics of the tax burden were analysed to provide clarity on the theoretical constructs relating to the phenomenon of the imposed tax burden. Chapter 3 built onto the theoretical constructs set out in Chapter 2 by showing how the construct of the imposed tax burden is integrated into the South African tax environment. Chapter 4 analysed and clarified the theoretical construct of the perceived tax burden. The purpose of Chapter 5 is to formulate a conceptual framework for evaluating the tax burden of individual taxpayers based on a methodology that provides a foundation for the consistent measurement and comparison of the tax burden.

5.2 METHODOLOGY UNDERPINNING THE CONCEPTUAL FRAMEWORK

The tax burden is central to numerous debates in the literature. Generally, the purpose of studies on the tax burden is to provide information to a government on the distribution of taxes and the economic well-being of the citizens of the country concerned. These studies are accomplished using either a macro-level or a micro-level approach, for instance, the studies by Bellak, Leibrecht and Römisch (2005), Dickert, Houser and Scholz (1994), Essama-Nssah (2008), Fullerton and Rogers (1993), Immervoll (2004), Reed and Rogers (2006), Townsend (2003) and Van der Berg (2001).

Macro-level studies are concerned with aspects relating primarily to the national level, for example, studies concerned with the total tax burden as a percentage of the gross domestic product (GDP), the effect of changes in the tax policy on the tax burden, and measuring economic inequality in the population before and after tax, using the Gini coefficient (Devarajan, Fullerton & Musgrave, 1980:15; Reed & Rogers, 2006:410; Townsend, 2003:11; Van der Berg, 2012:124). By contrast, micro-level studies have a narrow focus, and are mainly concerned with individuals, firms, consumers and particular sectors, for example, studies by Harding, Warren and Lloyd (2006:1), the National Treasury (2011a:208) and Townsend (2003:6). The focus of the present study is on the individual as a taxpayer in South Africa, and therefore a micro-level approach was adopted as the methodology to underpin the conceptual framework developed here.

The term ‘tax’ can have various meanings. In a narrow sense, it refers to taxes that economic agents pay; in a broader sense, it concerns the total fiscal policy of a country (Salanié, 2003:1). Traditionally, policymakers, researchers, academics and others used only taxes as a basis to measure and evaluate tax burdens (Chamberlain & Prante, 2007:1,4). However, using only taxes as a basis for measuring the tax burden is now considered inadequate to measure the progressivity of tax burdens between taxpayers or income groups, because, in addition to taxes, the benefits received from government also affect taxpayers’ economic position (Chamberlain & Prante, 2007:11; Grown, 2010:18; Harding *et al*., 2006:1; Lile & Soule, 1969:435; Morgan, 1994:515-516). This implies that, in evaluating the tax burden of individual taxpayers, it is essential to include all the taxes and benefits that account for the difference between a taxpayer’s gross income and his or her economic spending abilities. In the literature, this phenomenon is commonly referred to as the **fiscal incidence** (Chamberlain & Prante, 2007:11; Essama-Nssah, 2008:39; Martinez-Vazquez, 2001:40; Van der Berg, 2001:244).

Fiscal incidence studies are generally concerned with comparing taxpayers' original (gross) income with their (net) income after accounting for taxes, transfers and benefits (Essama-Nssah, 2008:39; Hemming & Hewitt, 1991:121-122). The phenomenon of fiscal incidence is frequently studied in the public finance and economic disciplines. These studies are usually concerned with the distribution of the tax burden between groups of citizens and/or taxpayers in a country (Atkinson, 1994:13-16; Musgrave, 1959:217-225; Singer, 1976:42-44; Van der Berg, 2012:126-127).

The present study, as is often the case with fiscal incidence studies, is concerned with the evaluation of taxpayers' tax burdens. Therefore a methodology based on the principles of fiscal incidence studies was considered the most appropriate for the conceptual framework developed here. Methodological issues associated with fiscal incidence studies include the unit of analysis, the time frame, the method of measurement, the coverage, the valuations, inter-unit comparisons, and incidence assumptions[126] (Harding *et al.*, 2006:6). These methodological issues need to be clarified and defined in relation to the present study, in order to ensure a reliable and consistent methodology for the conceptual framework developed in this study.

5.3 UNIT OF ANALYSIS

The tax burden can be evaluated not only for an individual person, but also for a household unit. It is therefore important to clarify the unit of analysis, because it has a material impact on the methodology applied to evaluating the tax burden.

As a point of departure, it is important to clarify the concept of 'individuals as taxpayers'. The term 'individual' is defined in the *Oxford Dictionary and Thesaurus* (2009:474) as 'considered separately; single'. The focus is on the word 'single'. For the purposes of this study, the term 'individual' thus refers to a single person contributing towards any tax or taxes in the country.

[126] The incidence assumption relating to taxes is explained in Section 2.2.6.2 and is therefore not dealt with again in this chapter. The benefit incidence assumptions form part of the discussion in Section 5.5.1.

A household consists of a person or a group of persons,[127] often a family, who live together and share resources as a unit (*Cambridge Advanced Learner's Dictionary*, 2008:700; Statistics South Africa, 2010:47). Smeeding and Weinberg (2001:2) refer to this type of unit as 'the income-sharing unit'. They explain that '[t]his unit must be large enough to capture all regular forms of income sharing as well as economies of scale derived from sharing resources and durable goods within the unit' (Smeeding & Weinberg, 2001:2).

A rationale for adopting the household as the unit of analysis for evaluating the tax burden can be given using the definition of the tax burden by Townsend (2003:6) as a point of departure. Townsend (2003:6) defines the 'burden of taxation' as 'an expression of the proportion of income which is paid in taxes'. In South Africa, the direct tax burden of a person can be determined with relative ease, because the tax is normally directly imposed on an individual person's income or wealth. However, it is a much more complicated task to allocate an individual taxpayer's indirect tax burden accurately. Indirect taxes are levied on the consumption of goods and services by a household, and the indirect tax burden may be borne by either a single taxpayer in a household, or by more than one taxpayer in a household.

In an instance where a single taxpayer in the household funds the consumption of the household, the indirect tax burden is allocated directly to that particular taxpayer. Consumption in households where more than one taxpayer contributes to the funding of the household consumption makes the allocation of the indirect tax burden much more complicated. The question is whether such a household's indirect tax burden can be allocated to each individual taxpayer in the household both accurately and consistently over a given period. Such an allocation is possible, but its accuracy and consistency is always questionable, because the ratio of funding between the various individual taxpayers in a household used as a basis may change frequently, the number of taxpayers in a household may

[127] These persons in a household unit may be related or unrelated (Smeeding & Weinberg, 2001:2).

increase or decrease, one taxpayer in the household may fund more expenses than the others, or any other factor affecting the ratio of the funding of household consumption may vary.

The household as an economic unit is considered a more reliable and consistent basis for evaluating the tax burden of individuals as taxpayers. This approach does not depend on the ratio of funding required to allocate indirect taxes to each individual taxpayer, and the approach provides a reliable and consistent platform to evaluate the overall tax burden of individual taxpayers functioning together as a household. Stamp (1921:14-15) argues that it is not adequate to ask only how much a person's income is to determine how much tax the person must pay. Consideration should also be given to family size and other factors. Households are frequently used as a basis for studies that relate to the income, expenditure and/or taxes of persons (Dickert *et al.,* 1994; Dwyer, 2006:124; Glewwe, 2000; Masemola & Van Wyk, 2009; OECD, 2011; Statistics South Africa, 2010; Townsend, 2003). However, the definitions of what precisely comprises a household vary between studies. Despite attempts to standardise the definition of a household, 'the "household" remains somewhat of a "black box"' in the words of Beaman & Dillon (2009:1,14). For purposes of the current study, a household is defined as consisting of one person, or of two or more persons living together, whose food purchases and other household expenses are usually managed as one unit, a definition frequently used for examining the income and expenditure of households in South Africa (Masemola & Van Wyk, 2009:9). This definition includes persons who are temporarily absent, as well as dependent children away at school (Masemola & Van Wyk, 2009:9).

5.4 TIME FRAME

The conceptual framework developed in the current study is concerned with the recurrent tax burden of individuals as taxpayers in South Africa. The recurrent tax burden, as defined in Section 2.2.6.1, refers to taxes that affect the burden of individual taxpayers on an ongoing basis over a given period.

The period referred to in the conceptual framework can be either only one calendar month or more than one calendar month combined, but is limited to a maximum of one year. The year refers to the 'year of assessment' for natural persons, as defined in section 1 of the Income Tax Act (58 of 1962). It consists of the twelve-month period ending on the last day of February of each year.

5.5 METHOD OF MEASUREMENT

The method of measurement, in the context of the current study, refers to the method underpinning the evaluation of the tax burden of individual taxpayers in South Africa. The broad concept of the method of measurement from fiscal incidence studies (Chamberlain & Prante, 2007:11; Essama-Nssah, 2008:39; Grown, 2010:18; Harding *et al.*, 2006:1; Hemming & Hewitt, 1991:121-122; Musgrave & Musgrave, 1980:266), namely comparing the original income[128] of taxpayers with their income after accounting for taxes and benefits,[129] was adopted in the present study as the basis from which the tax burden of individual taxpayers can be evaluated. This concept adopted from fiscal incidence studies was extended for the purposes of this study to make provision for the theoretical concepts that may affect the way in which taxpayers perceive their tax burdens, including the concepts of fiscal illusion and fiscal perception.[130]

In summary, it is important to clarify the extended method of measurement adopted in this study for evaluating the tax burden of individual taxpayers, as members of a household, by explaining the measurement of the essential elements underpinning the evaluation, namely gross household income, the imposed tax burden, and the perceived tax burden consisting of the concepts of fiscal illusion and fiscal perception.

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[128] For the purposes of this study, the original income of a taxpayer refers to the gross income of the taxpayer before any government interventions. This is similar to the definition used by Townsend (2003:16).

[129] For the purposes of this study, the income after taxes and benefits is referred to as the taxpayer's real net income.

[130] A person's fiscal perception consists of his or her perception of the fairness of the taxes, the cost of compliance, and the taxpayer-government exchange (see Section 4.2.2).

5.5.1 Measurement of gross household income

Some definitions of gross income are a useful point of departure to explain the theoretical constructs relating to taxpayers' gross income.

The *Oxford Dictionary and Thesaurus* (2009:413) defines the term 'gross' to mean '(of income, profit, or interest) before tax has been deducted'. The term 'gross income' is also synonymous with the term 'before deductions' (*Oxford Dictionary and Thesaurus*, 2009:413). The main point relevant to this study is that a person's gross income consists of income before tax or other deductions. This raises the question of what must be included under the term 'income' as it relates to gross income.

'Income' is defined in the *Cambridge Advanced Learner's Dictionary* (2008:730) as 'money that is earned from doing work'. The *Oxford Dictionary and Thesaurus* (2009:470) lists the following synonyms for 'income': '**earnings,** salary, wages, pay, remuneration, revenue, receipts, takings, profits, proceeds, yield, dividend'. These synonyms create the impression that income refers mainly to cash or money. However, this impression is not accurate, as a person's income does not always consist only of money. Earned income may also be remitted in the form of goods in kind, or the right to something. It is therefore important in this study to base the gross income of a household on a comprehensive definition.

Section 1 of the South African Income Tax Act (58 of 1962) defines 'gross income' as the total amount in cash or otherwise received by or accrued to a person during a year of assessment. This definition excludes amounts of a capital nature, but includes income received in kind or in any other form. This study focuses only on the recurrent tax burden. The exclusion of capital income is in line with this focus, as the taxes imposed on capital income normally refer to taxes that have an impact on the lifetime burden of a taxpayer, also referred to as a 'stock'.[131] An important aspect of this definition is that the income must be received or accrued, which must be interpreted to refer only to real income and

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[131] For an explanation of a stock see Section 2.2.6.1.

not imputed income (Stiglingh, 2011:16). This definition is very comprehensive and, hence, it is concluded that it provides a suitable basis for measuring gross income for the purposes of this study.

Townsend (2003:16), in a study on the tax burden of households in the United Kingdom, defines ‘gross income’ as the ‘original income (before government intervention) plus cash benefits, e.g. state pension’. Caputo (2005:7) refers to gross income as the comprehensive household income, which consists of pre-tax income, plus income from other sources. Comprehensive household income includes, for instance, wages, salaries, self-employed income, rents, taxable and non-taxable interests, dividends, retirement benefits, unemployment insurance, fringe benefits from employers, food stamps, school lunches, housing assistance and energy assistance. These definitions are similar to the definition from section 1 in the South African Income Tax Act (58 of 1962), but they specifically include social benefits received by households, for instance, State pensions and unemployment benefits. This suggests that the gross income of households must include not only income, but also any benefits received from the State.

The benefits received from the State consist of both publicly provided goods and services, and cash benefits and non-cash benefits, also referred to as social transfers in kind (Harding *et al*., 2006:2). Cash benefits normally consist of government transfers to needy families or veterans, and of other transfers in terms of social programmes. Non-cash benefits refer to public goods and services received in the form of education, health, housing, and other public benefits in kind (Chamberlain & Prante, 2007:4; Harding *et al*., 2006:2; Salanié, 2003:1).

The allocation of non-cash benefits to individual taxpayers has long been a controversial issue in the literature (Harding *et al*., 2006:5; Heyns, 1999:207; Lutz, 1936:352-353; Musgrave & Musgrave, 1980:272; Smeeding & Weinberg, 2001:11). Research on this topic focuses mainly on the question of who pays taxes and who receives benefits from government spending programmes. Studies on the allocation of non-cash benefits are mainly concerned with measuring the effectiveness of poverty-reducing programmes (Chamberlain & Prante, 2007:9; Van der Berg, 2001:258-259). Therefore these studies do not provide an objective basis that can be used for the accurate allocation of non-cash benefits. The debate around the basis for allocating non-cash benefits falls beyond the scope of this study, and therefore non-cash benefits from the State are not included in the term ‘benefits’ for the purposes of measuring gross household income in this study.

In conclusion, the gross household income of taxpayers (which is essential for evaluating the tax burden of individual taxpayers) is measured by referring to the gross original income of taxpayers before any government interventions, and to the gross cash benefits provided by the government to individual taxpayers.

5.5.2 Measurement of the imposed taxes

Studies measuring and evaluating tax burdens historically depended to a large extent on either formal tax rules (tax rate structures), or on a tax ratio (the total tax in relation to the taxable income). The use of tax rate structures or a tax ratio is inherently problematic, as neither accounts for or considers the interaction between different types of taxes and benefits in the overall tax burden. To address this problem, studies have turned to comparing effective tax rates (Immervoll, 2004:4-5).

The effective tax rate is expressed as a percentage of the defined gross income, thus in effect taking cognisance of the statutory or nominal tax rate, and of other aspects that influence tax liability. These other aspects refer, for instance, to allowable tax deductions and benefit payments received from the government (Immervoll, 2004:2; National Treasury, 2011a:204). Effective tax rates can be measured either by using a forward-looking or a backward-looking approach. A forward-looking approach is normally followed in hypothetical studies using simulations, whereas a backward-looking approach is followed when *real* data are observed in a study (Bellak *et al.*, 2005:10-11; Immervoll, 2004:6-7). The underlying purpose of the present study was to evaluate the tax burden as perceived by individuals as taxpayers. Therefore a backward-looking approach to observe real data was considered the most appropriate basis for the conceptual framework developed in this study. The imposed tax burden, for the purposes of this study, is measured in terms of the effective tax rate, referred to in this study as the **imposed effective tax rate.**

5.5.3 Measurement of the fiscal illusion

The misperception of the imposed tax burden referred to as the fiscal illusion of taxpayers can only be accurately measured and evaluated by determining taxpayers' estimations of their effective tax rate, and then comparing this estimate to the imposed effective tax rate. This basis for evaluating the fiscal illusion of taxpayers is advocated by Fochman *et al.* (2010). It is also recommended by Tyran and Sausgruber (2000:4), who indicate that the only real way to evaluate whether there is a misperception of the tax burden is to compare the true tax burden (measured in terms of the **imposed effective tax rate**) to the perceived tax burden (measured in terms of the **estimated effective tax rate**).

5.5.4 Measurement of the fiscal perception

Kirchler (2007:74), citing a study by Schmölders (1960), claims that taxpayers' beliefs about unfair treatment relative to the treatment of other taxpayers or relative to the benefits that taxpayers receive tend to influence taxpayers' morale. Since Schmölders's seminal study, the concept of equity has been the subject of numerous studies, but there are a number of inconsistencies between the findings of these studies (Kirchler, 2007:74; Wenzel, 2002:41-42). To address these inconsistencies, Wenzel (2002) developed a conceptual framework based on three distinctions relating to justice recognised in the discipline of social psychological justice research. These three distinctions refer to distributive justice, procedural justice and retributive justice. **Distributive justice** is concerned with the **fairness** of resource allocation and distribution; **procedural justice** is concerned with the **processes** of resource allocation and distribution; and **retributive justice** is concerned with the **breaking of social rules** and the fairness of reactions or sanctions to the breaking of these rules and norms (Kirchler, 2007:75-76; Wenzel, 2002:46-47).

The conceptual framework developed in this study is concerned primarily with measuring the distributive justice of the tax burden as perceived by individuals as taxpayers in South Africa. Distributive justice in social psychology refers to how people evaluate the fairness of the relative benefits they and others are entitled to receive in comparison to the contribution they make (Kinsey, Grasmick & Smith, 1991:845; Kirchler, 2007:75), in this case, their tax contribution. The construct of distributive justice is widely accepted – therefore this study adopted the concept of distributive justice as a basis for formulating methods to measure taxpayers' fiscal perceptions.

The measurement of taxpayers' fiscal perceptions can be divided into the measurement of taxpayers' perceptions regarding the **fairness of taxes**, the **complexity of taxes** and the **taxpayer-government exchange**.[132]

5.5.4.1 Measurement of the fairness of taxes

It is assumed in the current study that taxpayers' perceptions of the distributive justice of their tax burden are influenced by some ideal or expected configuration of both the taxes paid and the benefits received in return. This assumption is based on the arguments of Kinsey *et al.* (1991:845), who cite Adams (1965), Crosby (1982), Homans (1974), as well as Walster, Walster and Bersheid (1978). According to these arguments, individuals form perceptions of distributive justice by comparing the outcomes of transactions with their expectations regarding the outcomes from these transactions. In the context of the present study, this must be interpreted as referring to the fact that individual taxpayers might place a value on the goods and services provided by government and conclude that the imposed effective tax rate is either excessive or too low.

[132] See Section 4.2.2 for an explanation of these concepts.

To measure and evaluate the fairness of the tax burden as perceived by individuals as taxpayers, this study adopted the notion that taxpayers form a perception of distributive justice with reference to some expected or preferred effective tax rate. This **preferred effective tax rate** of the individual as taxpayer is compared to the **imposed effective tax rate** to assess the effect of fairness on how the individual as a taxpayer perceives his or her tax burden. This approach of comparing the preferred tax rate to the actual imposed effective tax rate as a basis for assessing fairness in taxes is not a new concept in the literature on taxation, as the approach was already used by Schmölders (1975) (cited in Kirchler, 2007:74), as well as by Roberts and Hite (1994), in studies on the fairness of taxes.

5.5.4.2 Measurement of the complexity of taxes

Chattopadhyay and Das-Gupta (2002:4) cite Sandford (1995) and Bardsley (1997) to support the argument that the growing complexity of tax systems has an adverse effect on tax administration, tax compliance and tax compliance cost. The current study is not concerned with tax administration and compliance elements, but focuses on the element of compliance cost from the point of view of the individual taxpayer, as a member of the household.

The **costs of compliance** have a distributive justice dimension, in that the cost of compliance may place a material monetary burden on the taxpayer (Dirkis & Bondfield, 2004:116; Wenzel, 2002:54). The complexity of tax systems is difficult to measure, as Chattopadhyay and Das-Gupta (2002:4, citing Pope, 1994, Mckee, 1992 and Klepper and Nagin, 1989), indicate, but using compliance cost is one way of measuring the complexity of taxes (Pope, 1993:70).

The cost of compliance is used by the present study as a tool to measure the effect of complex tax systems on the perceived tax burden of the individual as a taxpayer. The cost of compliance is classified and referred to as a **perceived tax** for the purposes of this study, because it effectively reduces the economic spending ability of taxpayers. Thus the cost of compliance may be deemed an additional tax from the taxpayer's point of view. This interpretation of the cost of compliance as an additional tax effort is in line with findings by Blaufus *et al.* (2011:1).

5.5.4.3 Measurement of the taxpayer-government exchange

Taxpayers may evaluate the fairness of their tax burden by referring, *inter alia,* to their satisfaction with government's (hopefully efficient) spending of taxpayers' tax contributions to government. It may be difficult for taxpayers to assess the exact value of the benefits they receive from government in exchange for paying taxes, but they may base their evaluation on the expected benefits (Kirchler, 2007:79-80; Wenzel, 2002:53). In respect of the concept of distributive justice, the effect of perceptions relating to the taxpayer-government exchange can be evaluated by referring to the expected benefits received in return for taxes paid.

Using the same argument from Wenzel as in Section 5.5.4.2, it is possible to argue that, similar to the effect of a complex tax system, ineffective or inadequate government services may also give rise to an additional monetary burden (tax) on taxpayers. This additional monetary burden relating to perceived ineffective or inadequate government services, for the purposes of this study, is classified as a **perceived tax**. The assumption underlying this choice is that this additional monetary burden placed indirectly on a taxpayer by government effectively reduces the economic spending ability of the taxpayer. Private expenses relating to these perceived ineffective and inadequate government services are used as a tool to measure the effect of the taxpayer-government exchange on the tax burden, as perceived by individuals as taxpayers in South Africa.

5.5.5 Measuring the tax burden of individuals as taxpayers in South Africa

The methods of measurement relating to the supporting essential elements of gross household income, imposed taxes, the fiscal illusion, the fairness of taxes, the cost of compliance, and the taxpayer-government exchange were used in this study to establish a measurement framework. This measurement framework forms the foundation for the conceptual framework developed in this study, from which the tax burden of individual taxpayers (as perceived by the individual taxpayers) in South Africa, can be evaluated. This measurement framework is presented in Table 70, below, as the framework for measuring the tax burden of individual taxpayers in South Africa.

Table 70: Framework of measuring the tax burden of individual taxpayers in South Africa

Description	Rand
Gross household income	**XXX**
Gross original income	XX
Gross cash benefits	XX
Less: Imposed taxes	**XXX**
Direct recurrent[133] taxes	XX
Indirect recurrent taxes	XX
Economic spending ability	**XXX**
Less: Perceived taxes	**XXX**
Complexity of taxes[134]	XX
Taxpayer-government exchange[135]	XX
Perceived economic spending ability	**XXX**

Effective tax rates	Calculation
Imposed effective tax rate (Imposed tax burden)	Imposed taxes as a percentage of the gross household income.
Perceived effective tax rate (Perceived tax burden)	Imposed taxes and perceived taxes combined as a percentage of the gross household income
Estimated effective tax rate (Fiscal illusion)	Estimated rate by taxpayer
Preferred effective tax rate (Fairness of taxes)	Preferred rate by taxpayer

133 The framework in Table 70 can be used as basis for measuring the random tax burden of individual taxpayers, but this study focuses on the recurrent tax burden (see Section 5.6.2).
134 Complexity of taxes is measured in terms of the cost of compliance – see Section 5.5.4.2.
135 The taxpayer-government exchange is measured in terms of the private expenditure (perceived by taxpayers to be additional taxes) that originate from the perceived ineffective services of government – see Section 5.5.4.3.

The methods used to measure the essential elements provide an important foundation from which the tax burden of individual taxpayers in South Africa can be evaluated, but it is just as important to clarify the coverage of these essential elements in order to enhance understanding of the conceptual framework developed in this study.

5.6 COVERAGE

It is important to explain the coverage of the essential elements underpinning the evaluation of the tax burden of individual taxpayers in the conceptual framework developed in this study. The focus of the current study is on individual taxpayers in South Africa, and therefore it is necessary to define the coverage of the gross household income, the imposed taxes, and the perceived taxes,[136] as they all relate to the households of individual taxpayers in South Africa.

5.6.1 Coverage of gross household income

To clarify the coverage of the gross household income and to ensure consistency, an underlying structure of gross household income in South Africa was formulated to underpin the conceptual framework developed in the current study. Clarity on the extent to which gross household income is covered in the conceptual framework is important, because it forms the platform for the conceptual framework used to evaluate the tax burden of individual taxpayers in South Africa.

Gross household income in South Africa consists of revenue from different sources. The main sources of household revenue in South Africa are income from work (74.3%), income from capital (1.2%), private pensions and annuities (2.6%), social insurance and grants (6.1%), other income (6.3%) and imputed rent (9.5%) (Statistics South Africa 2008:9). The main sources of gross household income in South Africa were used together with the definitions of

[136] The perceived taxes consist of the cost of compliance and the taxpayer-government exchange – see Section 5.5.4.2 and Section 5.5.4.3.

gross income in Section 5.5.1 to formulate a theoretical structure of gross household income for the conceptual framework developed in this study. These main sources of gross household income are based on structures applied in previous studies in South Africa to household income and expenditure (Masemola & Van Wyk, 2009:98-99; Statistics South Africa, 2008, 2011:137).

Household income from work consists of salaries and wages, and self-employed income and business income. Income from capital refers to interest, dividends, rent and royalties. Private pensions and annuities refer to pensions from previous employment and annuities from own investments. Social insurance consists of government social support in the form of State old-age grants, war veterans' grants, disability grants, foster care grants, care dependency grants, child support grants, as well as income from the Unemployment Insurance Fund and compensation funds. The category of 'other income' consists of alimony, transfers between individuals, donations, tax refunds and various other types of income. Imputed rent refers to an estimate of the value from using owner-occupied housing (National Treasury, 2011a:101; Statistics South Africa 2008:9).

Household revenue from transfers between individuals, donations and tax refunds was excluded from household gross income for the purposes of this study. The reason for this exclusion is that these types of income are random in nature and therefore fall outside the definition of the gross household income in Section 5.5.1. Imputed rent was also excluded from gross income for the purposes of this study, because this is not real income and thus does not comply with the definition of gross income.

The extent of coverage of gross household income in South Africa for the purposes of the conceptual framework developed from the current study is summarised in Table 71, referred to as the framework of gross household income. The framework in Table 71 must be read in conjunction with the method of measuring the gross household income in Section 5.5.1.

Table 71: Framework of gross household income

	Rand
Income from work	
• Salaries, wages and remuneration	
• Self-employed and business income	
Income from capital	
• Interest	
• Dividends	
• Rent	
• Royalties	
Private pensions and annuities	
• Pensions	
• Annuities	
Social insurance and grants	
• Old-age and war pensions	
• Disability grants	
• Family and other allowances	
• UIF and workmen's compensation	
Other income	
• Other income (any income that complies with the definition)	
Gross household income	

Source: Adapted from Statistics South Africa (2008:12)

5.6.2 Coverage of imposed taxes

The conceptual framework developed in this study focuses on the **recurrent** tax burden of individual taxpayers in South Africa. The coverage of imposed taxes in the conceptual framework was identified from the analysis of government imposts summarised in Table 69. These imposed taxes are divided into those that directly affect the recurrent tax burden and ones that indirectly affect the recurrent tax burden. The direct and indirect recurrent taxes imposed on the households of individual taxpayers in South Africa are summarised in Table 72, which is referred to as the framework of the imposed recurrent tax burden in South Africa.

Table 72: Framework of the imposed recurrent tax burden in South Africa

Government impost	Tax	Direct recurrent tax burden	Indirect recurrent tax burden
Revenue from imposts on income:			
Imposts on income and profits:			
• Income tax	✓	✓	
Imposts on payroll and workforce:			
• Skills development levy	✓		✓
Revenue from imposts on wealth:			
Recurrent imposts on immovable property:			
• Property rates	✓	✓	
Revenue from imposts on consumption:			
Imposts on value-added transactions:			
• Value-added tax (Consumer goods)	✓		✓
Imposts on turnover:			
• Turnover tax payable by micro businesses	✓	✓	
Excises:			
• Specific excise duties	✓		✓
Imposts on the use of motor vehicles:			
• Imposts on motor vehicles:			
○ Motor vehicle licences – renewal	✓	✓	
• Imposts on fuel:			
○ General fuel levy	✓		✓
○ Road accident fund levy	✓		✓
○ Specific excise duties on fuel	✓		✓
○ Demand side management levy	✓		✓
○ Illuminating paraffin dye levy	✓		✓
Imposts on the drivers of motor vehicles:			
• Drivers licence – renewal	✓		✓
Imposts on the use of goods and on the permission to use goods, or on the permission to perform services:			
• Firearms licences – renewal	✓	✓	
• Liquor licences renewal	✓	✓	
• Business licences – renewal	✓	✓	✓
• Television licences – renewal	✓	✓	
Other imposts on the use of goods and services:			
• Electricity environmental levy	✓		✓

Government impost	Tax	Direct recurrent tax burden	Indirect recurrent tax burden
• Plastic bags levy	✓		✓
• Incandescent light bulb levy	✓		✓
• Mineral and petroleum royalties, prospecting fees and surface rentals	✓	✓	
• Levy on educators	✓	✓	
• Levy on suppliers of private security services	✓	✓	
• Aircraft passenger safety charge	✓		✓
• Aviation fuel levy	✓		✓
• Maritime safety levy	✓		✓
• Water research levy	✓		✓
Customs and import duties:			
• Customs duties – specific excises	✓		✓
• Diamond export levy	✓	✓	
Other imposts on international trade and transactions:			
• Air passenger tax	✓		✓
Revenue from social contributions:			
Social security contributions:			
• Contributions to the Unemployment Insurance Fund – employee	✓	✓	
• Contributions to the Unemployment Insurance Fund – employer	✓		✓
• Contributions to Compensation Fund.	✓		✓
Revenue from the sale of goods and services:			
Sales by market establishments:			
• Municipal services:			
○ Surcharge on electricity supply services	✓		✓
○ Free basic electricity	✓		✓
○ Inclining block tariffs on electricity consumption	✓		✓
○ Surcharge on water supply services	✓		✓
○ Free basic water	✓		✓
○ Inclining block tariffs on water consumption	✓		✓
○ Sanitation service fees	✓		✓
○ Refuse service fees	✓		✓
• Energy supply services:			
○ Distribution network demand charge	✓		✓
○ Distribution network access charge	✓		✓

Government impost	Tax	Direct recurrent tax burden	Indirect recurrent tax burden
○ Network access charge	✓		✓
○ Transmission network charge	✓		✓
○ Electrification and rural subsidy (ERS)	✓		✓
○ Inclining block tariffs on electricity	✓		✓
• Human settlement services:			
○ Levies on home builders	✓	✓	
• Air travel services:			
○ Airport service fee on air passengers	✓		✓
• Bulk water supply services:			
○ Water Boards surcharge	✓		✓
Incidental sales by non-market establishments:			
• Public school fees	✓		✓

Source: Table 69 of the current study

5.6.3 Coverage of the perceived taxes

The perceived taxes, as explained in Section 5.5.4.2 and Section 5.5.4.3, consist of the concepts of the complexity of taxes and the taxpayer-government exchange. Hence, the extent to which these two elements are covered in the conceptual framework developed in this study needs to be clarified

5.6.3.1 Complexity of taxes

The cost of tax compliance is a popular topic for research, as found in the literature (Chattopadhyay & Das-Gupta, 2002; Slemrod & Sorum, 1984; Smulders, 2006). The total cost of compliance may consist of different elements, for instance, the time spent by the taxpayers, bribes paid, psychological cost and the direct monetary costs incurred to comply with the tax laws (Chattopadhyay & Das-Gupta, 2002:4; Sandford, 2000:126; Slemrod & Sorum, 1984:2).

What precisely comprises the cost of compliance for a taxpayer is a much-debated topic which is open to interpretation (Tran-Nam *et al.*, 2000:232;

Smulders & Stiglingh, 2008:355). However, Evans (2008:451) states that it is possible to identify 'hardcore' cost elements that indisputably contribute to the cost of compliance, of which the following are typical:

- the time taken in compiling receipts and recording data in order to be able to complete a tax return;
- the costs of labour/time consumed in completion of tax activities, for example, the time taken by a business person to make the necessary calculations, fill in the tax returns, acquire appropriate knowledge to deal with tax obligations such as Pay As You Earn ("PAYE") or VAT; or
- the cost of expertise purchased to assist with the completion of tax activities (typically, the fees paid to professional tax advisers); and
- incidental expenses incurred in the completion of tax activities, including the purchase of computer software, postage, travel etc.

These cost elements are summarised by Turner, Smith and Gurd (1998:96) into the categories of

- a taxpayer's and unpaid helper's time;
- tax agent fees; and
- incidental expenses.

In addition to these 'hardcore' elements, Evans (2008:451) also lists psychological costs, social costs, computational and tax planning costs, and accounting costs.

As already indicated, it falls beyond the scope of the current study to pursue a detailed analysis of the phenomenon of the cost of compliance. Hence, the discussion on the cost of compliance for the purposes of this study was limited to the brief comments above, which were included merely to illustrate the complexity of defining the cost of compliance.

5.6.3.2 The taxpayer-government exchange

The South African government's responsibility towards its citizens is set out in the Constitution of the Republic of South Africa (108 of 1996). In terms of section 7(2) of the Constitution, it is the government's responsibility to respect, protect, promote and fulfil the rights of its citizens, which includes the right to safety and security, education, health, and social security.

To enable the South African government to fulfil its responsibilities, as specified in the Constitution, an annual budget is drafted by the Minister of Finance, who allocates amounts, earmarking them for functional areas of government. The allocation in the 2011/2012 annual national budget of South Africa (National Treasury, 2011a:164), used in conjunction with the provincial budget allocations (National Treasury, 2011c), is summarised in Table 73, overleaf.

Table 73: Key functional areas of the South African government

Functional area	% allocated funds
Administrative and financial functions	**22%**
• Central administration and salaries	10%
• Financial and other administration	3%
• State debt cost	9%
Key functional areas	**70%**
• Communication services	1%
• Education services	19%
• Energy services	1%
• Healthcare services	13%
• Human settlement services	4%
• Social security services	13%
• Transport services	4%
• Public order and security services	14%
• Water affairs	1%
Other functional areas	**8%**
• Miscellaneous social services	1%
• Miscellaneous economic services	7%
Total	**100%**

Source: National Treasury (2011a:164; 2011c)

The key functional areas in Table 73 are the ones that attract most of the funding originating from taxes. They were used as a point of reference to clarify the government services covered in the taxpayer-government exchange element of the conceptual framework developed in this study. The main public services rendered by government in respect of each of these key functional areas from the budget can be used as point of reference to identify the key functional areas covered under the taxpayer-government exchange element in this study.

Having clarified the unit of analysis, the methods of measurement, and the coverage of the essential elements in the conceptual framework developed in this study, it is also important to clarify the basis on which the value of each of these elements can be determined.

5.7 VALUATION

Valuation is concerned with attributing a monetary value to the concepts essential to evaluating the tax burden. The purpose of this section is to provide clarity on the basis on which the value for each of the essential concepts can be determined. The concepts that need to be valued and which are essential for the purposes of evaluating the tax burden are gross household income,[137] recurrent imposed taxes,[138] and perceived taxes.[139]

5.7.1 Valuation of gross household income

Combined with the coverage of gross household income from Section 5.6.1, the definition of gross income from section 1 of the South African Income Tax Act (58 of 1962) is used as the basis for the valuation of the gross household income in the conceptual framework developed in this study.

5.7.2 Valuation of recurrent taxes imposed on households

Recurrent taxes consist of direct taxes imposed on the income and wealth of a household and the indirect taxes imposed on the consumption of a household. These taxes are set out in Table 72.[140] The general basis on which these imposed taxes are valued for the purposes of this study is the applicable legislation[141] in terms of which the tax is imposed. Although legislation underpins the valuation of the imposed taxes, it is necessary to clarify specific concepts that may affect the valuation of the direct and indirect taxes imposed on a household, and which are important to consider in the conceptual framework developed in this study.

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[137] See Table 71 in Section 5.6.1.
[138] See Table 72 in Section 5.6.2.
[139] See Section 5.6.3.
[140] See Section 5.6.2.
[141] For the applicable legislation, see Chapter 3 of the current study.

5.7.2.1 *Valuation of direct recurrent taxes imposed on households*

The direct recurrent taxes imposed on a household may consist of taxes imposed on income and of taxes imposed on wealth (see Table 72).

Direct recurrent taxes on the income or the wealth of a household may be imposed on more than one person in the household, because a household may receive income or wealth from more than one person, each one individually liable for paying tax on his or her income in terms of the applicable legislation. The basis on which these indirect taxes are valued for the purposes of this study is the applicable legislation.[142] This study uses the household as a unit of analysis. Therefore, the total amount of direct taxes imposed in terms of legislation on the income or wealth of individual persons in the household must be included when evaluating the tax burden.

Property rates are levied as a percentage of the tax assessed value, which consists of the market value of the property as defined in section 46 of the Local Government: Municipal Property Rates Act (6 of 2004) (Franzsen, 2005:181-183). This percentage differs from jurisdiction to jurisdiction (Franzsen, 2005:183). Hence, for the purposes of this study, the actual amount levied on the property of the taxpayer by the relevant local authority is used in the conceptual framework as the basis for the valuation of property tax.

5.7.2.2 *Valuation of indirect recurrent taxes imposed on households*

Indirect taxes, also called consumption taxes, are imposts on the consumption of goods and services in a household. The recurrent indirect taxes that may be imposed on the consumption of a household are set out in Table 72. The basis on which these indirect taxes are valued for the purposes of this study is the applicable legislation[143] in terms of which the tax is imposed, and also approved tariffs in terms of regulations published in official government or public entity

[142] For the applicable legislation, see Chapter 3 of the current study.
[143] For applicable legislation see Chapter 3 of the current study.

documentation, such as the *Government Gazette*, the *Budget Review*, customs and excise tariffs,[144] and other tariffs such as Eskom's tariffs and charges booklet (Eskom, 2011a).

It is important to bear in mind that more than one type of indirect tax may be imposed on the same consumer goods. Value-added tax in South Africa generally applies to all consumer goods, with a few exceptions. This effectively means that VAT may be levied on consumer goods on which other indirect taxes have already been imposed that then form part of the prices of these goods and services. For instance, tobacco products are subject to specific excise duties, but also attract VAT, calculated on the value of the tobacco product and the excise duty applicable to the product collectively.

The indirect recurrent tax burden imposed on a household depends on the consumption of goods and services in a household, so it is necessary to clarify the household expenditure underpinning the valuation. To ensure consistency, a particular household expenditure structure in South Africa was adopted to serve as a basis for the conceptual framework developed in this study.

The household expenditure structure was created by adopting a structure frequently used in government and other similar studies relating to the income and expenditure of South African households (Masemola & Van Wyk, 2009; Statistics South Africa, 2008, 2011a). This structure was adapted in this study to make provision for the specific expenses that have to be included to determine the monetary value of some of the indirect taxes, referring to Table 72. The household expenditure structure underpinning the valuation of the indirect imposed taxes is summarised in Table 74 and is referred to as the household expenditure framework.

[144] Also referred to as the Harmonised Nomenclature System (SARS, 2009:6).

Table 74: Household expenditure framework

Household expense			Rand
Food and non-alcoholic beverages			
Basic food (maize, fruit, vegetables, milk, etc.)			
Other food and non-alcoholic beverages			
Plastic shopping bags			
Alcoholic beverages and tobacco			
Beer			
Wine			
Spirits			
Tobacco products			
Housing, water, electricity, gas and other fuels			
Rentals for housing			
Water	(Kilolitres):	KL	
Refuse services			
Sewerage collection			
Municipal property rates			
Electricity	(Kilowatt):	KW	
Gas			
Paraffin			
Incandescent light bulbs			
Health			
State healthcare			
Private healthcare			
Transport			
Fuel			
Toll fees			
Road transport (bus or taxi)			
Rail transport			
Communication			
Telephone services – Telkom			
Telephone services – Other			
Recreation and cultural			
National lottery			
Education			
State schools and tertiary institutions			
Private schools and institutions			
Miscellaneous			
Contributions to private retirement funds			
Short-term insurance			
Financial services – life insurance and non-fee based services			
Financial services –bank fees and other fee based services			

Household expense	Rand
Private security expenses	
Tax practitioners – compliance assistance	
Other (Specify)	
Total household expenses	

Source: Adapted from Statistics South Africa (2008:45).

This study adopted the principles of the consumption approach to value household expenditure (Statistics South Africa, 2008:38), according to which the total value of goods and services consumed or used during the period under review must be used as a valuation basis. Therefore the current study uses this principle of consumption (and not accrual of expenditure) as the basis for valuation. The value of the expenses refers to the gross cash amount or cash equivalent of the expenses.

5.7.3 Valuation of the perceived taxes

Perceived taxes in this study refer to the concepts of the complexity of taxes and the taxpayer-government exchange, measured in the form of the private expenditure incurred by taxpayers.[145]

The complexity of taxes can be measured in terms of the cost of compliance for the taxpayer.[146] However, attempting to place a monetary value on the elements that underpin tax compliance costs raises a number of questions relating to the availability and reliability of the data used to determine such values (Sandford, 2000:126). Hence, although the current study acknowledges that the cost of compliance may consist of various elements,[147] the debate around the methods for valuing each of these elements falls beyond the scope of the current study. Therefore, the valuation of the complexity of taxes, for the purposes of this study, was limited to the actual costs borne directly by the taxpayers, focusing on the private expenditure incurred by a household towards the services of tax practitioners.

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[145] See Section 5.5.4.2 and Section 5.5.4.3.
[146] See Section 5.5.4.2.
[147] See Section 5.6.3.1.

The concept of the taxpayer-government government exchange is valued in terms of the actual private expenditure incurred by taxpayers in response to perceived ineffective service delivery from government. These services from government refer to the key functional areas which are covered in Table 73.[148]

The actual private expenditure perceived as taxes is inherently part of the household expenditure covered in Table 74, and therefore these expenses are valued, for the purposes of the conceptual framework developed in this study, on the same basis as that on which household expenditure is valued.

5.8 INTER-UNIT COMPARISON

Inter-unit comparison is concerned with comparing household units of different sizes and compositions with one another on an equal basis. Traditionally, studies used the cash income adjusted in many ways to measure and compare economic well-being between units, but the modern trend is to focus on *equivalent disposable income* (Harding *et al*., 2006:1). Equivalent disposable income is thus widely used in studies measuring and comparing the distribution of economic well-being (Atkinson, 1997:302; Harding *et al*., 2006:1; Saunders, 2003:5). The principles of equivalent disposable income were adopted as a unit of comparison for the conceptual framework developed in the current study. The equivalent disposable income methodology requires the use of *equivalence scales*, which is a tool that allows for comparisons between households of different sizes and compositions (OECD, n.d.; Saunders, 2003:5).

Equivalence scales are frequently used in poverty studies. There are different scales, each serving a unique purpose. The aim of the current study is not to debate the merits of the various scales available in the literature, but to adopt a tool that will provide consistent results that can be compared on an equal basis over a given period. The OECD's (n.d.:1-2) scale of equivalence (referred to hereafter as the modified scale of equivalence) was adopted for the purposes of

[148] See Section 5.6.3.2.

the present study, because it is such a scale and is widely used by OECD member countries for the purposes of equal comparisons. The modified scale of equivalence refers to the size of the household, and the number of adults and children in the household, two factors commonly found in this kind of tool (OECD, n.d.:1). This scale assigns a value of 1 to the household head, 0.5 to each additional adult member and 0.3 to each child. For the purposes of this study, an adult is regarded as a person who is 18 years and older, and a child is someone under the age of 18 years, in line with the Children's Act (38 of 2005). The table below provides an example of the structure of equivalence scales for the conceptual framework developed in this study:

Table 75: Equivalence scales

Household size	Value	Equivalence scale
Household head	1	1
Additional adult	0.5	1.5
Child	0.3	1.8
Additional child	0.3	2.1

The equivalence scale is applied as a factor to divide the disposable income of a household to determine the equal disposable income of the household. The disposable income, for the purposes of this study, refers to the **economic spending ability** and the **perceived economic spending ability** of a household as determined in terms of Table 70.

5.9 CONCLUSION

The purpose of this chapter was to formulate a comprehensive conceptual framework from theoretical constructs that can be used to evaluate the tax burden of individual taxpayers in South Africa. The conceptual framework formulated in this chapter theoretically provides a foundation for a consistent measurement and comparison of the tax burden, not only objectively (in terms of the imposed tax burden), but also subjectively (as the tax burden is perceived by individuals as taxpayers in South Africa).

The theoretical framework in this chapter is by no means considered a final version of the conceptual framework to evaluate the tax burden as perceived by individuals in South Africa. It should rather be regarded as a platform from which further research can be done to contribute to the development of a generally accepted conceptual framework for evaluating the tax burden as perceived by individuals as taxpayers.

The current study includes the validation of the theoretical constructs in the conceptual framework from Chapter 5 in a real-life context. The strategy followed in the present study to achieve this objective is explained in Chapter 6.

CHAPTER 6: VALIDATING THE CONCEPTUAL FRAMEWORK

6.1 INTRODUCTION

The objective of the current study was to develop a conceptual framework (based on relevant theoretical constructs) which can be used as a basis for quantitative survey studies to evaluate the tax burden as perceived by individuals as taxpayers in South Africa. The previous chapters analysed the relevant theoretical constructs underpinning the conceptual framework. This chapter explains the research methodology followed in this study to validate these theoretical constructs in a real-life context.

The chapter commences with an orientation of the research methodology, followed by a discussion of the population and the data collection strategy that was followed in this research.

6.2 RESEARCH ORIENTATION

The research is exploratory and attempts to encourage further research and debate on the topic. The study does not use statistical hypothesis testing – it is qualitative and adopts an interpretive orientation. The purpose of this kind of research is to understand the phenomena in depth, rather than to understand the relationship of variables (Henning *et al.*, 2004:3). The main objective of the present research was to test the theoretical constructs in the 'real world', as explained by Leedy and Ormrod (2005:133) and Robson (1993:146).

There are two methodological traditions of research in the social sciences, namely positivism and post-positivism (phenomenology) (Noor, 2008:1602). The approach followed by positivist researchers is to create knowledge objectively through research, collecting facts about the social world and then building an explanation of social life by arranging these facts in a chain of causality – a model generally applied in the natural sciences (Morgan & Smircich, 1980:491). Post-positivism is not so much about objectivity, but rather about a reality which is socially constructed (Finch, 1986:6; Noor, 2008:1602). The present study falls within the ambit of post-positivism, because the objective of the present research was not to gather facts and to measure any pattern in their occurrence (a quantitative method of analysis), but rather to investigate the different constructs and meanings that people attach to their experience (a qualitative method of analysis) (Easterby-Smith, Thorpe & Lowe, 1991:23).

The present research commenced with a literature study to establish the theoretical constructs that should underpin the development of the proposed conceptual framework. This literature study was followed by a process to identify willing participants to the subsequent research in the form of multiple case studies.[149] The primary data only represented a snapshot of a participant's situation at a particular point in time, making this study a cross-sectional study (Saunders *et al.*, 2007:148).

6.3 THE POPULATION

The population, for the purposes of the present research, can be defined as any household in South Africa which contains individuals as taxpayers. The term 'individuals as taxpayers' then refers to and includes any natural person on whose income, wealth and/or consumption of goods and services the government imposes a tax or a user charge.

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[149] See Section 6.7.2.

6.4 THE DATA AND ITS COLLECTION

The purpose of the present research was not to obtain generalisable results, but to explore the tax burden as perceived by individual taxpayers, and to build on the theoretical constructs from the literature.

Data relating to tax burdens are normally sensitive, which implies that people may be reluctant to disclose the information voluntarily and objectively. It was important for this study to look at the tax burden as it is interpreted and understood by the individual taxpayer. Choosing case studies as a research strategy provided the researcher with an opportunity to study households' tax burden in depth from the taxpayer's point of view.

6.4.1 Using case studies as a research strategy

In a case study, a particular individual, programme, or event is studied in depth for a defined period of time. Multiple or collective case studies enable a researcher to focus on different cases to be able to make comparisons, build theory, or to propose generalisations (Leedy & Ormrod, 2005:135).

Case studies as a research strategy are used when the focus of the study is a contemporary phenomenon in a real-life context (Yin, 1994:1). If there is a need to understand a complex social phenomenon, a case study strategy is a good one to follow (Noor, 2008:1602). Case studies enable a researcher to retain the holistic and meaningful characteristics of real-life events (Yin, 1994:3). Saunders *et al*. (2007:592) also defines a case study as a 'Research strategy that involves the empirical investigation of a particular contemporary phenomenon within its real-life context'.

6.4.2 Applicability of the case study technique

Shuttleworth (2008:1) describes a case study as an in-depth study of a particular situation rather than a sweeping statistical survey. He is of the opinion that a case study is useful for testing whether scientific theories and models actually work in the real world. He argues that scientists can become bogged down in the general picture, but that sometimes it is important to understand specific cases to ensure a more holistic approach to research. This makes the case study technique applicable to the present research for applying the formulated conceptual framework in a real-life context.

Salkind (2006:205-206) suggests that case studies are a unique way to capture information. The benefits include, firstly, the focus of case studies on one topic. This enables the collection of a great deal of detailed information, as well as a very close examination and scrutiny of this information. Secondly, case studies encourage the use of several different techniques to obtain the necessary data. Thirdly, case studies are a simple way to get a rich account of the phenomena being studied. Case studies may be especially suitable for learning more about a little known or poorly understood situation (Leedy & Ormrod, 2005:319). This characteristic of case study research suits the objective of the present research, as it is important to learn more about the perceptions that individual taxpayers hold of their tax burdens.

Flyvbjerg (2006:221) explains that case study research is generally misunderstood as a tool for research. From his examination of the bases of these misunderstandings, he concludes that case study research provides valuable concrete and practical (context-dependent) knowledge, can be used as a basis to generalise results, and contains no greater bias than any other method of investigation (Flyvbjerg, 2006).

According to Flyvbjerg (2006:224), concrete and practical knowledge that is context-dependent is valuable in science, because it contributes to knowledge relating to the development of people. Similarly, Yin (1994:2-3) describes a case study as a research endeavour that contributes to knowledge of individual, organisational, social and political phenomena. He points out that case studies are a common research strategy in a number of disciplines and are even applied in economic research (Yin, 1994:2-3). Shuttleworth (2008:1) and Yin (1994:10) both refer to the flexibility of case studies, which might introduce new and unexpected results and lead research to take a new direction, whereas a pure scientist is usually only trying to prove or disprove a hypothesis (Shuttleworth, 2008:1). This is also considered to be a benefit of case studies by Salkind (2006:205-206), who argues that, although case studies do not necessarily result in hypothesis testing, they may suggest new directions for further studies. Case studies reveal the diversity and richness of human behaviour, something that is not accessible through any other method (Salkind, 2006:205-206).

Flyvbjerg (2006:229) suggests that case study research may be central to scientific development, via generalisation, as an alternative to other methods. It has been argued that a case study covers a narrow field and that its results cannot be extrapolated (Salkind, 2006:205-206; Yin, 1994:10), but conversely, it has been posited that a case study provides a more realistic response than a purely statistical survey (Noor, 2008:1603; Shuttleworth, 2008:1). Yin (1994:10) claims that a hierarchical view of case studies is incorrect. Such a hierarchical view holds that case studies are only appropriate in the exploratory phase of an investigation; surveys and histories are thought to be more appropriate for the descriptive phase, and experiments are argued to be the only way of doing explanatory inquiries. According to Yin (1994:10), this problem can be overcome, as in the case of a single scientific experiment, if the researcher replicates the same phenomenon under different conditions, for example, by using multiple case studies. Case studies, like experiments, can be generalised to theoretical propositions, but not to populations (Yin 1994:10). This perceived problem with case studies as a research technique, as explained by Yin, was overcome in the present research by making use of multiple households as case studies.

Flyvbjerg (2006:237) explains that case study research does not necessarily contain greater bias towards the verification of a researcher’s preconceived notions than any of the other possible methods of inquiry. Bias is generally regarded as one of the disadvantages of case studies (Flyvbjerg, 2006:221; Salkind, 2006:206). Yin (1994:9-10) indicates that one of the traditional prejudices against a case study strategy is a purported lack of rigour in case studies and that this prejudice is related to some researchers' having allowed their bias to influence the direction of their findings and conclusions. The aspect of bias, as explained in the paragraph above, is addressed and explained in the present study (see Section 7.2.5).

In the conclusion to his article, Flyvbjerg (2006:241-242) indicates that case studies are a necessary and sufficient method for research in the social sciences and are also essential for the development of the social sciences. The advantage of large samples might be breadth, but the problem is depth. With case studies, the converse applies, but both approaches are necessary for the development of the social sciences.

Yet another criticism against case studies is that they take too long (Salkind, 2006:206; Yin, 1994:10). This prejudice exists because the specific method of data collection, such as ethnography or participant-observation, is frequently confused with case study strategy (Yin, 1994:10). Case studies in the form of an inquiry do not necessarily require a long time to collect the data (Melo, 2007:115; Yin, 1994:10).

The arguments against the use of a case study strategy can all be overcome if a researcher is aware of the potential pitfalls and considers their effect in the planning and execution of a study. The present study required an in-depth study of the specific phenomenon under review. The purpose was not to generalise findings to the total population. Using multiple case studies in the present research provided a basis from which to overcome the general criticism of case studies as a research technique.

6.4.3 Approach in using the case study technique in the current research

The approach followed in the case study research is similar to the approach followed by Noor (2008:1602), and can be summarised as follows:

Preliminary phase

- Formulate a theory by analysing the literature (see Section 6.5).
- Design and pilot the interview questions (see Section 6.6).
- Select cases to be studied (see Section 6.7).

Fieldwork and analysis phase

- Conduct multiple case studies (see Section 6.8).
- Analyse the data (see Chapter 7).

Conclusion phase (see Chapter 7).

- Analyse across cases.
- Draw conclusions.
- Modify the theoretical framework.

6.5 FORMULATION OF A THEORY BY ANALYSING THE LITERATURE

The theoretical framework explained in Chapters 2, 3 4 and 5 in the present study formed the theoretical underpinning for the case study research conducted as part of developing a conceptual framework for evaluating the perceived tax burden of individual taxpayers in South Africa.

6.6 DESIGN OF THE DATA COLLECTION INSTRUMENT AND PILOT INTERVIEW QUESTIONS

Interviews were used as the primary data collection instrument in the present research, in the form of structured interviews. A structured interview is a data collection technique in which the interviewer asks each respondent the same set of questions and records the responses (Saunders *et al.,* 2007:612). Interviews as a data collection technique provide a researcher with an opportunity to ask people questions and then to record their responses, and interviews can be used as a primary data collection technique (Robson, 1993:227). A structured interview is effectively a standard set of questions, in the form of a standardised interview schedule, where the interviewer records the responses (Robson, 1993:231).

6.6.1 Design of interview questions

Question design commonly distinguishes between questions seeking to find out what people know (facts), what people do (behaviour), and what people think or feel (beliefs or attitudes) (Robson, 1993:228). The present research sought to elicit factual data around the imposed tax burden, and the beliefs of taxpayers regarding their tax burden (perceived tax burden).

A set of questions may contain open-ended and/or closed-ended questions. Open-ended questions allow respondents to express their views spontaneously, without any real influence by the researcher. Closed-ended questions limit respondents to a set of alternatives, and this may create bias (Foddy, 1994:127-128). Reja *et al*. (2003:159) found that open-ended questions are more prone to missing data and providing inadequate answers than closed-ended questions. Conversely, open-ended questions were found to provide much more diverse answers than closed-ended questions. Reja *et al*. (2003:159) suggest that, in order to overcome the risk of missing data and of eliciting inadequate answers with open-ended questions, the questions need to be very explicit in their wording, especially in the case of self-administered questions. The present research adopted the use of mainly open-ended questions, incorporated into an interview schedule which was used by the researcher to collect data from the participants. The questions used in the interview schedule are attached as Annexure B in the current document.

6.6.1.1 Questions on demographic characteristics

The present research inherently deals with taxpayers' households and their opinions regarding taxes. Therefore, the present research used similar questions to those used in previous studies in South Africa on households' income and expenditure. These questions were used to collect data on aspects such as respondents' qualifications and race group, and household members (Masemola & Van Wyk, 2009; Statistics South Africa, 2010, 2011a). Questions 1 to 6 therefore deal with the biographical or demographic characteristics of the household.

6.6.1.2 Questions on the imposed tax burden

Questions on the imposed tax burden were designed with the purpose of collecting factual data on taxpayers' household income, recurrent direct taxes, and expenses. These questions were underpinned by the frameworks set out in Tables 71, 72 and 74.

Question 11 elicits data on a taxpayer's household income, as it is structured in Table 71. Questions 14 and 15 focus on data related to the recurrent direct taxes imposed on the taxpayer's household, as included in Table 72. Question 16 covers data on the taxpayer's household expenditure, as structured in Table 74.

In this study, a recall method was used for collecting data on the imposed tax burden, namely, the prompted recall method. This method entails providing the participant with cues that improve the recall of events and activities (Wutich, 2009:49). The prompted recall method is a recognised method of collecting household data through surveys and is also used by the World Bank in household surveys (Grosh & Glewwe, 1995:40-41), and the method is recognised by the United Nations (Gibson, 2005:161-162). The World Bank follows a strategy whereby the participants are initially contacted and asked to consider the income and expenditure of the household before the date of the actual interview when the data are collected (Grosh & Glewwe, 1995:40-41).

Collecting data on households can be done by using a diary method, a prompted recall method or a free recall method (Wutich, 2009:49). The diary method has been found to provide the most accurate data, but it has also been found to be the most vulnerable to reporting errors caused by omissions, respondents' forgetting to fill in the diary, or failing to have the diary available when events occur (Wutich, 2009:52). These problems with keeping diaries are also noted by Deaton and Gross (2000:31), who point out that people tire of keeping the diary and that often interviewers complete the diary on behalf of the respondents, based on the memory of the participants.

It was decided in this study to follow a similar strategy to that used by the World Bank, in other words, prompted recall. Participants in the case study were contacted before the interview to ask them to prepare information on their household's income, expenditure and taxes for the interview.

6.6.1.3 Questions on the perceived tax burden

Questions on the perceived tax burden were designed with the purpose of collecting data on how taxpayers estimate and see their tax burden (i.e. beliefs about their tax burden).

Questions 10 and 23 seek to uncover the general beliefs of taxpayers about their tax burden and other possible factors that might influence how they perceive their tax burden in South Africa. Question 12 focuses on the fiscal illusion of the taxpayer, while Question 13 covers the concept of fairness relating to the taxpayer's preferred effective tax rate. Question 22 deals with the complexity of the tax system, while Questions 17 to 21 address the taxpayer-government exchange.

6.6.2 Piloting the interview questions

The interview questions in the present research were piloted by distributing the questionnaire to lecturers in the Department of Taxation at the University of Pretoria. The reason for selecting these people to participate was that all of them are not just individual taxpayers, but also academics, who know the tax discipline. This provided an opportunity to obtain feedback on the questionnaire both from an academic perspective and from a taxpayer's perspective. Pilot participants were asked to provide written feedback, as explained by Saunders *et al.* (2007:386-387), on the following:

- the clarity of the questions;
- any questions that they felt uneasy answering;
- whether in their opinion any major topics had been omitted; and
- any other comments.

Generally, the feedback from the participants related to the clarity of some of the questions. Hence, these specific questions were rephrased to ensure clarity.

6.7 SELECTING CASES

The purpose of this study was not to generalise the results from the research, but to explore the tax burden as perceived by individuals, and to build on the theoretical constructs from the study. Although the population of individual taxpayers is very large, the identification of willing participants for the case studies could be a problem, because households' income, tax and expenditure information is personal and confidential. This might prevent people from disclosing this information. To overcome this problem, it was necessary to identify taxpayers who were willing to participate in the case study research. Clarity is therefore provided below on the sampling design and the sampling techniques used in the present research.

6.7.1 Sampling design

Sampling design refers to qualitative, quantitative or mixed sampling designs. Qualitative sampling deals with non-numerical data, or data that are not quantified, whereas quantitative sampling deals with numerical data, or data that can be quantified (Henning *et al.*, 2004:3; Leedy & Ormrod, 2005:94; Saunders *et al.*, 2007:608). A mixed sampling design combines qualitative and quantitative sampling designs. Mixed method studies do not mix research paradigms –

instead, different research paradigms are reflected in the techniques combined in such studies (Sandelowski, 2000:246-247).

Using a combination of sampling techniques in a study permits a variety of purposes to be pursued, such as the triangulation purpose, the complementary purpose and the development purpose (Greene, Caracelli & Graham, 1989:259; Onwuegbuzie & Collins, 2007:290-291; Sandelowski, 2000:248). The triangulation purpose refers to the corroboration of data to increase the validity of constructs. The complementary purpose is concerned with the elaboration of data results to increase the meaningfulness and validity of constructs. The development purpose refers to the use of additional sampling, data collection and analysis techniques to increase the validity of the constructs under review (Greene *et al.,* 1989:259). Various mixed methods designs are available, so, to simplify the choice between them, several typologies have been developed. Designs with a time-oriented base are the most common (Onwuegbuzie & Collins, 2007:290). Time orientation relates to whether the different phases of the sampling process are concurrent (happening simultaneously) or sequential (happening one after the other) (Daniel, 2011:215; Onwuegbuzie & Collins, 2007:290; Teddlie & Yu, 2007:90-91).

The sampling design used in the present research was a mixed method sample design, to be specific, the sequential nested non-probability sampling design, as explained by Daniel (2011:217) and Onwuegbuzie and Collins (2007:294-296). A sequential nested non-probability sampling design relates to the time dimension, where the sampling methods occur one after the other, and where each phase depends on the previous one(s) (Daniel, 2011:217; Onwuegbuzie & Collins, 2007:290). Non-probability sampling is a sampling technique where an element's probability or chance of being selected is unknown (Saunders *et al*., 2007:604). The purpose of adopting this sampling design in the present study was to use the results from the first phase to identify willing participants and to select specific cases for the case studies.

6.7.2 Sampling technique

The participants in the case study phase of the research were selected by means of purposive sampling, to be specific, criterion sampling (Daniel, 2011:91; Patton, 2002:238). According to Patton (2002:238), criterion sampling can be used to identify cases for in-depth follow-up, using standardised questionnaires to identify willing participants. The first phase of the sample selection process in this study therefore used self-administered questionnaires.

6.7.2.1 Phase 1 – identifying willing participants

Participants for the case studies were recruited using web-based techniques, as described by Daniel (2011:91). Web-based techniques involve, *inter alia*, sending invitations via electronic media for potential participants to go online and complete a questionnaire (Daniel, 2011:191). The present research used web-based questionnaires[150] (see Annexure A), which were distributed using survey software called Survey Monkey. Survey Monkey can be used to distribute questionnaires, to collect responses, and to analyse data. Invitations from Survey Monkey were distributed to individuals in the following groups:

- members of a South African labour union;
- members and supporters of a house of commerce;
- members of a cultural movement;
- members of a social network on the internet.

Respondents were reached by means of a chain referral sampling technique (Daniel, 2011:111). Chain referral sampling is based on the concept of snowball sampling.

[150] The questionnaire in Phase 1 was used in this study purely for the purposes of identifying willing participants for the case study research in Phase 2.

6.7.2.2 Phase 2 – selecting cases

Phase 1 was a prerequisite for the selection of respondents for the cases in Phase 2 of the research. Assenting participants from Phase 1 were used as the population for Phase 2, and specific cases were selected because of the respondents' willingness to participate. The sample for the case study was limited, for the sake of convenience and because of resource limitations, to the City of Tshwane metropolitan area.

The present study was limited to ten cases, which was deemed adequate for the purposes of this study. According to Daniel (2011:243), case study research requires a sample of between three and five participants. Onwuegbuzie and Collins (2007:288-289) also recommend a minimum of between three and five participants for case study research. This number of cases is adequate for causal-comparative research designs (Collins, Onwuegbuzie & Jiao, 2007:273). Marshall (1996:523) is of the opinion that quantitative researchers often fail to understand the usefulness of studying small samples: the appropriate sample size for a qualitative study is one that answers the research question adequately. In this regard, Patton (2002:244) comments:

> **There are no rules for sample size in qualitative inquiry.** Sample size depends on what you want to know, the purpose of the inquiry, what's at stake, what will be useful, what will have credibility, and what can be done with available time and resources. (Researcher's emphasis)

6.8 CONDUCTING MULTIPLE CASE STUDIES

The fieldwork was conducted in two phases, as explained in Section 6.7 of the present study.

6.8.1 Phase 1

Phase 1 of the present study was conducted between 5 September 2011 and 15 September 2011. During this period, the questionnaire inviting people to participate in the case study phase was available to respondents on Survey Monkey. After this initial period, a list of willing participants for Phase 2 was compiled from the data on Survey Monkey. In total, 59 respondents indicated that they would be interested in further research in the format of a case study of their household.

From the list of 59 names of respondents, a list of 15 willing respondents from the Tshwane area was compiled by including all the participants who provided a Telkom telephone number which had a Tshwane area code. This ensured that the selected participants all resided in the Tshwane area, for convenience's sake. These individuals were contactable for setting up meetings. This selection criterion was deemed adequate, as the purpose of the present research was not to generalise the findings, but to test the conceptual framework in a real-life context.

6.8.2 Phase 2

Phase 2 entailed the selection of participants and the execution of the multiple case studies in the form of structured interviews using a set of standard questions as an interview schedule.

Step 1 was to make contact with willing participants on the list of 15 names from Phase 1. The purpose was to explain the process of the case study to them, to confirm that they were willing to participate in the case study, and to set up a meeting between the participants and the researcher.[151]

The list of 15 willing participants was compiled in the sequence in which the responses were received. Participants on the list of 15 names were then contacted telephonically by the researcher from the top of the list and moving

[151] All interviews were conducted by the researcher himself, primarily to ensure consistency between interviews, but also because the information is highly confidential and participants might have been reluctant to provide their personal information to other interviewers. The researcher is a professionally registered auditor of long standing with extended experience in interviews, especially interviews in which confidential information is discussed. Hence this was deemed to be the best strategy to follow for the interview stage of the current study.

down the list. The process and requirements for participating in the case study research were explained to each participant in the telephone conversation. If a participant indicated at that stage that he or she did not want to participate further, the next name on the list was contacted. This process was repeated until a total of 10 willing participants had been identified for the second phase of the study. If a participant agreed to participate in a case study, a date for the interview was scheduled at a time and place convenient to the participant between 26 September 2011 and 14 October 2011.

Participants were requested by e-mail to prepare for the meeting by collecting data on their household's income and expenditure, using a standard schedule (see Annexure C), together with supporting documents to the schedules. As part of this schedule, a letter of introduction and informed consent was included and made available to each participant.

After the participants had been contacted, meetings had been scheduled, and documents had been distributed to those willing to participate in the study in preparation for the interviews, one of the participants decided to withdraw from the study. Nine case studies were deemed adequate for the purposes of this study, as this number was still more than the minimum of between three and five participants recommended by Onwuegbuzie and Collins (2007:288-289).

Step 2 involved conducting interviews with each of the nine participants, using the questionnaire in Annexure B to structure the interviews, and referring to the data already collected in the schedule in Annexure C, and any other documents provided by the participants. This schedule was discussed with each respondent to clarify, and verify the information on the schedule. Questions from the standard interview schedule (see Annexure B) were discussed with each respondent, and each respondent's response to each question was documented on a copy of the schedule by the researcher. The details of the interviews conducted with each of the participants are set out in Annexure D.

6.9 SUMMARY

The purpose of this chapter was to explain the research methodology and data collection process followed in the present research. The chapter clarified the use of case studies as a data collection technique, and also explained the application of this technique in the present research.

The collection of data is only one phase of the overall research process. Once the data had been collected, an analysis of the data was the next step. The analysis of the data that were collected by means of the case studies is provided in the next chapter.

CHAPTER 7:
DATA ANALYSIS

7.1 INTRODUCTION

The main objective of the current study was to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. To achieve this objective, it was important first to define the theoretical constructs that could form the basis for the development of such a conceptual framework. However, although the theoretical constructs were important to the development of the conceptual framework, it was equally important to build onto and to validate these theoretical constructs in a real-life context. Chapter 6 of the current study explained the use of multiple case studies as a research strategy to underpin the application of the theoretical constructs from the current study in a real-life context. The purpose of Chapter 7 is thus to discuss the analysis of the data collected from the multiple case study research, and to present the results as they relate to the development of a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa.

The chapter commences with an orientation on the data analysis technique that was adopted in the present research. The chapter then proceeds to the analysis of the data collected from the case study research. Finally, the chapter concludes with the results of the present research and their impact on the validity of the theoretical constructs of the current study.

7.2 ORIENTATION OF THE DATA ANALYSIS TECHNIQUE

The analysis of the data in this chapter focuses on the concepts emerging from the data that contributed to the development of the conceptual framework in the study. This focus on emerging aspects from the data is in line with the recommendations by Ritchie and Spencer (2002:309), who argue that the main concern of qualitative data analysis is detection, supported by functions that contribute to the research objective, referring, for instance, to defining, categorising and explaining concepts from the data. The functions supporting the focus of the data analysis in the present research were defining emerging concepts from the data and creating typologies by categorising these emerging concepts.

The thematic framework analysis technique was adopted in the present research as a strategy to analyse the data collected from the multiple case studies. This is a type of analysis used primarily in qualitative research (Dixon-Woods, 2011:39; Ritchie & Spencer, 2002:305), particularly in the fields of health care, internet research and education (Srivastava & Thomson, 2009:77). Thematic framework analysis may appear not to exist as an independent analysis technique like other traditional qualitative techniques, such as the narrative analysis and the grounded theory techniques, but these traditional analysis techniques are in essence often actually a thematic framework analysis disguised by calling them something else (Braun & Clarke, 2006:79-80).

Thematic framework analysis differs from the better-known techniques in that the more well-known techniques generally focus on searching for certain themes or patterns **across** a whole data set, while the thematic framework analysis technique focuses on searching **within** a data item[152] (Braun & Clarke, 2006:81). This characteristic makes the thematic framework analysis technique suitable for the data analysis in the present research, as the purpose of the multiple case study research used here was not to generalise findings from the research, but rather to detect concepts emerging from within each of the cases in the research.

[152] A data item refers, for example, to individual interviews, as in the case of biographical or case-study research (Braun & Clarke, 2006:81).

One of the benefits of the thematic framework analysis technique is that it provides for questions and themes identified in advance (*a priori* themes[153]) to be explicitly and systematically analysed. In addition, the framework is flexible enough also to detect themes arising from the data (*a posteriori* themes[154]) (Dixon-Woods, 2011:39; Lacey & Luff, 2001:10; Ritchie & Spencer, 2002:314; Srivastava & Thomson, 2009:76). This characteristic of framework analysis was deemed useful and advantageous in building onto the theoretical constructs (*a priori* themes) by considering concepts that emerged from the data analysis (*a posteriori* themes).

The framework analysis technique also provided a rigorous approach to data analysis because it enabled an in-depth exploration of the data while maintaining an effective and transparent audit trail (Smith & Firth, 2011:53; Srivastava & Thomson, 2009:77). Another benefit of the framework analysis technique is that it provides an effective structure for an analytical presentation of the research results, which is a recognised method for presenting the results of qualitative research (White, Woodfield & Ritchie, 2003:297).

The application of the thematic framework analysis technique requires clarity on specific key stages of the data analysis process, namely familiarisation, the creation of a thematic framework, indexing, charting and mapping, and interpretation (Braun & Clarke, 2006:86-87; Ritchie & Spencer, 2002:310-328; Srivastava & Thomson, 2009:75). It is therefore important to clarify these key stages as they relate to the present research.

7.2.1 Familiarisation

This stage consists mainly of the process of becoming familiar with the collected data (Lacey & Luff, 2001:10; Ritchie & Spencer, 2002:313). In the present

[153] The term '*a priori*', for the purposes of this study, must be interpreted as referring to knowledge which proceeds from theoretical deduction rather than from observation or experience (*Oxforddictionaries.com,* n.d.)
[154] The term '*a posteriori*', for the purposes of this study, must be interpreted as referring to knowledge which proceeds from observations or experiences (*Oxforddictionaries.com,* n.d.)

research, the process of becoming familiar with the data inherently formed part of the data collection process, in the sense that the interviews with the participating households were all conducted by the researcher himself. This strategy enabled the researcher to gain in-depth knowledge of the data from the start of the data collection process. This strategy also provided him with an opportunity to analyse and verify the data during the interviews with members of the participating households,[155] and this in turn contributed to the reliability of the data collected. Another important consideration is the fact that the number of case studies was limited to nine – such a limited scope allows a researcher to become intimately familiar with the data (Ritchie & Spencer, 2002:312).

7.2.2 Thematic framework

The application of framework analysis as the data analysis technique requires the formulation of a thematic framework (Lacey & Luff, 2001:10; Ritchie & Spencer, 2002:313; Srivastava & Thomson, 2009:75). The thematic framework may originate from *a priori* themes, which may also guide the development of the thematic framework (Lacey & Luff, 2001:10; Ritchie & Spencer, 2002:314). A theme refers to something important in the data relating to the research objective, and does not necessarily depend on quantifiable measures (Braun & Clarke, 2006:82).

Themes can be data-driven or theory-driven (Braun & Clarke, 2006:88-89). Themes driven by data depend on the data themselves, and the analysis of the data follows an inductive approach that involves discovering themes from the data (Patton, 2002:453). By contrast, theory-driven analysis follows a deductive approach, where the data are analysed according to an existing framework of themes (Patton, 2002:453). Qualitative analysis can be inductive in the early stages of the data analysis process, especially when codes are developed for the data analysis phase (Patton, 2002:453), and deductive later in the process. The

[155] The researcher is well experienced in collecting and analysing data during the process of collecting data for auditing purposes (see Section 7.2.5 of the current study).

present research mainly followed a deductive approach to the analysis of the data, using an existing framework.[156]

The theoretical constructs set out in Table 70 were used as a basis for formulating the thematic framework in the present research. These theoretical constructs from Table 70, namely the gross household income, the imposed direct recurrent taxes, the imposed indirect recurrent taxes, the fiscal illusion, the fairness of taxes and the perceived taxes, were used as the main themes for classifying the data collected from the case studies. To formulate a comprehensive thematic framework that provided for all the data collected based on the interview schedule, the main themes from Table 70 were extended to include the demographic profile of the household (as the unit of analysis), as one of the main themes in the thematic framework. Key theoretical concepts contributing to the main classification themes were used as *a priori* sub-themes to formulate an initial thematic framework. The initial thematic framework was then refined by looking at the *a posteriori* sub-themes that emerged from the data to formulate a final thematic framework. The structuring of a thematic framework using the main and sub-themes is in line with the notions of Ritchie and Spencer (2002:314). The final thematic framework is summarised in Table 76, overleaf. The purpose of Table 76 is to provide clarity on the classification structure underpinning the data analysis in the present research.

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[156] The existing framework used for analysing the data refers to the theoretical constructs underpinning the framework for measuring the tax burden as set out in Table 70 (See Section 5.5.5).

Table 76: Thematic framework underpinning the data classification and analysis in the present research

MAIN THEMES	***A priori* sub-themes (theoretical concepts)**	***A posteriori* themes (concepts emerging from the data)**
Main Theme 1: Demographic profile	1.1 Head of the household 1.2 Location 1.3 Composition of the household	None emerged from the data (see Section 7.3)
Main Theme 2: Gross household income	2.1 Nature of the gross monthly household income of the participating households 2.2 Contributions to the gross monthly household income by members of the participating households	None emerged from the data (see Section 7.4.2)
Main Theme 3: Imposed direct recurrent taxes	3.1 Direct taxes imposed monthly on the participating households 3.2 Direct taxes imposed monthly on the members of the participating households	None emerged from the data (see Section 7.4.3)
Main Theme 4: Imposed indirect recurrent taxes	4.1 Monthly household expenditure of the participating households 4.2 Indirect taxes imposed monthly on the participating households	None emerged from the data (see Section 7.4.4)
Main Theme 5: Fiscal illusion	5.1 Estimated effective tax rate from the participating households 5.2 Conceptual elements contributing to the fiscal illusion of the participating households: • Hidden taxes	• Number of taxes • Double taxation • Tax shifting (see Section 7.5.2)

MAIN THEMES	***A priori* sub-themes (theoretical concepts)**	***A posteriori* themes (concepts emerging from the data)**
Main Theme 6: Fairness of taxes	6.1 Participating households' perceptions regarding the fairness of taxes in South Africa 6.2 Preferred effective tax rate from the participating households 6.3 Conceptual elements contributing to the participating households' perceptions regarding the fairness of taxes in South Africa: • Horizontal fairness • Vertical fairness	• Level of the tax burden • Number of taxpayers • Mix of direct and indirect taxes (see Section 7.5.3)
Main Theme 7: Perceived taxes	7.1 Complexity of taxes in South Africa as perceived by the participating households 7.2 The taxpayer-government exchange in South Africa as perceived by the participating households	None emerged from the data (see Section 7.5.4)
Main Theme 8: Measuring the tax burden	8.1 Economic and perceived spending ability 8.2 Effective tax rates	None emerged from the data (see Section 7.6.1)
Main Theme 9: Comparing the tax burden	9.1 Equivalence scales	None emerged from the data (see Section 7.6.2)

7.2.3 Indexing

The key stage of indexing refers to the process of merging the thematic framework with the data, using numerical or textual codes to identify the portions of the data which are linked to a particular theme in the thematic framework (Lacey & Luff, 2001:10; Srivastava & Thomson, 2009:76).

The present research adopted a combination of numeric and textual codes to formulate a coding framework. The coding framework serves the purpose of an index for linking the interview schedule to the database, and in turn to the data analyses in the present chapter. This coding framework is set out in Table 87 (see Annexure E).

7.2.4 Charting

The charting stage of analysing data, using the framework analysis technique, consists of the creation of charts using the themes from the thematic framework as a structure (Ritchie & Spencer, 2002:315). Charts can be either in the format of a **thematic chart** in which each theme cuts across all cases, or in the format of a **case chart** in which each case cuts across all themes (Lacey & Luff, 2001:10). The present research adopted the format of thematic charts, in terms of which the themes in the thematic framework were analysed across the households that participated in the case study research.

7.2.5 Mapping and interpretation

The final stage in the framework analysis method refers to the analysis of concepts contributing to the thematic framework (Srivastava & Thomson, 2009:76).

Patton (2002:566) suggests that a researcher is the instrument in qualitative research, and therefore deems it vital for the credibility of the data that the perspectives of the researcher, as well as the qualifications and experience of the researcher, are provided for consideration in assessing the reliability of the data. To clarify his perspective, it should be understood that the researcher in the present research is himself an individual taxpayer in South Africa and that therefore this may create an unconscious bias by the researcher towards individual taxpayers in South Africa. However, the credibility of the data collection, analysis and interpretation was enhanced by the fact that the researcher is also a professional qualified Chartered Accountant (SA) with a Master's degree in Taxation. The researcher has extensive experience in the fields of auditing, finance and taxation, gained both in practice and in academia over a period of 24 years.

In the present research, the data collected from the multiple case studies can be categorised into factual data and data on the beliefs of individual taxpayers[157] as they relate to the tax burden of their households. The factual data collected from the case studies concern the imposed recurrent tax burden of the participating households, and were therefore used as the basis for computing the direct and indirect taxes imposed monthly on the participating households. The data collected from the case studies on the beliefs of the individual taxpayers concern the tax burdens of the households as perceived by the individual taxpayers in the participating households. The purpose of collecting the data on the perceived tax burden was to explore the tax burden as it is estimated and interpreted by the individual taxpayers as members of these households.

Data were also collected from the participating households on the demographic profile of each household, which provides background information to enhance the interpretation of the data in the context of the unique circumstances of each household that participated in the case study research.

[157] See Section 6.6.1 for an explanation.

7.3 MAIN THEME 1: DEMOGRAPHIC PROFILE

In the theory part of the current study, it was explained that elements contributing to the demographic profile of a household affect the evaluation of a household's tax burden, as well as any comparison of a household's tax burden with the tax burden of other households.[158] Therefore, it was deemed important to include the demographic profile of households (as the unit of analysis) as a conceptual element in the conceptual framework developed in this study.

The demographic profile of the original nine households participating in the case study research indicated that there was a bias towards white households. In itself this is not a problem, but given South Africa's historical imbalances and difference in cultures, it was deemed necessary to include households from other population groups in the study too. Hence, the original sample size of nine case studies was extended by four to include households from the Asian, black, coloured, and Indian race groups, as it is generally found in household and population studies in South Africa (Statistics South Africa, 2008, 2011a, 2011b, 2012). No respondent from these specific race groups in Phase 1[159] of the study indicated that he or she was willing to participate in the case study research. Therefore, the strategy used to select households from these race groups to add to the original sample was availability sampling, as explained by Daniel (2011:82-83). In total, an additional four households, one from each of the race groups referred to, were included in the study, bringing the total number of households participating in the case study research to thirteen.

Questions 2 to 10 of the interview schedule served the purpose of collecting demographic data on each of the households that participated in the case study research. The results from Questions 2 to 10 are summarised in Table 77, overleaf.

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[158] See Section 5.3, together with Section 5.8 of the current study.
[159] See Section 6.7.2, together with Section 6.8 of the current study.

Table 77: Demographic profiles of the participating households

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Sub-theme 1.1: Head of the household:													
Head	Husband	Husband	Husband	Husband	Wife	Husband	Taxpayer	Husband	Husband	Taxpayer	Husband	Husband	Taxpayer
Age in years	52	37	57	40	35	58	42	49	49	27	36	33	61
Gender	Male	Male	Male	Male	Female	Male	Male	Male	Male	Female	Male	Male	Female
Population group	White	White	White	White	White	White	White	White	White	Coloured	Indian	Black	Asian
Qualification	Under-graduate	Under-graduate	Under-graduate	Artisan	Under-graduate	Under-graduate	Post-graduate	Under-graduate	Under-graduate	Post-graduate	Post-graduate	Under-graduate	Post-graduate
Employment status	Entrepreneur	Entrepreneur	Private sector	Entrepreneur	Semi-public	Private sector	Semi-public	Private sector	Public sector	Semi-public	Private sector	Private sector	Semi-public
Tax knowledge	High	Low	Low	None	Low	Medium	Low	Low	Medium	Low	Medium	Medium	Medium
Tax experience	High	Low	Low	None	Low	Medium	Low	Low	Medium	Low	Medium	Medium	Medium
Sub-theme 1.2: Location of the household:													
City/Town	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria	Pretoria
Municipal area	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane	Tshwane
Province	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng	Gauteng
Sub-theme 1.3: Composition of the household:													
Adults	3	2	2	2	3	2	1	5	2	1	2	2	3
Children	0	3	0	2	2	0	0	0	3	0	2	2	0
Number contributing to income	2	1	2	2	2	1	1	2	1	1	2	2	1

Source: Questions 2 to 10 of the interview schedule

The demographic profiles of the participating households in Table 77 indicate that each of the participating households' circumstances is unique, and differs very much from those of the other participating households. Some of these elements directly affect the evaluation of the tax burden, for instance, the computation of the direct taxes (see Section 7.4.3) and indirect taxes in terms of the household's consumption (see Section 7.4.4). Thus it is possible to state that the unique demographic profile of a household is an important concept in the evaluation and comparison of the tax burden of individual taxpayers' households.

7.4 DATA RELATING TO THE IMPOSED RECURRENT TAX BURDEN

The imposed recurrent tax burden of the participating households, for the purposes of the present research, consists of the direct taxes imposed monthly on the income and wealth of taxpayers as members of the participating households, and indirect taxes imposed monthly on the consumption of the households of these taxpayers. It was therefore important to collect the factual data necessary for computing the direct and indirect taxes imposed monthly on the participating households, using the theoretical constructs of the imposed recurrent tax burden as a point of reference.

7.4.1 Orientation of the process to capture and analyse the factual data

The factual data relating to the direct and indirect taxes imposed monthly on the participating households were collected using an interview schedule as the method of collection. The data from the interview schedule were coded by the researcher in line with the coding framework in Table 87 (see Annexure E). The coded data on the interview schedule were captured by a research assistant in an electronic database created in Microsoft Excel. The researcher then verified the data captured in the database according to the interview schedule.

The factual data from the database in Microsoft Excel were then used as a basis for computing the direct and indirect taxes imposed monthly on the participating households. The purpose was to apply the theoretical constructs from Table 70, namely the gross household income, the imposed direct recurrent taxes, and the imposed indirect recurrent taxes in a real-life context, focusing on concepts emerging from the computation that contributed to the development of the conceptual framework in the current study.

7.4.2 Main Theme 2: Gross household income

The gross income of a household is an important construct for the conceptual framework to evaluate the tax burden of individual taxpayers in South Africa[160] developed in this study. It is an important construct, not only for measuring the tax burden, but also for computing the income taxes imposed on the individual taxpayers as members' of households.[161]

Income tax in South Africa is imposed in terms of the Income Tax Act (58 of 1962) on the taxable income of taxpayers as individual persons.[162] In other words, each individual person as a member of a household can incur an income tax liability in South Africa separately from the other members of the household. Computing the taxable income of an individual taxpayer in terms of the Income Tax Act, *inter alia*, depends on the nature of the person's gross income. It was therefore important to analyse the composition of the gross monthly household income of the participating households by referring to the two key elements of the nature of the gross income, and the specific member(s) of the household from whom the gross household income originates.

Question 11 of the interview schedule used the theoretical elements from Table 71[163] as a point of reference to collect data on the composition of the gross monthly income of the participating households. The results for Question 11 are set out in Table 88 (see Annexure F). Table 78, below, provides a summarised overview of the data analysis relating to the composition of each participating household's gross monthly income in relation to the two key elements.

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[160] See Sections 5.3 and 5.6.1.
[161] See Section 5.7.2.1.
[162] The term 'person' for income tax purposes also implies a natural person (Stiglingh, 2011:13).
[163] See Section 5.6.1.

Table 78: Composition of the gross monthly income of the participating households

Case Study 1 The household in Case Study 1 consisted of three adults (see Table 77), but only two of the adult members regularly contributed to the gross monthly household income. The gross monthly household income was comprised of contributions by the head of the household (64% of the total gross income), and by his spouse (36% of the total gross income). The contribution by the head of the household consisted of income from business (51%) and income from capital, in the form of rental income (49%). His spouse's contribution originated wholly from employment.
Case Study 2 The household in Case Study 2 consisted of two adults and three children (see Table 77). Only the head of the household contributed to the gross monthly household income, and his income originated wholly from business activities.
Case Study 3 The household in Case Study 3 consisted of two adults (see Table 77), both of whom contributed to the monthly gross household income. The head of the household contributed 68% of the total gross income (96% originated from employment income, and 4% from rental income). His spouse's contribution of 32% to the total monthly gross household income originated wholly from employment.
Case Study 4 Case Study 4's household consisted of two adults and three children (see Table 77). Both the head of the household and his spouse contributed to the gross monthly income of the household. The head of the household contributed 75% of the total monthly gross income (92% of his income was comprised of business income, and 8% of rental income). His spouse contributed 25% to the total gross income, and her income originated wholly from employment.
Case Study 5 The household in Case Study 5 consisted of three adults and two children (see Table 77). Only the head of the household and her spouse contributed to the gross monthly income of the household. The head of the household contributed 36% of the total income, all of which originated from employment. Her spouse contributed 64% of the total gross monthly income, all of which originated from employment.
Case Study 6 Case Study 6's household consisted of only two adults (see Table 77). Only the head

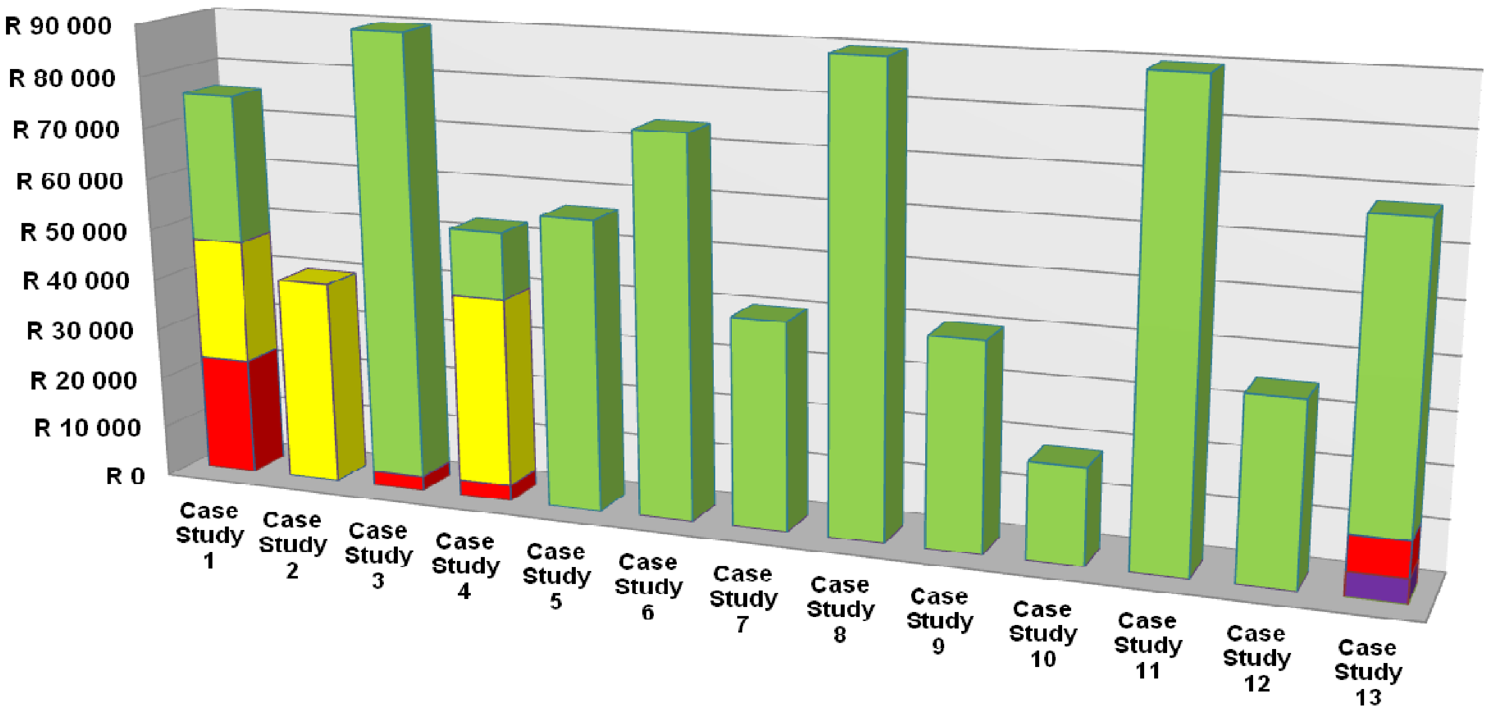
of the household contributed to the gross monthly household income. The gross monthly income of the household originated wholly from employment.
Case Study 7 The household in Case Study 7 consisted of only one adult (see Table 77). His gross monthly household income originated wholly from employment.
Case Study 8 The household in Case Study 8 was comprised of five adults (see Table 77). Of these five adults, only the head of the household and his spouse contributed to the gross monthly household income. The head of the household contributed 48% of the total gross income, which originated wholly from employment. The spouse contributed 52% to the total gross income, all of which also originated from employment.
Case Study 9 Case Study 9's household consisted of five persons: two adults and three children (see Table 77). Only the head of the household contributed to the gross monthly household income, originating wholly from employment.
Case Study 10 The household in Case Study 10 consisted of only one adult (see Table 77). Her gross monthly household income originated wholly from employment.
Case Study 11 The household in Case Study 11 consisted of two adults and two children (see Table 77). Both the head of the household and his spouse contributed to the gross monthly income of the household. The head of the household contributed 66% of the total income, all of which originated from employment. His spouse contributed 34% of the total gross monthly income, all of which originated from employment.
Case Study 12 Case Study 12's household consisted of two adults and two children (see Table 77). Both the head of the household and his spouse contributed to the gross monthly income of the household. The head of the household contributed 57% of the total monthly gross income (all his income was from employment). His spouse contributed 43% to the total gross income, and her income originated wholly from employment.
Case Study 13 The household in Case Study 13 consisted of three adults (see Table 77), but only one regularly contributed to the gross monthly household income. The main portion of the monthly income originated from employment (83%), while the remaining portion consisted of income from capital (10%) and income from a retirement fund (7%).

From the analyses in Table 78 above, it is clear that the composition of the gross monthly income of each of the participating households is unique to each household, not only in the nature of the gross income, but also in the number of household members who contributed to the gross monthly household income.

7.4.2.1 Sub-theme 2.1: Nature of the gross monthly household income of the participating households

The analyses in Table 78 above indicate that the gross monthly income of the participating households originated mainly from employment, except in Cases 1, 2 and 4, whose gross monthly income originated primarily from business and/or rental activities. The graph in Figure 3 below provides an overview and summary of the nature of the gross monthly household income of the participating households.

Figure 3: Nature of the gross monthly income of the participating households



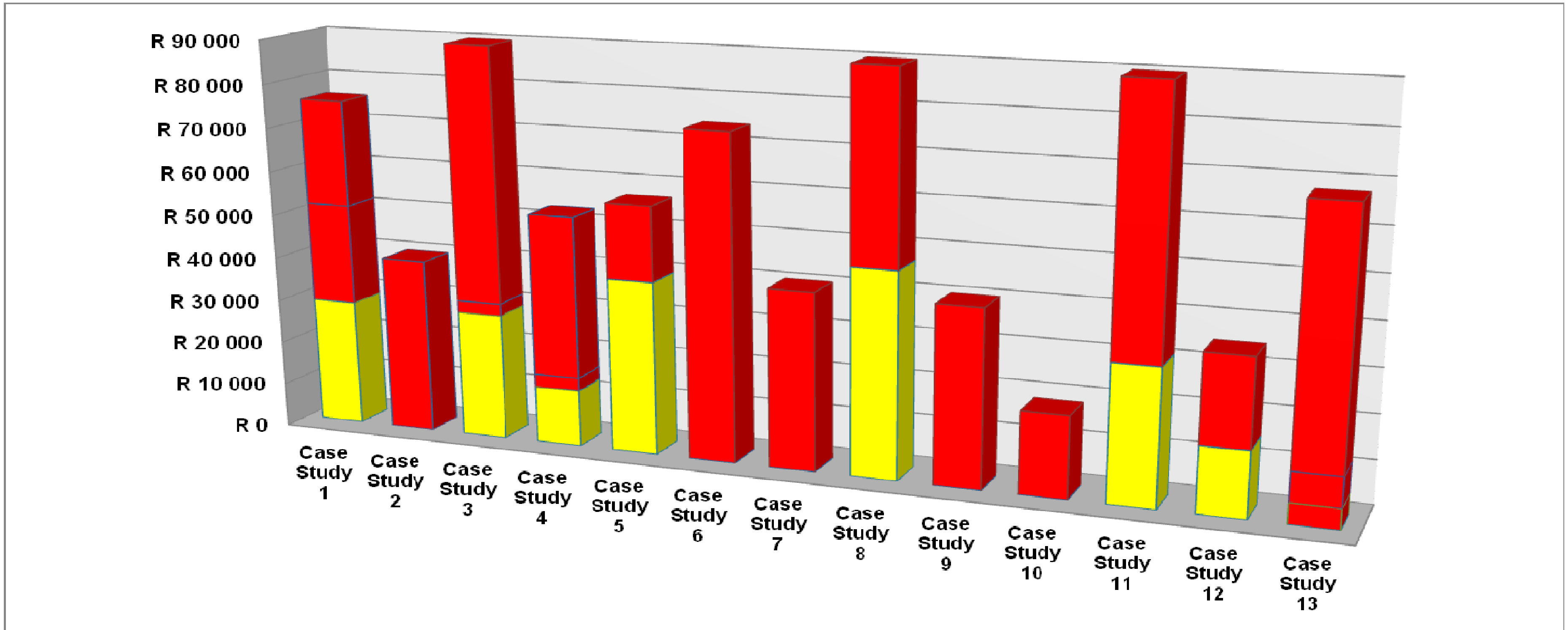
	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
From employment	28 880	-	88 916	13 000	56 800	74 280	40 544	90 500	40 367	18 666	91 000	35 000	56 433
From business	24 110	40 000	-	37 000	-	-	-	-	-	-	-	-	-
From capital	22 850	-	2 750	3 000	-	-	-	-	-	-	-	-	6 800
From retirement funds	-	-	-	-	-	-	-	-	-	-	-	-	4 732
Government grants	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Table 88 (see Annexure F)

7.4.2.2 Sub-theme 2.2: Contributions to the gross monthly household income by individual taxpayers as members of the participating households

The graph in Figure 4 provides an overview and summary of the contributions that the head of the household and other individual taxpayers as members of the household make to the total monthly gross income of the individual households.

Figure 4: Contribution to the gross monthly household income by individual taxpayers as members of the participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Head - employment income	-	-	60 000	-	17 100	74 280	40 544	43 700	40 367	18 666	60 000	20 000	56 433
Head -business income	24 110	40 000	-	37 000	-	-	-	-	-	-	-	-	-
Head - capital income	22 850	-	2 750	3 000	-	-	-	-	-	-	-	-	6 800
Head - retirement funds	-	-	-	-	-	-	-	-	-	-	-	-	4 732
Spouse - employment income	28 880	-	28 916	13 000	39 700	-	-	46 800	-	-	31 000	15 000	-

Source: Table 88 (see Annexure F)

7.4.2.3 Conclusion on Main Theme 2

The results of the case study research confirmed the importance of the construct of gross household income as a theme relevant to measuring the tax burden of individual taxpayers in South Africa and for computing the income tax imposed on individual taxpayers as members of a household (see Section 7.4.3.1).

<u>Conclusion 7.1</u>
The composition of the gross household income, referring to the contributions by individual taxpayers as members of the household and the nature of the income sources, is a valid theme underpinning the evaluation of the tax burden of individual taxpayers in South Africa.

7.4.3 Main Theme 3: Imposed direct recurrent taxes

The imposed direct recurrent taxes refer to the taxes imposed directly on the income and wealth of taxpayers.[164] These direct taxes imposed monthly on the income and wealth of the participating households were determined using the direct recurrent taxes from Table 72 as a point of reference.

7.4.3.1 Sub-theme 3.1: Direct taxes imposed monthly on the participating households

Direct taxes imposed on individual taxpayers in South Africa can be determined objectively using the applicable legislation as a point of reference (see Section 5.7.2.1).

Factual data collected using Question 11 (gross monthly household income), Question 12 (monthly employees tax), Question13 (monthly contributions to UIF), Question 14 (latest income tax assessments), and Question 15 (monthly

[164] See Section 2.2.6.2 of the current study.

household expenditure) were used as a basis for computing the value of the direct taxes imposed monthly on the participating households.

The purpose of the present research was to build on and to validate the theoretical constructs underpinning the study, by applying these theoretical constructs in a real-life context. The accurate computation of the direct taxes imposed monthly on the participating households was not the main consideration in the present section, but it is important to provide clarity on elements that may affect the accuracy of the computation of the direct taxes imposed monthly on the participating households. These elements are clarified in Table 79 below.

Table 79: Elements underpinning the computation of the direct taxes imposed monthly on the participating households

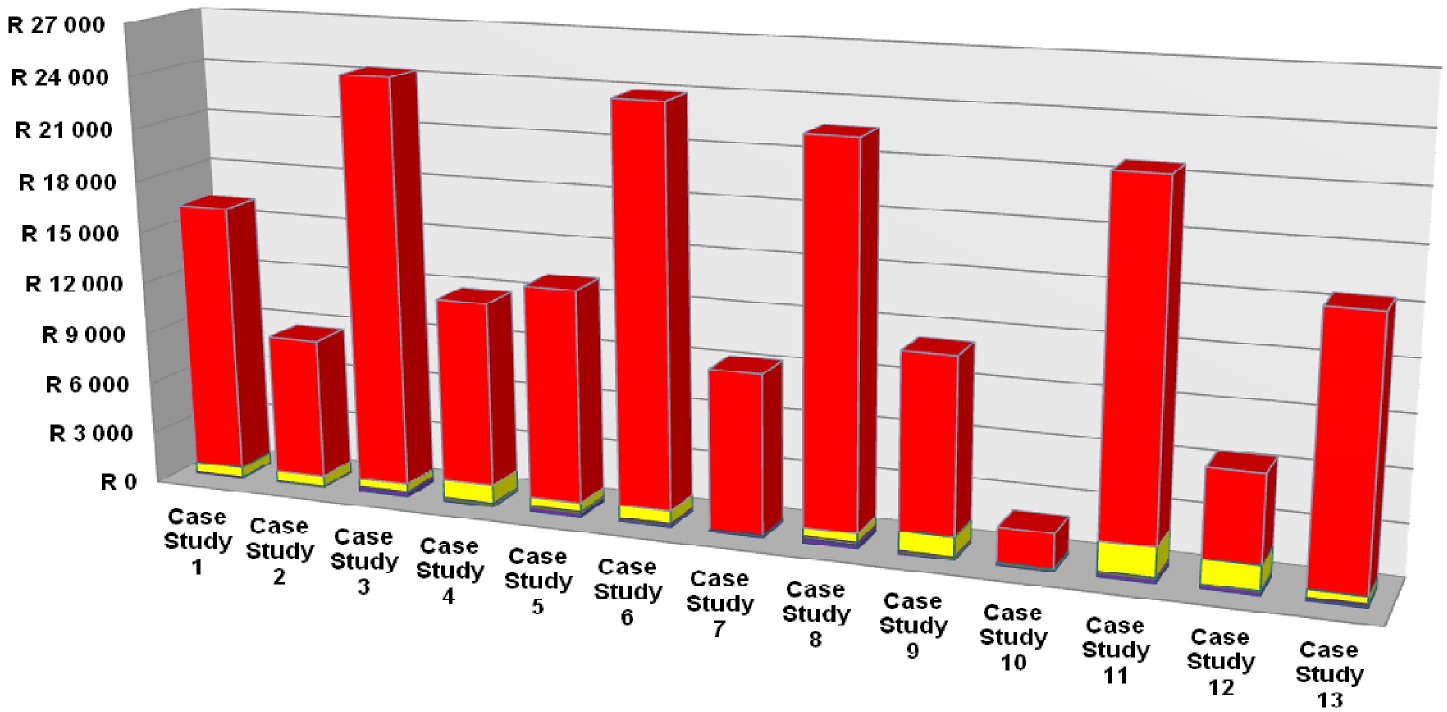
<u>*Income tax*</u>
The taxable income of a taxpayer in South Africa is normally computed at the end of a given year, referred to as the year of assessment.[165] To compute the taxable income, it is necessary to take into account components such as the gross income for the year, the non-taxable gross income for the year, and allowable deductions for the year (Van Schalkwyk, 2011:4). Generally, most of these components can only be determined at the end of the year of assessment or thereafter. The present research focused only on one month in the 2012 year of assessment. Hence, not all the information to compute the taxable income of the individual taxpayers participating in the case study research accurately was available at the time of the research. It was therefore necessary for the researcher to make some assumptions to be able to compute the monthly taxable income of the individual taxpayers as members of the participating households. In making these assumptions, the latest income tax assessments of these individual taxpayers were used, *inter alia*, as a source of reference.
<u>*Property rates*</u>
The monthly liability of the participating households for municipal property rates was determined by using the latest municipal accounts of the household at the time of the interview. It was assumed for all the households that participated in the case study

[165] Section 1 of the Income Tax Act (58 of 1962).

research that the head of a given household was the person in the household who owns the property; thus incurring the monthly liability for the property rates of the household. The reason for this assumption is that it was not always possible to identify the specific person in the household who incurred this liability.
Turnover tax None of the households that participated in the case study research was registered as a micro business for turnover tax purposes in terms of the Sixth Schedule to the Income Tax Act (58 of 1962). Hence, turnover tax was not included as a direct tax that affected the tax burden of the participating households.
Motor vehicle and television licences These licences are normally imposed on an annual basis, rendering the licence valid for a total period of twelve months. For the purposes of the present research, the annual licences were divided by twelve months to compute the monthly amount imposed on the participating households.
Firearm, liquor and business licences None of the individual members of the households participating in the case studies owned such licences.
UIF contributions – employees Question 13 of the interview schedule was used to collect data on the monthly UIF contributions by the participating households. The data on UIF contributions relating to employment income were collected for each individual taxpayer as a member of the household.
Other direct recurrent taxes The category of other direct recurrent taxes consists of mineral and petroleum royalties, prospecting fees and surface rentals, levy on educators levy on suppliers of private security services and diamond export levy. None of the individual members of the participating households were involved in these kinds of activities.

The results from the computation of the direct taxes imposed monthly on the participating households are set out in Table 89 (see Annexure F) of the current study. The graph in Figure 5 below provides an overview and summary of the results from computing the direct taxes imposed monthly on the participating households.

Figure 5: Direct taxes imposed monthly on the participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Income tax	15 596	8 146	23 629	10 677	12 348	23 024	9 215	21 816	10 098	1 980	19 767	4 978	14 978
Property rates	582	622	470	1 068	511	753	-	488	1 120	-	1 700	1 400	433
Motor vehicle licences	58	58	58	88	58	78	29	134	58	29	58	15	80
Television licences	18	18	18	18	18	18	18	18	18	18	18	18	18
Unemployment Insurance Fund	-	-	250	125	250	125	125	250	125	125	250	240	125

Source: Table 89 (see Annexure F)

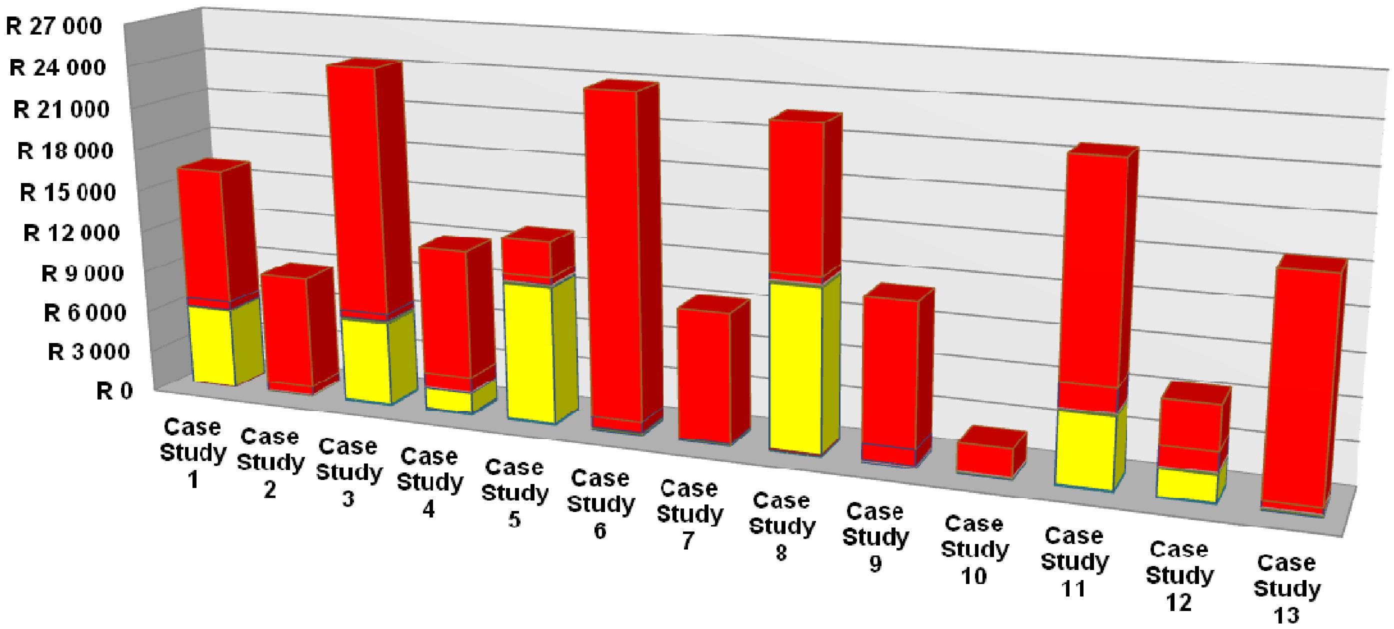
In the theoretical overview of the current study, it was indicated that income tax is a primary source of revenue for the National Revenue Fund,[166] and therefore it is considered to be an important tax that affects the tax burden of individual taxpayers in South Africa. Figure 5 provides a clear indication of the relevant importance of income tax in evaluating the tax burden of individual taxpayers in the country. The total direct taxes imposed monthly on the households that participated in the case study research consisted between 87% and 96% of income tax. Although the contribution of the other direct taxes in Figure 5 to the total direct monthly taxes was not as high as that of income tax, these other direct taxes are still highly relevant to the evaluation of the overall tax burden of individual taxpayers in South Africa.

7.4.3.2 Sub-theme 3.2: Direct taxes imposed monthly on the individual members of the participating households

As is the case with the monthly gross household income,[167] the direct taxes imposed monthly on the participating households consist of the combined direct taxes imposed on each individual member of the household as a taxpayer in South Africa. The graph in Figure 6 below provides an overview of the direct taxes imposed monthly on the head of the household, as well as on the other members of the household.

[166] See Section 3.4.1 of the current study.
[167] See Section 7.4.2.2 of the current study.

Figure 6: Monthly direct taxes imposed on the individual members of the participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Head of the house - Income tax	9 753	8 146	17 612	9 198	2 504	23 024	9 215	10 224	10 098	1 980	14 792	3 114	14 978
Head of the house - Property rates	582	622	470	1 068	511	753	-	488	1 120	-	1 700	1 400	433
Head of household - Licences	76	76	76	62	76	96	47	94	76	47	76	33	98
Head of the house - UIF	-	-	125	-	125	125	125	125	125	125	125	120	125
Spouse - Income tax	5 843	-	6 017	1 479	9 844	-	-	11 592	-	-	4 975	1 864	-
Spouse - Licences	-	-	-	44	-	-	-	58	-	-	-	-	-
Spouse - UIF	-	-	125	125	125	-	-	125	-	-	125	120	-

Source: Table 89 (see Annexure F)

7.4.3.3 Conclusion on Main Theme 3

The results of applying the theoretical constructs from the present study in a real-life context confirm the importance of the construct of the direct recurrent taxes as a basis from which to objectively determine the burden originating from direct taxes imposed on individual taxpayers, as members of their household, in South Africa.

Conclusion 7.2
The construct of imposed recurrent taxes, as defined in the present study, is a valid theme to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa that was developed in this study.

7.4.4 Main Theme 4: Imposed indirect recurrent taxes

Imposed indirect recurrent taxes refer to taxes that are imposed indirectly on a person's consumption of goods and services[168] on a continuous basis. The indirect taxes imposed monthly on the participating households were determined using the imposed indirect recurrent taxes from Table 72[169] as a point of reference. Imposed indirect recurrent taxes in South Africa inherently form part of a household's expenditure.[170] Hence, a logical point of departure for explaining the computation of the indirect taxes imposed monthly on the participating households is monthly household expenditure.

7.4.4.1 Sub-theme 4.1: Monthly household expenditure of the participating households

Question 15 of the interview schedule uses the expense items from Table 74,[171] and served the purpose of collecting data on the monthly household expenditure of the households that participated in the case study research. The original

[168] See Section 2.2.6.2 of the current study.
[169] See Section 5.6.2 of the current study.
[170] See Section 5.7.2.2 of the current study.
[171] See Section 5.7.2.2 of the current study.

expenditure items set out in Table 74 were expanded to make provision for expense items that emerged during the data collection process. The resulting monthly household expenditure data collected using Question 15 for each participating household are presented in Table 90 (see Annexure F). The main categories of the monthly household expenditure are summarised in Figure 7.

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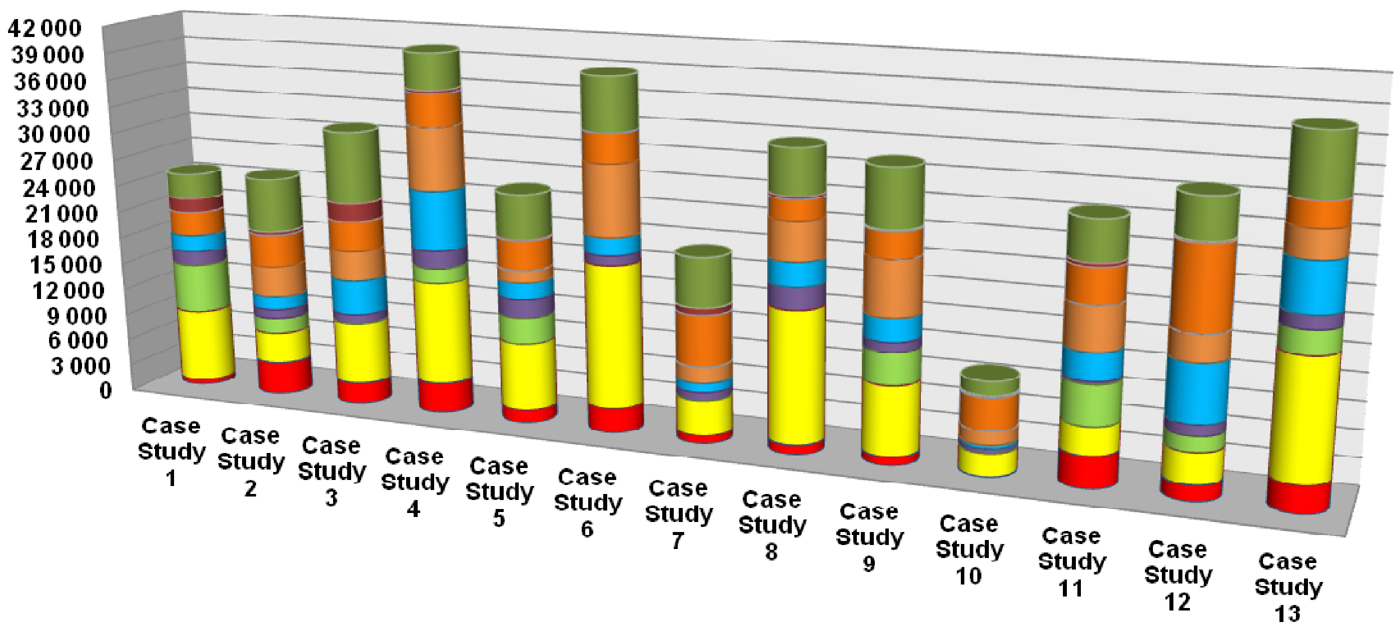
Figure 7: Main categories of the monthly household expenditure of participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Food and non-alcoholic beverages	2 803	6 002	8 002	4 002	5 002	6 002	5 502	5 002	6 502	1 505	4 502	4 502	6 753
Alcoholic beverages and tobacco	1 614	400	2 000	345	100	-	770	350	140	200	410	200	-
Housing, energy, water, and other fuels	2 722	3 652	3 430	3 728	3 314	3 260	5 673	2 202	2 889	3 571	3 903	9 083	2 666
Health	-	3 450	3 385	7 000	1 380	7 966	1 827	4 380	6 155	1 506	4 800	2 900	3 056
Transport	1 886	1 596	3 900	6 700	1 833	2 000	1 000	2 650	2 600	400	3 000	6 300	5 352
Communications	1 600	1 000	1 000	1 950	2 121	1 070	900	2 500	1 019	500	300	1 200	1 486
Education	5 526	1 800	-	1 700	2 910	-	-	-	3 600	-	4 400	1 670	2 542
Financial related	8 169	3 478	7 008	11 500	7 615	15 983	3 969	14 700	7 723	2 514	3 110	3 400	13 127
Miscellaneous	577	3 654	2 331	3 394	1 399	2 707	835	1 020	954	53	3 515	1 742	2 982

Source: Table 90 (see Annexure F)

The consumption of goods and services in South Africa is taxed using the value of the goods and services as a basis for indirect taxes, for instance, VAT and *ad valorem* excise duties. However, some of the indirect taxes are imposed using the quantity of the goods and services consumed as a basis, for instance, specific excise duties and levies on the consumption of water and electricity. Indirect taxes imposed on the consumption of water and electricity in South Africa use the quantity consumed (kilolitres for water, and kilowatts for electricity) as a basis. It was therefore important, in addition to collecting data on the value of the monthly household expenditure, also to collect data on the quantity of water (kilolitres) and electricity (kilowatts) consumed monthly by the participating households. This data was collected using Question 16 of the interview schedule. The results for Question 16 are set out in Table 90 (see Annexure F).

The individual expense items that comprised the main categories of monthly household expenditure as set out in Figure 7, together with the monthly household consumption of water and electricity, were used as a basis for calculating the indirect taxes imposed monthly on each of the participating households.

<u>Conclusion 7.3</u> *The concept of household expenditure as defined in the present study is a valid theme to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa that was developed in the present study.*

7.4.4.2 Sub-theme 4.2: Indirect taxes imposed monthly on the participating households

Recurrent indirect taxes imposed on individual taxpayers in South Africa can be determined objectively using the applicable legislation as a point of reference (see Section 5.7.2.2).

In line with the purpose of the present research, this section applies the theoretical constructs underpinning the imposed indirect recurrent taxes in a real-life context. The focus in the current section was on emerging concepts from the data that contribute to the development of the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. The accurate computation of the indirect taxes imposed monthly on the participating households was not the main consideration in the present section. However, elements that may affect the accuracy of the computation of the indirect taxes imposed monthly on the participating households are clarified in Table 80 below.

Table 80: Elements underpinning the computation of the indirect taxes imposed monthly on the participating households

VAT The household expenditure, summarised in Table 90 (see Annexure F), was used as a basis from which the VAT imposed monthly on the participating households was computed. The Value-Added Tax Act (89 of 1991) and the VAT guidance for vendors (SARS, 2010c) were used as points of reference in the computation.
Skills Development Levy In terms of the requirements of the Skills Development Act (9 of 1999), none of the participating households incurred a monthly liability towards the Skills Development Levy. Hence, the Skills Development Levy was not included as a direct tax affecting the monthly tax burden of the participating households.
Specific customs and excise duties Normally, the specific excise and customs duties in South Africa are computed using the volume of the goods as a basis (SARS, 2009:6). However, in the present research, the specific customs and excise duties imposed monthly on the participating households' consumption of alcoholic beverage and tobacco products were computed by using the 2011/2012 budget overview (National Treasury, 2011) as a source of reference. According to the budget overview (National Treasury, 2011a:73), specific excises (inclusive of VAT) represented 23% of the price of wine, 33% of the price of malt beer and 43% of the price of spirits. On tobacco products, this percentage was around 52% of the price. These percentages, after excluding VAT, were used as a basis for computing the amount of the specific excises imposed monthly on the participating households. It was assumed, for the purposes of this computation, that all these products were produced in South Africa, and therefore no custom duty rates on

these products were included in the computation.
Fuel taxes Fuel taxes, for the purposes of the present research, refer to the general fuel levy (which includes the road accident fund levy), specific excises on fuel, and the illuminating paraffin dye levy.[172] The fuel price in South Africa, on average, comprises around 30% of fuel taxes (National Treasury, 2011a:75). This percentage was used in the present research as a basis for computing the amount of fuel taxes imposed monthly on the participating households.
UIF – employer Question 13 of the interview schedule was used to collect data on the monthly UIF contributions by the participating households as employers. These data on UIF contributions were collected for each individual taxpayer as a member of the household. However, the monthly UIF contributions by the households as employers of domestic workers in total were allocated to the head of the household as the person who incurred the monthly liability, because it was not possible in all instances to identify exactly which member of the household incurred this liability.
Compensation Fund contributions Only the household from Case Study 2 contributed annually to the Compensation Fund. The annual liability of this household was divided by 12 months and the result was used as the monthly tax liability imposed on the household in Case Study 2.
Electricity taxes Electricity taxes, for the purposes of the present research, consist of municipal surcharges, free basic electricity, and inclining block tariffs on electricity, the incandescent light bulb levy, network access charges, and the electricity environmental levy.[173] These electricity taxes imposed monthly on the participating households were computed using Eskom's tariffs for local authorities (Eskom, 2011a:31), together with the City of Tshwane's electricity tariffs (Tshwane, 2011a), as sources of reference.
Water taxes Water taxes, for the purposes of the present research, consist of municipal surcharges, free basic water, and inclining block tariffs, Water Boards' surcharges, and the water research levy.[174] These water taxes imposed monthly on the participating households were computed using the Rand Water Board's bulk water tariffs (Rand Water, 2010b:),

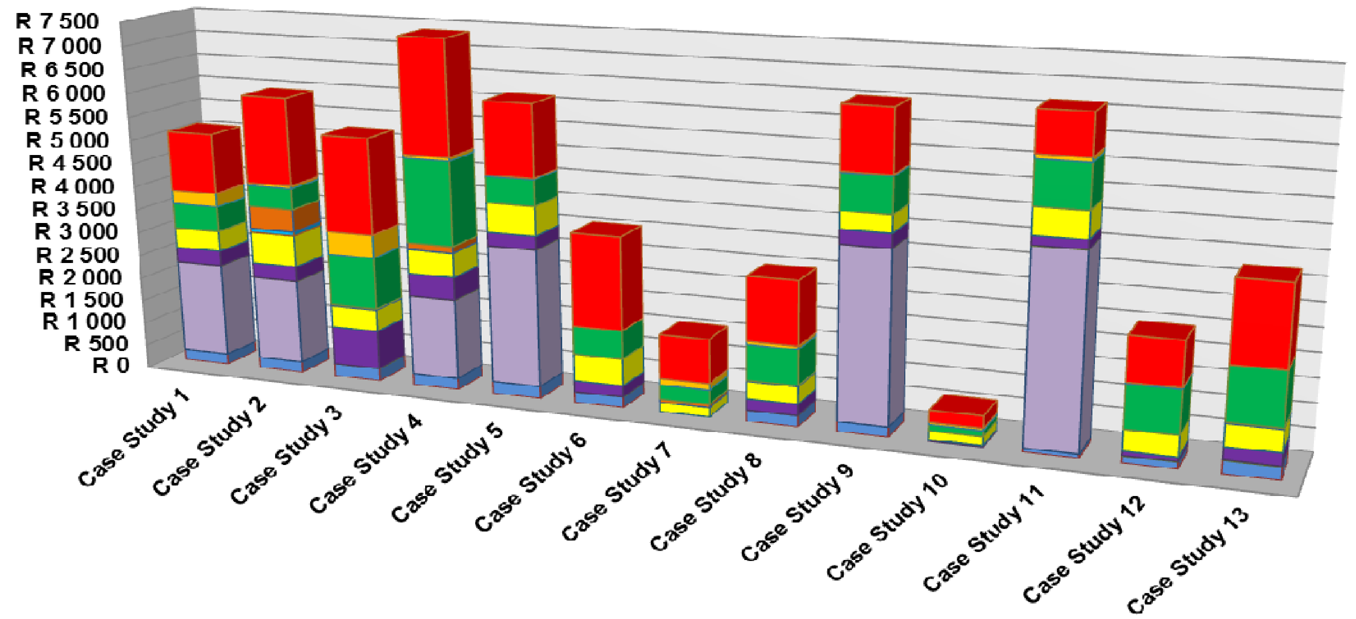
[172] See Table 32 in Section 3.15.2 and Table 72 in Section 5.6.2 as the points of reference for these taxes in the current study.
[173] See Table 72 (Section 5.6.2) as the point of reference for these taxes in the current study.
[174] See Table 72 (Section 5.6.2) as the point of reference for these taxes in the current study.

together with the City of Tshwane's water tariffs (Tshwane, 2011b), as sources of reference.
Drivers' licences Drivers' licences must be renewed every five years, rendering the licence valid for a total period of sixty months. For the purposes of the present research, the licences were divided by sixty months to compute the monthly amount imposed on the participating households.
Business licences None of the individual members of the households participating in the case studies owned such licences.
Public school fees The monthly public school fees as they were recorded on the interview schedule were used as the underpinning value for these indirect taxes imposed monthly on the participating households.
Other consumption taxes The category of other consumption taxes consists of the plastic bag environmental levy, aviation and marine levies, and municipal charges relating to refuse removal and sanitation.[175] The value of the monthly household expenditure items in Table 90 (Annexure F) which relates to these specific taxes was used as the base value for these indirect taxes.

The results of computing the indirect taxes imposed monthly on the participating households are presented in Table 91 (see Annexure F) of the current study. The graph in Figure 8 below provides an overview and summary of the results from computing the indirect taxes imposed monthly on the participating households.

[175] See Table 72 (Section 5.6.2) as the point of reference for these taxes in the current study.

Figure 8: Indirect taxes imposed monthly on the participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Value-added tax	1 276	1 864	2 059	2 433	1 521	1 958	927	1 338	1 297	255	850	921	1 653
Specific excise duties	293	59	490	70	24	-	138	68	28	48	89	29	-
Fuel taxes	544	449	1 107	1 795	548	598	299	748	748	120	898	898	1 116
UIF contributions - employer	-	488	25	140	-	-	70	18	-	-	-	-	22
Compensation fund contributions	-	80	-	-	-	-	-	-	-	-	-	-	-
Electricity taxes	432	678	464	518	618	569	196	366	359	184	551	436	456
Water taxes	318	318	823	485	287	236	-	236	297	30	191	89	257
Drivers licences	3	3	3	3	3	3	3	3	3	3	6	6	10
Public school fees	2 000	1 800	-	1 700	2 910	-	-	-	3 600	-	4 000	-	-
Sundry indirect recurrent taxes	223	232	273	245	261	229	2	238	204	4	81	142	270

Source: Table 90 (see Annexure F)

In the theoretical overview of the current study it was indicated that VAT is one of the main sources of income for the National Revenue Fund.[176] Therefore, VAT is considered an important tax that affects the tax burden of taxpayers in South Africa. The results in Figure 8 support this claim, as they indicate that VAT was the main contributing tax in most of the participating households[177] to the indirect tax burden imposed monthly on these households. Although in some cases, VAT and education fees were the main contributors, the other indirect taxes reflected in Figure 8 are also highly relevant in determining the total indirect taxes imposed monthly on these households.

7.4.4.3 Conclusion on Main Theme 4

The results from applying the theoretical constructs from the present study in a real-life context, particularly the construct of imposed indirect recurrent taxes, confirmed that this construct is a relevant theme for the evaluation of the tax burden of individual taxpayers in South Africa.

<u>Conclusion 7.4</u>
The construct of the imposed indirect recurrent taxes defined in the present study is concluded to be a valid theme to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in this study.

7.5 DATA RELATING TO THE PERCEIVED TAX BURDEN

The perceived tax burden consists of the theoretical constructs of the fiscal illusion, the fairness of taxes, the complexity of taxes, and the taxpayer-government exchange.[178] To build onto these theoretical constructs, it was important in the current study to apply these theoretical constructs in a real-life

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176 See Section 3.4.1.
177 Only in the households in Case Studies 1, 5, 9 and 11 were monthly education fees more than the monthly VAT; in Case Study 11 only the monthly fuel taxes were more than the VAT.
178 See Chapter 4 of the current study.

context. Hence, data on the perceived tax burden were collected from the participating households relating to the beliefs, opinions, and estimations of members of households, using Questions 17 to 30 of the interview schedule.

7.5.1 Orientation of the process to capture and analyse the data

The data relating to the perceived tax burden were collected using the interview schedule, and were then captured in a software program, Survey Monkey, after the interviews with the participating households. This software allows for an analysis of qualitative data, and was therefore used in this study to analyse the concepts emerging from the data.

The data from the interview schedule were captured in the software program in the same format as they appeared on the interview schedule. Eight of the participants in the case studies responded in Afrikaans in the interviews, while the remaining five responded in English. Language was not deemed to be a limitation for analysing concepts emerging from the interview data, because the identification of concepts for the purposes of the present research does not depend on expressions and the meanings of words from a specific language. In addition, the researcher speaks both Afrikaans and English well, and was therefore in a position to identify emerging concepts as they related to the present research, irrespective of the language in which the participants responded during the interview.

7.5.2 Main Theme 5: Fiscal illusion

The purpose of this section is to analyse the data that relate to the fiscal illusion held by the participating households. The fiscal illusion can theoretically be measured in terms of the effective tax rate, as the rate is estimated by individual taxpayers.[179] In theory, the fiscal illusion stems from conceptual elements underpinning the fiscal illusion of taxpayers. In understanding the fiscal illusion

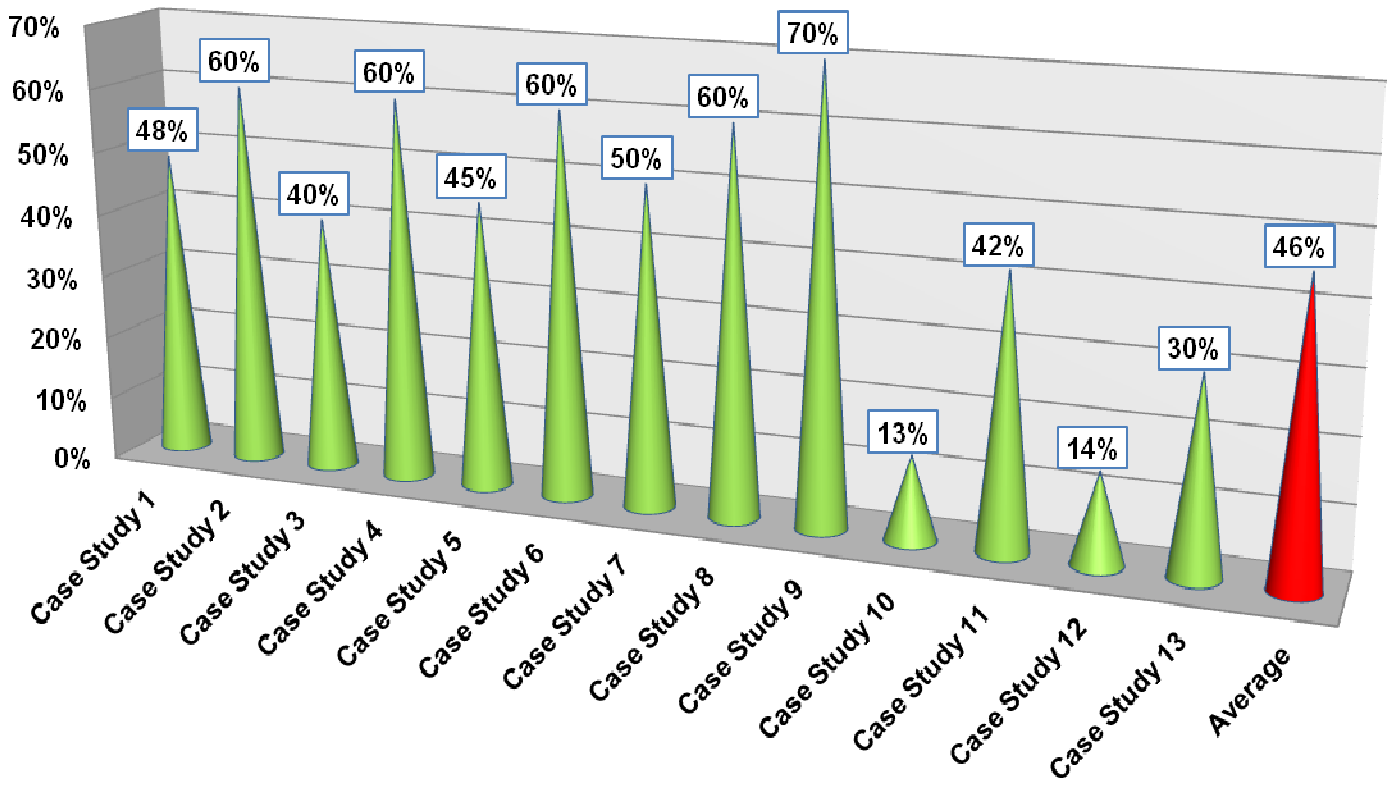
[179] The estimated effective tax rate is used to measure the fiscal illusion in the present research. See Section 5.5.3.

held by the participating households in relation to the tax burden of these households, it was necessary, first, to establish the estimated effective tax rate as perceived by the participating households. Second, the data from the case studies were analysed to determine the conceptual elements that contributed to the fiscal illusion held by the participating households.

7.5.2.1 Sub-theme 5.1: Estimated effective tax rates of the participating households

Question 18 of the interview schedule was used to collect data on the effective tax rate, as this rate is estimated by the participating households. The graph in Figure 9 provides an overview and a summary of the results from Question 18.

Figure 9: Estimated effective tax rate of the participating households

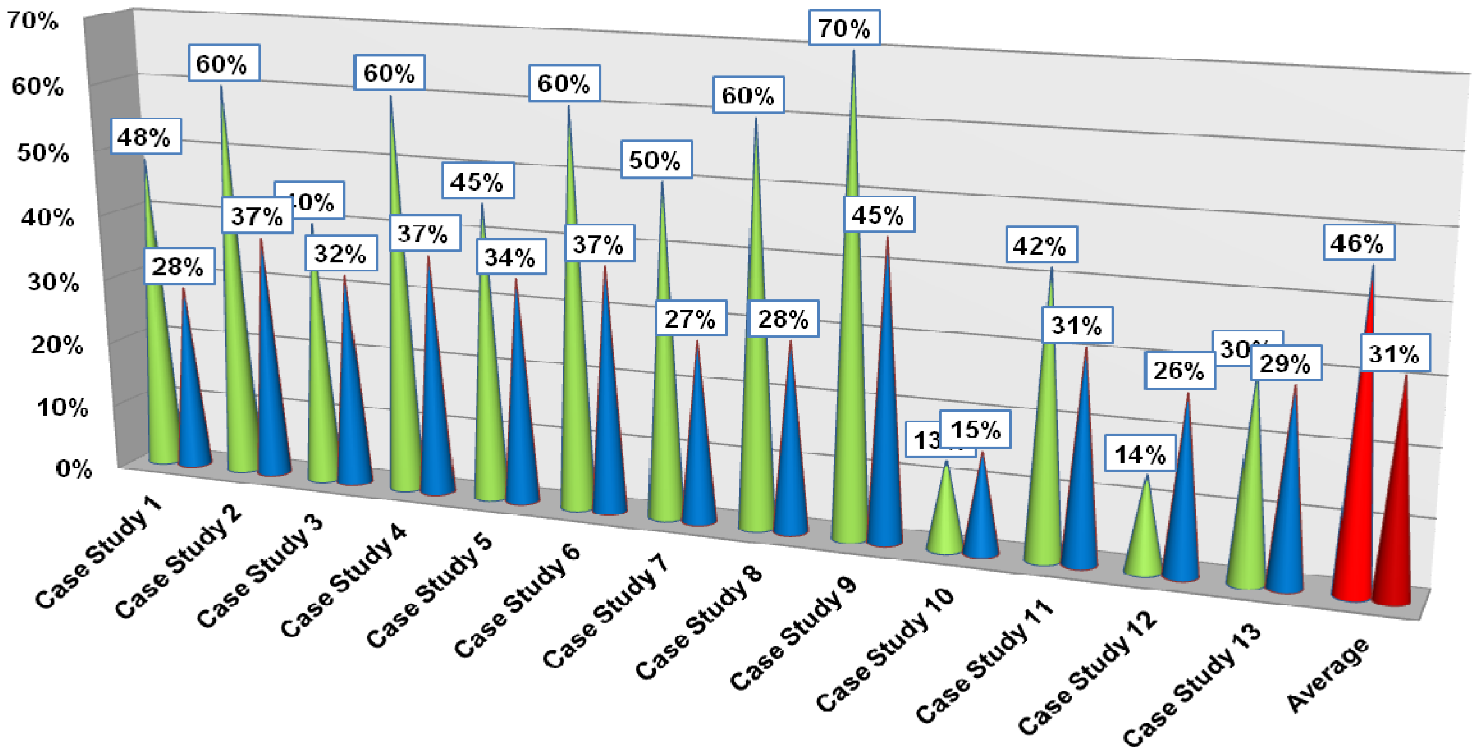


	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13	Average
Estimated effective tax rate	48%	60%	40%	60%	45%	60%	50%	60%	70%	13%	42%	14%	30%	46%

Source: Question 18 of the interview schedule (see Annexure B)

The summary in Figure 9 indicates that the estimated effective tax rates varied from a low of 13% to a high of 70%. The average estimated effective tax rate of the participating households was 46%. These differences between the estimations of the households suggest that the interpretation of the fiscal illusion varies between these households. Figure 10 provides a summarised comparison of the estimated and the imposed effective tax rates of the participating households.

Figure 10: Comparison of the estimated and imposed effective tax rates



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13	Average
Estimated effective tax rate	48%	60%	40%	60%	45%	60%	50%	60%	70%	13%	42%	14%	30%	46%
Imposed effective tax rate	28%	37%	32%	37%	34%	37%	27%	28%	45%	15%	31%	26%	29%	31%

Source: Figure 9 and Table 85 (see Section 7.6.1)

In order to gain some understanding of the conceptual elements underpinning the fiscal illusion in the participating households that contributed to the differences, not only between the different participating households, but also between the estimated and imposed effective tax rates, it was necessary to analyse the data from each case study, as discussed in Section 7.5.2.2.

7.5.2.2 Sub-theme 5.2: Conceptual elements contributing to the fiscal illusion of the participating households

The conceptual elements contributing to the fiscal illusion of the participating households were determined by analysing the data collected using Questions 17, 19, 21, 23, 26, 28, 29 and 30 in the interview schedule. Table 81 below provides a summary of the results from the analysis of the data elicited in response to these questions.

Table 81: Conceptual elements contributing to the fiscal illusion of the participating households

Case Study 1
The head of the household in Case Study 1 expressed the opinion (Question 17) that taxpayers in South Africa are effectively taxed more than once on the same income (DTX),[180] because taxpayers first pay income tax on the income, and then also pay VAT and other taxes from the remaining net income after income tax has been deducted. The number of taxes (NTX) emerged from the data (Question 19) as a conceptual element in the sense that the participant referred to a number of different taxes in South Africa as a reason for his estimation of the effective tax rate of the household.
Conclusion *The conceptual elements of double tax (DTX) and the number of taxes (NTX) in South Africa were the two main conceptual elements that emerged from the data and that can be said to contribute to the fiscal illusion of the household in Case Study 1.*

[180] For an explanation of the identifiers(DTX, NTX, HID,TSH) used in the data analysis in Table 81, refer to Table 87 in Annexure E

Case Study 2

The number of taxes (NTX) was used by the head of the household in Case Study 2 to explain the estimated effective tax rate (Question 19). The participant stated that running the household's business was complicated by government in the sense that numerous taxes (NTX) are imposed by the government on the business (Question 23). The head of the household was also of the opinion that there are so many taxes (NTX) that one does not even know how many there are (HID) (Questions 23 and 26). The participant also indicated that, in his opinion, paying for the consumption of water and electricity affected the tax burden of the household (Question 29), in the sense that a large number of levies (NTX) that consumers are not even aware of (HID) are imposed on the use of electricity and water.

Conclusion

The data from Case Study 2 suggest that the number of taxes (NTX) and hidden taxes (HID) are the two main conceptual elements that contributed to the fiscal illusion of the household in the case study.

Case Study 3

The participants in Case Study 3 used the conceptual element of the number of taxes (NTX) as the basis for their estimation of the effective tax rate of the household (Question 19).

Conclusion

The fiscal illusion of the household in Case Study 3 can be said to stem from the conceptual element of the number of taxes (NTX) in South Africa.

Case Study 4

The estimated effective tax rate as perceived by the head of the household in Case Study 4 was explained by a reference to the number of taxes in South Africa (NTX), referring specifically to income tax and VAT, together with a general statement on 'a number of other taxes' (Question 19) which may indicate that the household is not aware of all the taxes in South Africa (HID).

Conclusion

The conceptual elements of the number of taxes (NTX) and hidden taxes (HID) emerged from the data, and therefore it can be said that these conceptual elements contributed to the fiscal illusion of the household.

Case Study 5

No conceptual elements emerged from the data in Case Study 5 that can be said to contribute to the fiscal illusion of this household.

Case Study 6

The head of the household in Case Study 6 indicated that the tax burden in South Africa is affected by the large number of taxes (NTX) imposed on taxpayers (Question 17). He supported his estimation of the effective tax rate by referring to various kinds of taxes (NTX) in South Africa (Question 19).

Conclusion

The number of taxes (NTX) in South Africa is the conceptual element that emerged from the data that can be said to contribute to the fiscal illusion of the household in Case Study 6.

Case Study 7

The head of the household in Case Study 7 supported his estimate of the effective tax rate of the household on the basis of the conceptual element of the number of taxes (NTX), referring to direct taxation, VAT, fuel levies and 'other taxes' (HID) (Question 19). The head of this household also expressed the opinion that paying for water and electricity affects the tax burden of the household (Question 29). He indicated that taxes are hidden (HID) as part of the tariffs paid for these consumables (Question 29).

Conclusion

From the data from Case Study 7, it is possible to conclude that the fiscal illusion of this household stemmed from the conceptual elements of the number of taxes (NTX) and hidden taxes (HID).

Case Study 8

The participants in Case Study 8 supported their estimation of the effective tax rate of their household by saying that taxes are levied on everything (HID), referring to salaries, pension, fuel, food, clothes, medicine and everything else (Question 19). They were also of the opinion that corporate entities in South Africa with high profit margins in a sense affect the tax burden of individual taxpayers. They explained this point by saying that these corporate entities are taxed on these high profits, and that these taxes are then passed onto (TSH) individuals in South Africa, mostly as part of the price of goods (Question 28).

<u>*Conclusion*</u>

The data from Case Study 8 suggest that the conceptual elements of hidden taxes (HID) and tax shifting (TSH) contributed to the fiscal illusion of the participants from this household.

<u>Case Study 9</u>

The head of the household in Case Study 9 listed a number of taxes (NTX) in support of his estimation of the effective tax rate of his household (Question 19). He also referred to the tax on corporate entities that is included in the prices (TSH) paid by individual taxpayers (Question 19). The participant expressed the opinion that currently a variety of new taxes are being implemented by the government (Question 28) and that these affect the tax burden (NTX). The head of the household also raised the question of what a tax is (Question 30), referring to how a person should know when something is a tax (HID).

<u>*Conclusion*</u>

From the data from Case Study 9, it is possible to conclude that the number of taxes (NTX), hidden taxes (HID) and tax shifting (TSH) are conceptual elements that contributed to the fiscal illusion of this household.

<u>Case Study 10</u>

The head of the household in Case Study 10 indicated that the tax burden in South Africa is affected by the large number of taxes (NTX) imposed on taxpayers (Question 19) and that taxpayers in South Africa are effectively taxed more than once on the same income (DTX)(Question 28).

<u>*Conclusion*</u>

From the data from Case Study 10, it is possible to conclude that the fiscal illusion of this household stemmed from the conceptual elements of the number of taxes (NTX) and the perception that tax is levied more than once on the same income of the household (DTX).

<u>Case Study 11</u>

No conceptual elements emerged from the data in Case Study 11 that can be said to contribute to the fiscal illusion of this household.

Case Study 12

The participants in Case Study 12 argued that the tax burden in South Africa is affected by the likelihood that taxpayers in South Africa are effectively taxed more than once on the same income (DTX) (Question 29).

Conclusion

From the data from Case Study 12, it is possible to conclude that the fiscal illusion of this household stemmed from the conceptual element that taxpayers in South Africa are taxed more than once on the same income (DTX).

Case Study 13

The head of the household in Case Study 13 listed the number of taxes (NTX) in South Africa in support of her estimation of the effective tax rate of her household (Question 17 and Question 26). In her opinion, taxpayers are effectively taxed more than once on the same income (DTX) (Question 17). This opinion on the double taxation of taxpayers in South Africa also emerged from her comment that 'there will be further indirect taxes that have to be paid on almost anything' (DTX) (Question 21 and Question 29), which may also indicate that the household was not aware of all the taxes in South Africa (HID).

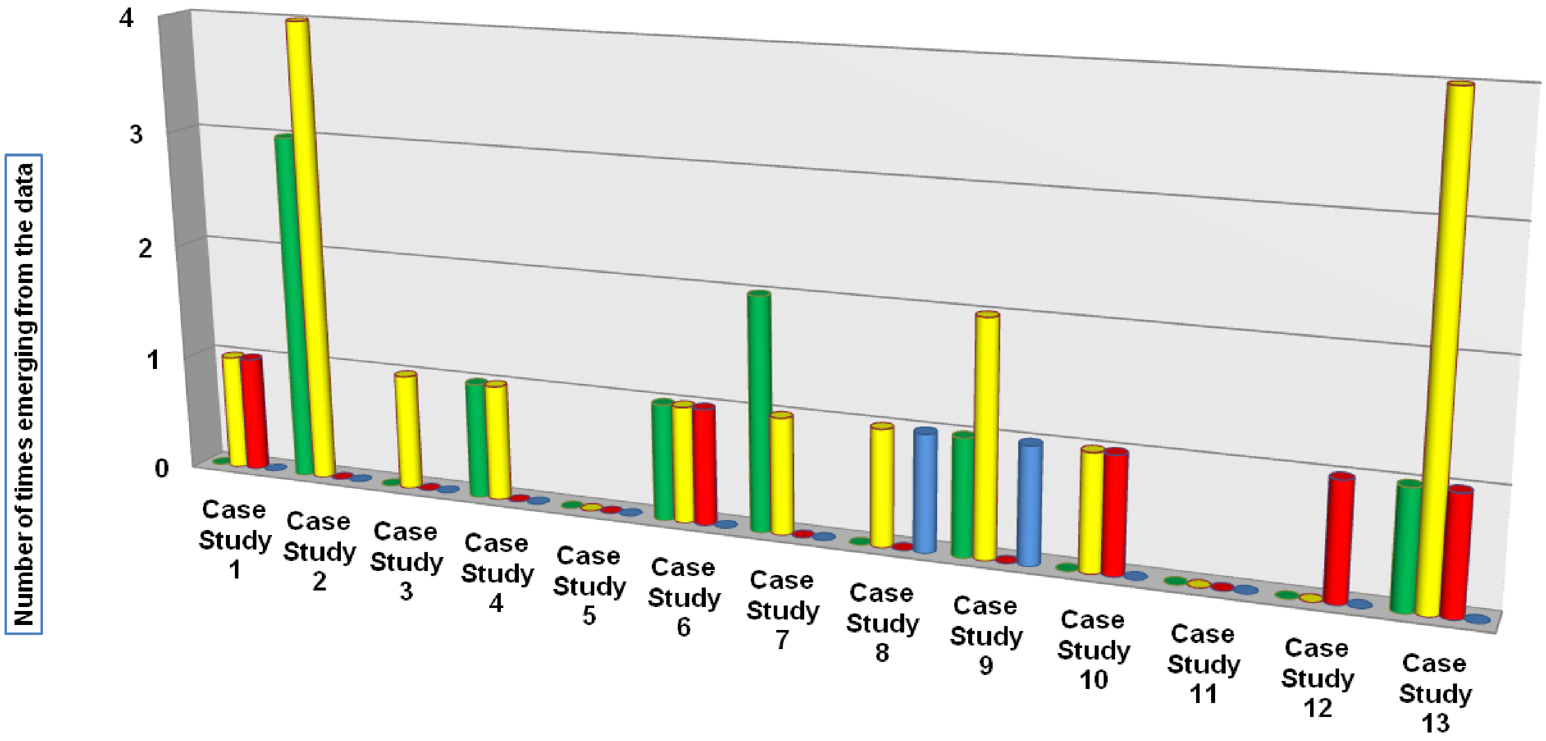
Conclusion

From the data from Case Study 13, it is possible to conclude that the fiscal illusion of this household stemmed from the conceptual elements of the number of taxes (NTX), double taxation (DTX) and hidden taxes (HID).

In summary, the number of taxes (NTX) is deemed to be the conceptual element that generally contributes most to the fiscal illusion of the taxpayers from the participating households. Hidden taxes (HID), an *a priori* conceptual element, emerged as the second most frequently mentioned element that respondents suspected to contribute to the fiscal illusion. In addition to the number of taxes (NTX), double taxation (DTX), and tax shifting (TSH) also emerged from the data as *a posteriori* conceptual elements that contributed to the fiscal illusion of the participating households. The number of times a particular conceptual element emerged from the data of each participating household was used as a basis for formulating a graphic overview and summary of the real-life experience of the fiscal illusion by these households.

The graph in Figure 11 below provides an overview and summary of the number of times that each conceptual element contributing to the fiscal illusion emerged in the data for each of the participating households.

Figure 11: Conceptual elements contributing to the fiscal illusion of the participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Hidden taxes (HID)	0	3	0	1	0	1	2	0	1	0	0	0	1
Number of taxes in South Africa (NUM)	1	4	1	1	0	1	1	1	2	1	0	0	4
Double taxation (DTX)	1	0	0	0	0	1	0	0	0	1	0	1	1
Tax shifting (TSH)	0	0	0	0	0	0	0	1	1	0	0	0	0

Source: Table 81 of the current study

7.5.2.3 Conclusion on Main Theme 5

Table 81, together with the summary in Figure 11 and the comparison in Figure 10 of the estimated and the imposed effective tax rates, provides a clear indication that the construct of the fiscal illusion, as it is defined in the present study, is a real and important construct in the evaluation of the tax burden of individual taxpayers in South Africa as this tax burden is perceived by these taxpayers.

<u>Conclusion 7.5</u> *It is concluded that the construct of the fiscal illusion is a valid theme to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in the present study.*

7.5.3 Main Theme 6: Fairness of taxes

The purpose of this section is to analyse the data that relate to the fairness of taxes in South Africa as experienced by the individual taxpayers as members of the participating households. The perceived fairness of taxes can theoretically be measured in terms of the preferred effective tax rate.[181] In theory, the perceived fairness of taxes stems from conceptual elements that underlie the perceptions of taxpayers. In order to understand the perceptions relating to the perceived fairness of taxes in South Africa held by the participating households, it was necessary, first of all, to establish the perceptions of the participating households on the fairness of their tax burden. Secondly, it was necessary to establish the preferred effective tax rate of the participating households, and finally, it was necessary to analyse the data from the case studies to determine the conceptual elements that contributed to these perceptions relating to the fairness of taxes in South Africa.

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[181] See Section 5.5.4.1.

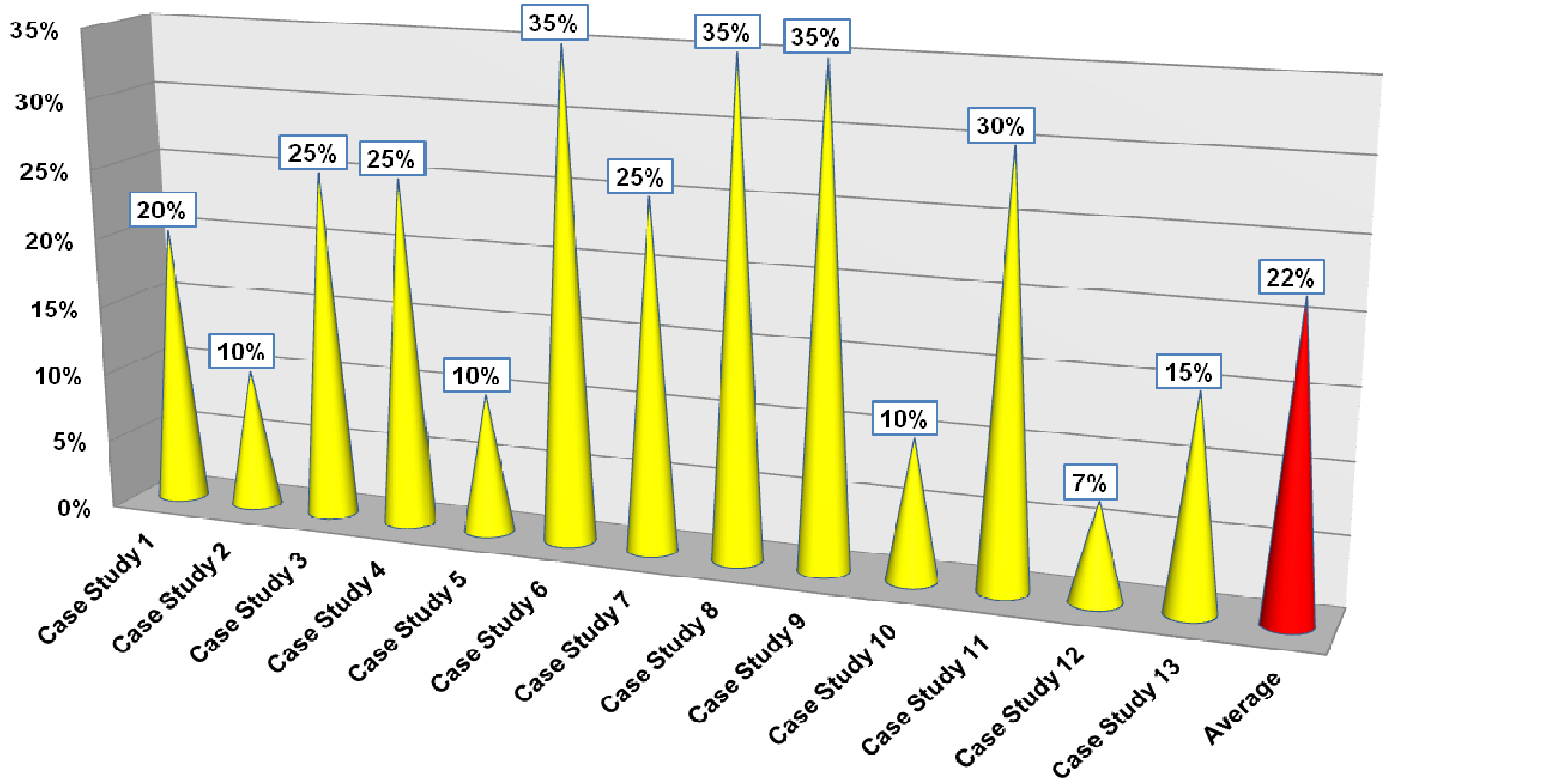
7.5.3.1 Sub-theme 6.1: Participating households' perceptions on the fairness of taxes in South Africa

Question 22 of the interview schedule was used to collect data on the perceived fairness of the tax burden (read taxes) on the participating households. All thirteen households which participated in the case study research expressed the opinion that the tax burden on their households was not fair.

7.5.3.2 Sub-theme 6.2: The preferred effective tax rate of participating households

Question 20 of the interview schedule was used to collect data on the preferred effective tax rate perceived to be realistic and reasonable by the participating households. Figure 12 below summarises the effective tax preferred by the participating households.

Figure 12: Preferred effective tax rates by the participating households

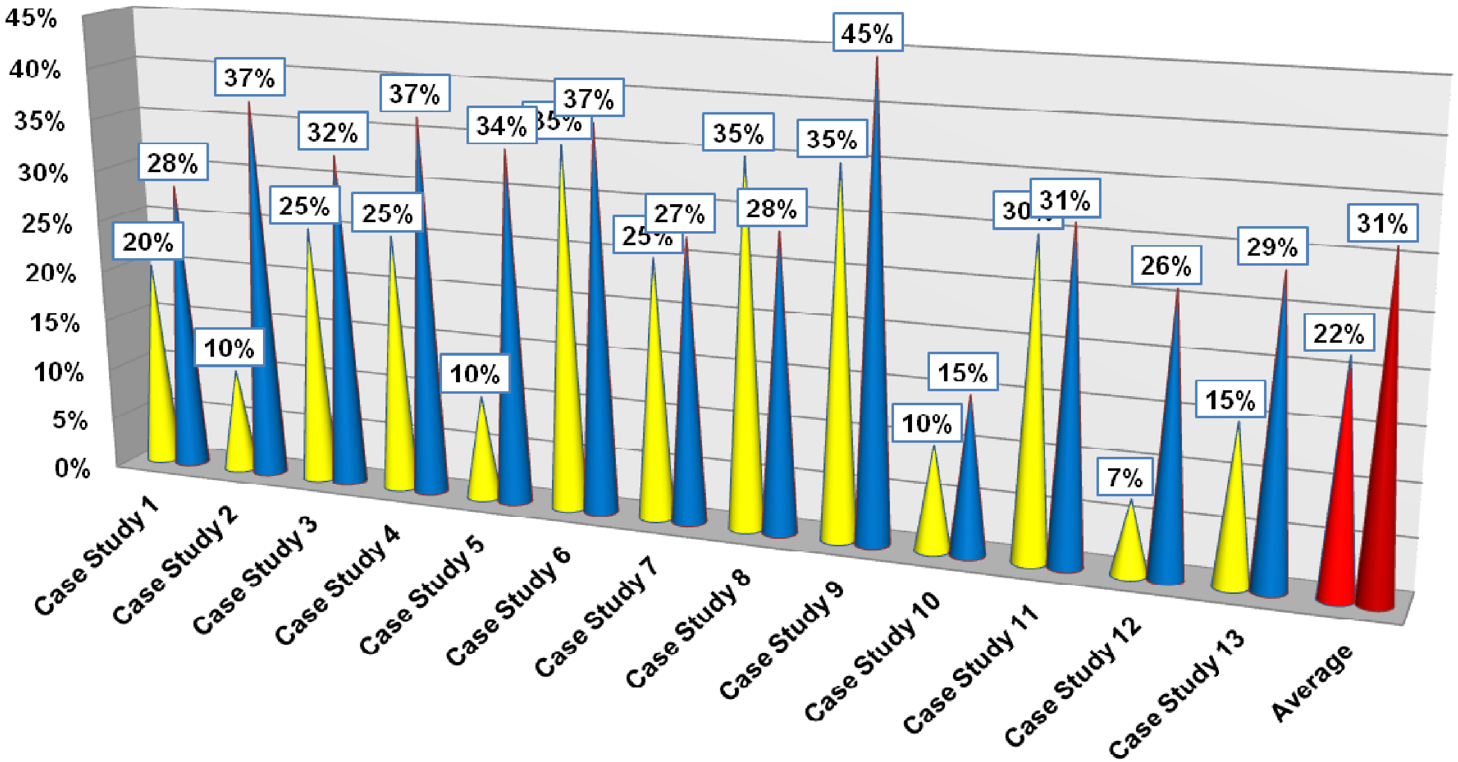


	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13	Average
Preferred effective tax rate	20%	10%	25%	25%	10%	35%	25%	35%	35%	10%	30%	7%	15%	22%

Source: Question 20 of the interview schedule (see Annexure B)

In summary, the preferred effective tax rate of the participating households varied between a low of 7% and a high of 35%. Overall, the average preferred effective rate of the participating households in the case studies was around 22%. Figure 13 below provides a summarised comparison of the preferred and the imposed effective tax rates of the participating households.

Figure 13: Comparison of the preferred and imposed effective tax rates



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13	Average
Preferred effective tax rate	20%	10%	25%	25%	10%	35%	25%	35%	35%	10%	30%	7%	15%	22%
Imposed effective tax rate	28%	37%	32%	37%	34%	37%	27%	28%	45%	15%	31%	26%	29%	31%

Source: Figure 12 and Table 85 (see Section 7.6.1)

These differences can be said to provide an indication that the conceptual elements contributing to the perceptions differed between the participating households. Hence, it was necessary to analyse the data of each of the participating households separately.

7.5.3.3 Sub-theme 6.3: Conceptual elements contributing to the participating households' perceptions of the fairness of taxes in South Africa

To determine the conceptual elements that contributed to the participating households' perceptions on the fairness of the taxes in South Africa, the data elicited in response to Questions 17, 19, 21, 23, 26, 28, 29 and 30 were analysed for emerging concepts. Table 82 below summarises the results from the analysis of the data relating to the perceived fairness of tax in South Africa by the participating households.

Table 82: Conceptual elements contributing to the participating households' perceptions on the fairness of taxes in South Africa

Case Study 1
The head of the household in Case Study 1 was of the opinion that the tax burden of the household was not fair (Question 22). He perceived the overall level of the tax burden (LEV)[182] imposed on the household to be too high (Question 17). The estimated effective tax rate was justified by the participant (Question 21), who stated that the estimated tax rate in his opinion was on a par with the effective tax rate in other countries (HOR). The participant also referred to the small number of persons (NTP) who pay tax in South Africa, and who in his opinion have to support others who do not pay tax (Question 23).
Conclusion *The conceptual elements that emerged from the data in Case Study 1 that can be said to contribute the perceived unfairness of the household's tax burden are the level of the tax burden (LEV), horizontal fairness (HOR) and the number of taxpayers (NTP).*

[182] See Table 87, Annexure E, for a description of the identifiers (LEV, HOR, VER, NTP, MIX) used in Table 82.

Case Study 2

The head of the household in Case Study 2 was of the opinion that the level of the household's tax burden (LEV) was unacceptably high (Question 17). He based this opinion on the high cost of running a business, for instance, paying salaries. He indicated that after paying the business expenses, taxes also needed to be paid and that these taxes are so high (LEV) that they effectively leave the household with nothing to live from (Question 17). He also indicated that he considered the tax burden of the household unfair in the sense that only a small percentage of South Africans (NTP) contribute to the taxes of the country (Question 21).

Conclusion

From the data from Case Study 2, it is possible to conclude that the perception of an unfair tax burden on the household stems from the conceptual elements of the level of the household's tax burden (LEV) and the limited number of taxpayers (NTP).

Case Study 3

The participants in Case Study 3 were of the opinion that the tax burden of their household was too high (LEV) (Question 17). They were also of the opinion that the tax burden was unfair, as they interpreted the total income tax paid by the household as more than the gross income of some other households in South Africa (Question 17), an indication that the tax burden of their household was too high. The participants also raised the issue that the tax burden in South Africa is carried more and more by a small number of the citizens (NTP) (Question 23).

Conclusion

The data from Case Study 3 indicate that the level of the tax burden (LEV) and the number of taxpayers (NTP) are the two conceptual elements that emerged from the data and that can be interpreted as contributing to this household's perception of the fairness of taxes in South Africa.

Case Study 4

The head of the household in Case Study 4 indicated that the household pays far too much tax (LEV) (Question 17). He was of the opinion that the level of the high tax burden (LEV) in South Africa can be reduced by reducing income tax and increasing VAT (MIX) (Question 21). The participant also expressed the opinion that, although the cost of living had increased more than the increase of the household's income, taxes are not adjusted in the same ratio, which in turn effectively increases the level (LEV) of the tax burden (Question 23). Another issue raised by the participant in Case Study 4 is the perception that white people in South Africa pay more and more taxes, but in return do not get the same benefits (VER) that some other citizens in South Africa receive (Question 28).

<u>Conclusion</u>

The level of the tax burden (LEV), the mix of direct and indirect taxes (MIX), and the vertical fairness of the tax burden (VER) emerged from the data from Case Study 4 as conceptual elements that contribute to this household's perception of the unfairness of taxes in South Africa.

<u>Case Study 5</u>

The tax burden of this household was perceived by the head of the household as unfair (Question 17), because she believed that her income in total was used to pay the income tax imposed on the household (LEV) (Questions 17 and 23), which renders the tax burden unfair. This element was also expressed by the participant in another question (Question 19) when she argued that a quarter of the household's income was used for paying income tax (LEV). The participant expressed the opinion that it would be a much fairer situation for all citizens (HOR, VER) if income tax was reduced, and VAT was increased (MIX) (Question 21). The head of the household also expressed the opinion that the tax burden is unfair because some of the citizens in South Africa have to pay for services, while others do not pay tax or pay for these services (VER) (Question 29).

<u>Conclusion</u>

From the data from Case Study 5 it is possible to state that the level of the tax burden (LEV), the mix of direct and indirect taxes, and the horizontal (HOR) and vertical (VER) fairness of taxes contribute conceptual elements to the perceptions of this household relating to the fairness of taxes in South Africa.

<u>Case Study 6</u>

The head of the household in Case Study 6 perceived the small number of taxpayers in South Africa (NTP) as contributing to the unfair tax burden imposed on the household (Question 17). He expressed the opinion that reducing taxes in South Africa would stimulate economic growth, which in turn would increase the number of taxpayers (NTP) through employment (Question 21). The participant also stated that the current tax system is not fair towards the taxpaying citizens (HOR, VER), as it does not promote an increase in the number of taxpayers (Question 21). In his opinion the portion of income going towards taxes in South Africa is too high (LEV) (Question 23). The participant also mentioned the number of taxpayers (NTP) relating to the affordability of social grants in South Africa. These grants must be funded by a small minority of taxpayers (Question 30).

<u>Conclusion</u>

The conceptual elements that emerged from the data gathered in Case Study 6 as contributing to the household's perceptions relating to the fairness of taxes in South Africa are the number of taxpayers (NTP), the level of the tax burden (LEV), and the horizontal (HOR) and vertical fairness (VER).

<u>Case Study 7</u>

The participant in Case Study 7 was of the opinion that the tax burden of his household was unfair (Question 22). He indicated that the level of the tax burden (LEV) is too high, considering the benefits the government provides (Question 21).

<u>Conclusion</u>

The level of the tax burden (LEV) is the only conceptual element that emerged from the data of Case Study 7 as contributing to the participant's perception that the taxes in South Africa are unfair towards his household.

<u>Case Study 8</u>

The participants of the household in Case Study 8 were of the opinion that the level of the tax burden (LEV) in South Africa is generally too high (Question 17) and they therefore deemed the tax burden of their household to be unfair (Question 22). They referred to the small number of persons (NTP) in South Africa that are burdened with paying taxes, while a large number of the other persons in the country benefit from this taxes, in the form of allowances (VER). The participants also expressed the opinion that it is unfair that their household's tax burden is increased (LEV) by the government, which spends taxpayers' money on maintaining non-South African citizens (Question 21). In their opinion, it is also unfair that the tax burden of their household is affected by paying taxes, while other households in the country receive government grants that effectively encourage the members of these other households not to work and pay tax (VER) (Question 23).

<u>Conclusion</u>

From the data elicited in Case Study 8, it is possible to conclude that the level of the tax burden (LEV) and the vertical fairness (VER) are conceptual elements contributing to this household's perception of the unfairness of the tax burden of the household.

<u>Case Study 9</u>

In the opinion of the head of the household in Case Study 9, the tax burden of the household is unfair (Question 22). He stated that if the tax burden in South Africa is compared to the tax burden in other countries (HOR), the level of the tax burden (LEV) is unacceptably high (Questions 17 and 21). He also expressed the opinion that the relatively small number of taxpayers (NTP) in South Africa is an unhealthy situation, nevertheless, a situation that is typical of Africa (Question 23).

<u>Conclusion</u>

The conceptual elements of the level of the tax burden (LEV), the number of taxpayers (NTP), and the horizontal fairness (HOR) emerged from the data in Case Study 9 as elements contributing to the perception in this household that the tax burden on the household is not fair.

<u>Case Study 10</u>

The participant in Case Study 10 was of the opinion that the tax burden on her household was unfair (Question 22). She indicated that the level of the tax burden (LEV) was too high, considering the limited number of benefits the government provides (Question 28).

<u>Conclusion</u>

The level of the tax burden (LEV) is the only conceptual element that emerged from the data from Case Study 10 as contributing to the participant's perception that the taxes in South Africa are unfair towards her household.

<u>Case Study 11</u>

The participants from the household in Case Study 11 were of the opinion that the level of the tax burden (LEV) in South Africa is generally too high (Question 17) and also referred to income tax and VAT (MIX) as the main contributing elements (Question 19). They therefore deemed the tax burden of their household unfair (Question 22).

<u>Conclusion</u>

The conceptual elements of the level of the tax burden (LEV) and the mix of direct and indirect taxes (MIX), emerged from the data in Case Study 11 as elements contributing to the perception in this household that the tax burden on the household was not fair.

<u>Case Study 12</u>

The participants in Case Study 12 were of the opinion that the tax burden on their household was unfair (Question 22) and stated that the current tax system was not fair towards the taxpaying citizens (HOR, VER), referring to the service delivery of government in return for the payment of taxes (Question 17).

<u>Conclusion</u>

The conceptual elements that emerged from the data gathered in Case Study 12 as contributing to the household's perceptions relating to the fairness of taxes in South Africa are the horizontal (HOR) and vertical fairness (VER) of the tax burden.

<u>Case Study 13</u>

The participant of the household in Case Study 13 was strongly of the opinion that the level of the tax burden (LEV) in South Africa is generally too high, which was an element that emerged from a number of questions (Question 17, Question 19, Question 28 and Question 30).

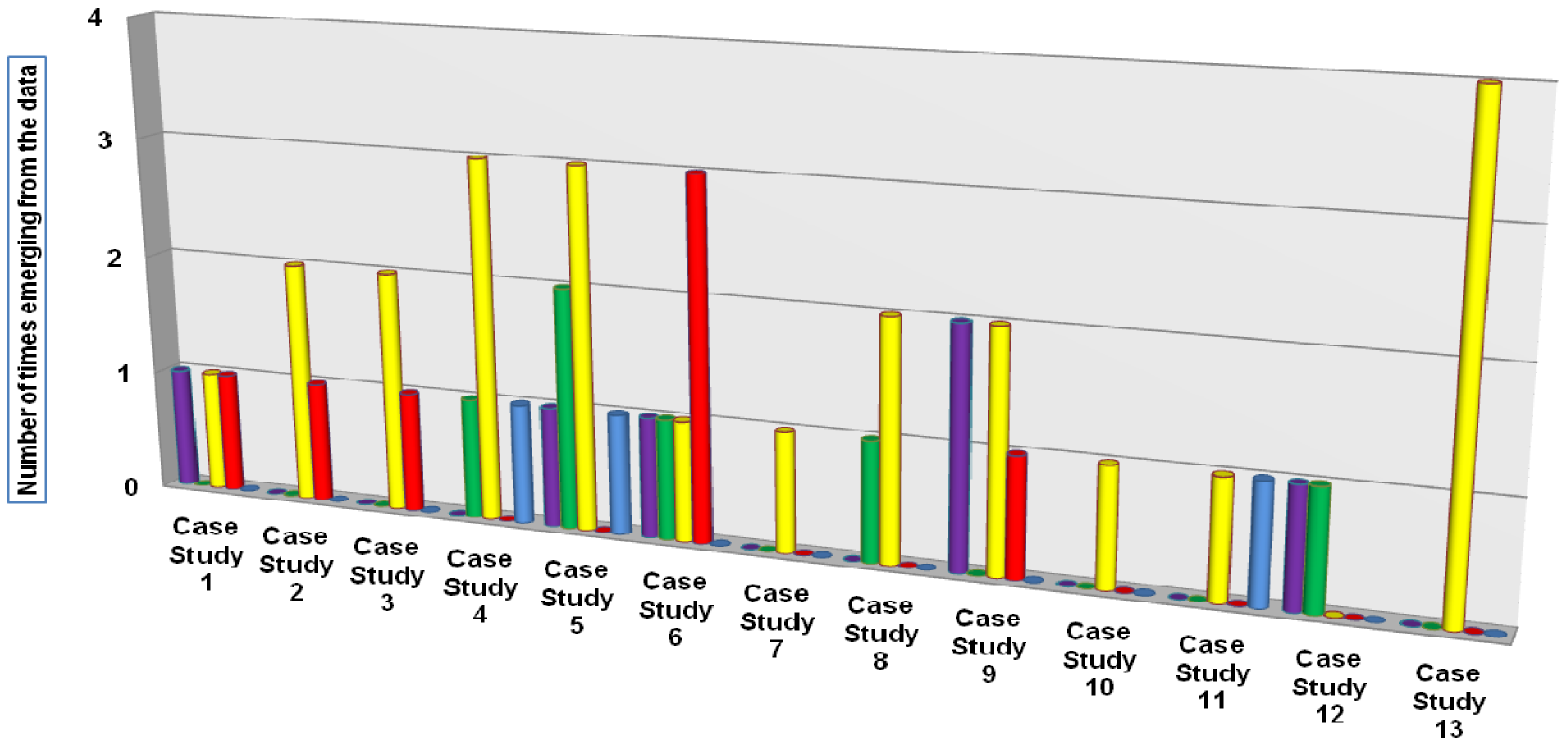
<u>Conclusion</u>

The level of the tax burden (LEV) is the only conceptual element that emerged from the data of Case Study 13 as contributing to the participant's perception that the taxes in South Africa are unfair towards her household.

In summary, from the analysis of the case study data in Table 82, the level of the tax burden (LEV), the number of taxpayers (NTP), the mix between direct and indirect taxes (MIX), and the horizontal (HOR) and vertical (VER) fairness of taxes all emerged as conceptual elements that contributed to the perceptions of the participating households relating to the fairness of taxes in South Africa. The number of times a specific conceptual element emerged from the data of each participating household was used as a basis for formulating a graphic overview and summary of the real-life interpretation of the fairness of taxes in South Africa as experienced by these households.

The graph in Figure 14 provides an overview and summary of the number of times that each contributing conceptual element relating to the participating households' perceived fairness of taxes in South Africa emerged in the data for each of the participating households.

Figure 14: Conceptual elements contributing to the participating households' perceived fairness of taxes in South Africa



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Horizontal fairness (HOR)	1	0	0	0	1	1	0	0	2	0	0	1	0
Vertical fairness (VER)	0	0	0	1	2	1	0	1	0	0	0	1	0
Level of tax burden (LEV)	1	2	2	3	3	1	1	2	2	1	1	0	4
Number of taxpayers (NUM)	1	1	1	0	0	3	0	0	1	0	0	0	0
Mix of direct and indirect taxes (MIX)	0	0	0	1	1	0	0	0	0	0	1	0	0

Source: Table 82 of the current study

7.5.3.4 Conclusion on Main Theme 6

Table 82, together with the summary in Figure 14, and the comparison of the preferred and imposed effective tax rates in Figure 13, provides a clear indication that the perceptions relating to the fairness of taxes in South Africa is a relevant and important construct that must be considered when the tax burden of individual taxpayers in South Africa is evaluated, especially from the taxpayers' point of view.

Conclusion 7.6   *It is concluded from the results of the case study research that the construct of the fairness of taxes as defined in the present study is a valid theme to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in this study.*

7.5.4 Main Theme 7: Perceived taxes

The concept of perceived taxes is used in the current study as a theoretical method to measure the effects that the complexity of taxes and the taxpayer-government exchange have on the tax burden as perceived by individual taxpayers in South Africa.[183] The purpose of this section is to analyse the data on these topics elicited from the participants.

7.5.4.1 Sub-theme 7.1: Complexity of taxes in South Africa as perceived by the participating households

Questions 24, 25 and 26 of the interview schedule were used to collect data on the participating households' perceptions on the complexity of taxes in South Africa. Question 24 was used specifically to determine whether the household perceived taxes in South Africa to be complex or not. Question 25 was used to

[183] See Section 5.5.4.2 and Section 5.5.4.3.

establish the opinion of the participating households on the perceived effect that the complexity of taxes had on the tax burden of the household. Question 26 was then used to collect data on the underlying conceptual elements contributing to the perceptions of these households on the complexity of taxes in South Africa. The results from Questions 24, 25 and 26 are summarised in Table 83, below.

Table 83: Complexity of taxes in South Africa as perceived by the participating households

Case Study 1 The head of the household in Case Study 1 was of the opinion that taxes in South Africa are complex (Question 24), and that these complex taxes affect the tax burden of the household (Question 25). He interpreted expenses incurred by the household which originate from the perceived complexity of taxes as unnecessary expenses that increase the tax burden (PTX) [184] (Question 26). Conclusion *From the data in Case Study 1, it is possible to conclude that the perceived complexity of taxes in South Africa is deemed to affect this household's tax burden, in the sense that expenses originating from the perceived complexity of taxes are interpreted as an additional tax(PTX) that increases the tax burden of the household.*
Case Study 2 The head of the household in Case Study 2 was of the opinion that the taxes in South Africa are complex (Question 24), and that the perceived complexity of taxes affects the tax burden of the household (Question 25). His reason for his opinion is that the complexity of taxes necessitates the use of a tax specialist (Question 26). He argued that it must be a type of tax, as it should not be necessary to incur this expense[185] (PTX). Conclusion *It emerged from the data collected in Case Study 2 that the participant deemed expenses relating to the complexity of taxes an additional tax (PTX) that increases the tax burden of the household.*

[184] See Table 87, Annexure E, for a description of the identifiers (PTX) used in Table 83.
[185] His comment in Afrikaans was the following: 'Dit moet 'n tipe van belasting wees aangesien ons nie nodig moet hê om dit aan te gaan nie.'

Case Study 3

The participants in the household in Case Study 3 were of the opinion that taxes in South Africa are complex (Question 24). The participants also indicated that in their opinion the complexity of taxes in South Africa does affect the tax burden of their household (Question 25). They explained that the complexity of taxes in South Africa forced the household to use the services of a tax expert (Question 26), and from their point of view, this is an unnecessary expense originating from complex taxes in South Africa. Hence, they deem these expenses to be an additional tax (PTX) (Question 26).

Conclusion

From the data in Case Study 3, it is possible to conclude that this household perceives expenses that originate from the complexity of taxes in South Africa to be an additional tax (PTX) that affects the tax burden of the household.

Case Study 4

The participant in Case Study 4 did not express an opinion on the complexity of taxes in South Africa, as he was not certain whether the taxes in South Africa are complex or not (Question 24). Therefore he also did not express an opinion on the effect of complex taxes on the tax burden of his household (Question 25).

Case Study 5

The head of the household in Case Study 5 perceived the taxes in South Africa as complex (Question 24), and was of the opinion that it affected the tax burden of the household (Question 25). The participant expressed the opinion that the complexity of taxes makes it difficult for the household to comply with taxation. The household is therefore forced to make use of the services of a tax practitioner (Question 26), and in her opinion it is unfair that taxpayers need to incur this type of expense. She argued that this type of expense relating to the complexity of taxes is nothing short of a hidden tax (PTX) (Question 26).

Conclusion

The data from the household in Case Study 5 indicate that the household interpreted expenditure originating from the perceived complexity of taxes as an additional tax (PTX) that affects the tax burden of the household.

Case Study 6

The head of the household in Case Study 6 was of the opinion that taxes in South Africa are complex (Question 24), but was not sure if it affected the household's tax burden or not (Question 25).

Case Study 7

The participant in Case Study 7 expressed the opinion that taxes in South Africa are complex (Question 24), and also that in his opinion the complexity of taxes does affect the tax burden of his household (Question 25). He explained that the complexity of taxes prevents him from recognising tax breaks that can reduce his tax burden, and also that the complexity of taxes forces him to employ the services of a tax expert whose fees in essence he saw as a tax (PTX) imposed on his household (Question 26).

Conclusion

The data from Case Study 7 suggest that the participant perceived expenditure originating from the complexity of taxes to be an additional tax (PTX) that affects the tax burden of his household.

Case Study 8

The participant in Case Study 8 did not think that taxes in South Africa are complex (Question 24).

Case Study 9

The participant in Case Study 9 expressed the opinion that taxes in South Africa are not complex (Question 24).

Case Study 10

The participant in Case Study 10 was of the opinion that the taxes in South Africa are complex (Question 24), but that the perceived complexity of taxes does not affect the tax burden of her household (Question 25).

Case Study 11

The participants in Case Study 11 perceived the taxes in South Africa as complex (Question 24), and was of the opinion that it affected the tax burden of their household (Question 25). However, the participants did not provide an indication as to how the complexity of taxes affects the tax burden of their household.

Case Study 12

The participants in Case Study 12 did not express an opinion on the complexity of taxes in South Africa, as they were not certain whether the taxes in South Africa are complex or not (Question 24). However, they did indicate that in their opinion the complexity of taxes should not affect the tax burden of their household (Question 25).

Case Study 13

The participant in Case Study 13 perceived the taxes in South Africa as complex (Question 24), and was of the opinion that it affected the tax burden of the household (Question 25). However, the participant did not provide an indication as to how the complexity of taxes affects the tax burden of the household.

In summary, the majority of the participating households indicated that the taxes in South Africa are complex, and they were also of the opinion that the complexity of taxes affects the tax burdens of their households. (Case Studies 1, 2, 3, 5 and 7 all indicated that they saw expenses incurred by their households relating to the complexity of taxes as an additional tax imposed on their households.)

Conclusion 7.7

The concept that expenditure originating from complex taxes is perceived as a tax by individual taxpayers is a valid theme to the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in this study.

7.5.4.2 Sub-theme 7.2: The taxpayer-government exchange in South Africa as perceived by the participating households

Questions 27, 28 and 29 of the interview schedule were used to collect data on the participating households' interpretations of the effect that the taxpayer-government exchange had on the tax burden of their households. Table 84 provides a summarised analysis of the data relating to these questions.

Table 84: Taxpayer-government exchange in South Africa as perceived by the participating households

Case Study 1

The head of the household in Case Study 1 indicated that in his opinion ineffective or inadequate service delivery by government increases the tax burden on the household (Question 27). His reason for this opinion was that public healthcare services, education services and security services in South Africa are so inadequate (IES) [186] that his household is forced to incur expenses for similar private services (Question 28). In his opinion, this is not a normal situation in countries where taxes are used properly by governments for providing services, and this was also not the situation in South Africa prior to 1994, and therefore he sees these types of expense as a tax (Question 28). The participant argued that paying for the consumption of water and electricity in South Africa affected the tax burden of the household (Question 29) because the ineffectiveness (IES) of Eskom (a public entity) causes the price of electricity in South Africa to increase unnecessarily, and therefore the increased tariffs are in effect a tax imposed (PTX) on taxpayers in South Africa (Question 29).

The head of this household also expressed the opinion that his household did not get value for the taxes that the household paid, as government renders ineffective services (IES) (Question 17). He also said that that his household only received around 10% of the taxes that the household paid back from government in terms of services (IES) (Question 21). The participant indicated that he thought his household's taxes were used to fund corruption in government and not to deliver services (IES) (Question 23). He was of the opinion that, due to the poor maintenance and ineffective services by municipalities (IES), the municipal account of the household just kept rising (Question 23). He also used the administrative services of SARS as an example of ineffective services (IES) which in effect force a household to use the services of tax experts (Question 26). The fees of the tax expert were, in his opinion, a tax (PTX) (Question 26).

Conclusion

From the data in Case Study 1, it is possible to conclude that this household deemed unnecessary expenditure which originates from the perceived ineffective services (IES) by the government to be an additional tax (PTX) imposed on the household.

[186] See Table 87, Annexure E, for a description of the identifiers (IES, PTX) used in Table 84.

Case Study 2

The perceived ineffective service delivery by the South African government was deemed by the head of the household in Case Study 2 to affect the tax burden of the household (Question 27). He was of the opinion (Question 26) that ineffective services by government (IES) caused his household to incur private expenses for services that government should have provided, and that this in essence is a tax (PTX). The participant was also of the opinion that ineffective services (Question 28), referring, for instance, to road maintenance, policing, and healthcare, effectively burden households with private expenditure for these services, which is therefore a tax (PTX).

Conclusion

From the data in Case Study 2, it emerged that this household interpreted expenses originating from the perceived ineffective service delivery by government in South Africa (IES) in essence to be a tax that affected the tax burden of the household.

Case Study 3

The participants in the household in Case Study 3 expressed the opinion that ineffective service delivery by government affected the tax burden of the household (Question 27). Their reason for saying so was that if the government does not provide adequate services (IES), the effect is that households need to incur additional expenses to obtain these services (Question 28). The expenses a household needs to incur for such services are viewed by them in essence to be a double tax (PTX) imposed on the taxpayer in South Africa (Question 28). They explained the double tax concept as having to pay tax for something that they did not get, and then having to incur additional expenses to obtain these services (Question 28).

Conclusion

From the data in Case Study 3, it is possible to conclude that this household interpreted private expenditure that originates from ineffective services delivered by government (IES) in South Africa as a tax (PTX) that affects the household's tax burden.

Case Study 4

Ineffective service delivery by government was perceived by the head of the household in Case Study 4 to affect the tax burden of his household (Question 27). In his opinion, taxpayers are forced to incur private expenditure to make up for the government's inability to provide effective services (IES), for instance, medical and security expenses, which he saw as a tax (PTX) (Question 28). The participant from this household also expressed the opinion that paying for water and electricity in South Africa affected the tax burden of the household (Question 29), in the sense that the increased Eskom tariffs are, from his point of view, nothing short of a tax (PTX).

Conclusion

The data support the conclusion that the household in Case Study 4 deem ineffective services from government (IES) to increase the tax burden of the household, as the household interpreted expenditure originating from these ineffective services as an additional (PTX) tax imposed on the household.

Case Study 5

The head of the household in Case Study 5 was of the opinion that ineffective service delivery by the South African government affected the tax burden of the household (Question 27), because she thought that the household had to pay government for services that it never received (IES) and then the household also had to pay privately for these services (PTX) (Question 28). She argued that the healthcare services provided by the government in South Africa are so ineffective (IES) that the household's domestic worker refused to go to a provincial hospital (Question 28).

Conclusion

From the data elicited in Case Study 5, it emerged that the household interpreted expenditure originating from the perceived inadequate services by government (IES) as an additional tax (PTX) that affected the tax burden of the household.

Case Study 6

In the opinion of the head of the household in Case Study 6, ineffective service delivery by the government affected the tax burden of the household (Question 27). Security costs, private medical and other similar expenses relating to ineffective government services (IES) are taxes (PTX), in his opinion (Question 17). The indiscriminate utilisation of taxes by government (IES) was deemed by the participants not to be beneficial to the citizens (Question 23, 28 and 30), and they argued that numerous examples exist of expenditure that should not have been paid from tax revenue (IES) (Question 30).

Conclusion

The data from Case Study 6 indicate that this household held the view that expenditure that originates from ineffective services by government (IES) is in essence an additional tax (PTX) that affects the tax burden of a household.

Case Study 7

The participant in Case Study 7 was of the opinion that ineffective services by government affected the tax burden of his household (Question 27). The participant's perception of the (in)effective service delivery by government (IES) in South Africa can best be illustrated by quoting his response: 'The government is robbing us. We pay tax, but we do not get anything from the government in return. No proper medical [care] that one can make use of, potholes causing damage to our vehicles, the list is endless' (Question 17). The participant also stated that he did not rely on the services provided by government (IES) (Questions 21 and 23). The participant was of the opinion that, in effect, taxpayers in South Africa are being taxed doubly (PTX) (Question 28). The participant explained this double tax as one payment (read tax) going for the maintenance of inefficient government services (IES), and the other payment (read tax) going to the effective private enterprises that provide the same services in a more efficient manner.

Conclusion

From the data elicited in Case Study 7, it emerged that the participant in this household interpreted expenditure originating from the perceived ineffective services by government (IES) as an additional tax (PTX) that affects the tax burden.

Case Study 8

The participants of the household in Case Study 8 stated that ineffective services by government affected the tax burden of the household (Question 27). These participants were of the opinion that the tax burden is already high (Question 17), but that the government does not use the tax money to provide for effective services (IES). The effect of this is deemed by the participants to increase the tax burden (PTX), as the household is forced to incur private expenses towards services such as medical, pension, education and transport services (Question 17). The participants referred to a number of ineffective services provided by government in South Africa (IES), for instance, the ineffectiveness of Eskom, unproductive salaries in State departments, poor road maintenance, and poor healthcare services (Question 28). In their opinion, these ineffective services create the effect of a double tax (PTX) for taxpayers in South Africa (Question 28). The participants were also of the opinion that paying for water and electricity affected the tax burden of their household (Question 29), as they saw the tariffs charged for electricity by Eskom as a tax (PTX) (Question 29).

Conclusion

The data on the household in Case Study 8 support the conclusion that the participants of this household interpreted expenditure that originates from the perceived ineffective services by the South African government (IES) as an additional tax (PTX) that affects households' tax burdens.

Case Study 9

In the opinion of the head of the household in Case Study 9, the tax burden of the household was affected by the ineffectiveness of the services provided by government (Question 27). He argued that ineffective services from government (IES), resulting from corruption, budget deficits or other elements, give rise to new taxes (PTX) imposed by the government on consumers in South Africa (Question 28).

Conclusion

From the data in Case Study 9, it emerged that the perceived ineffective services by the South African government are seen as creating new taxes (PTX) that affect households' tax burdens.

Case Study 10

The participant in Case Study 10 was of the opinion that ineffective service delivery by the South African government affected the tax burden of the household (Question 27), because in her opinion it is inherently a tax (PTX) if the household has to pay the government for services that are ineffective (IES) and then the household also has to pay privately for these services (Question 17 and Question 28). She explained that the healthcare services provided by the government in South Africa are ineffective (IES) and therefore this forces her to pay for private medical care (PTX) (Question 28). She also stated that the ineffective social grant (old age pension) from government (IES), in essence, is the reason she must make provision for her own pension in the future (Question 28).

<u>*Conclusion*</u>

From the data elicited in Case Study 10, it emerged that the participant in this household interpreted expenditure originating from the perceived ineffective services by government (IES) as an additional tax (PTX) that affects the tax burden.

<u>Case Study 11</u>

The participants of the household in Case Study 11 stated that ineffective services by government affected the tax burden of the household (Question 27). These participants were of the opinion that 'wasteful expenditure' by government (IES) increases the tax burden by placing an additional burden on the taxpayer to fork out 'more money' (PTX) (Question 28). They also indicated that the 'prolonged nature' of submitting income tax returns and receiving payments from SARS leads government services to be perceived as ineffective (IES) (Question 30).

<u>*Conclusion*</u>

The data on the household in Case Study 11 supported the conclusion that the participants of this household interpreted expenditure that originates from the perceived ineffective services by the South African government (IES) as an additional tax (PTX) that affects households' tax burdens.

<u>Case Study 12</u>

The participants in Case Study 12 were of the opinion that ineffective services by government affected the tax burden of the household (Question 27). The participants' perception of the (in)effective service delivery by government (IES) can be illustrated by quoting their response: 'We pay taxes to the government or municipality, but the basic services are sometimes not provided' (Question 17). The participants argued that if a taxpayer has to incur any expenses to obtain these services from private companies, the tax burden of the household in effect increases (PTX) (Question 29). The participants used the perceived inadequate police services in South Africa (IES) as an example of poor service delivery resulting in taxpayers' incurring additional expenses in the form of security services from private companies (PTX) (Question 28).

<u>*Conclusion*</u>

The data from Case Study 12 indicate that this household held the view that expenditure that originates from ineffective services by government (IES) is in essence an additional tax (PTX) that affects the tax burden of a household.

Case Study 13

In the opinion of the participant in Case Study 13, the tax burden of the household was affected by the ineffectiveness of the services provided by government (Question 27). She argued that ineffective services from government (IES) give rise to additional taxes (PTX) in the form of expenditure on privately provided services (Question 28).

Conclusion

From the data in Case Study 13, it is possible to conclude that this household interpreted private expenditure that originates from ineffective services delivered by government (IES) as a tax (PTX) that affects the household's tax burden.

In summary, all the participating households expressed the view that ineffective services from the South African government affect the tax burden of households. The participating households all, in one way or another, explained that ineffective government services force these households to provide for these services themselves by paying private service providers. They interpreted this necessity as an additional tax that burdens households in South Africa.

Conclusion 7.8

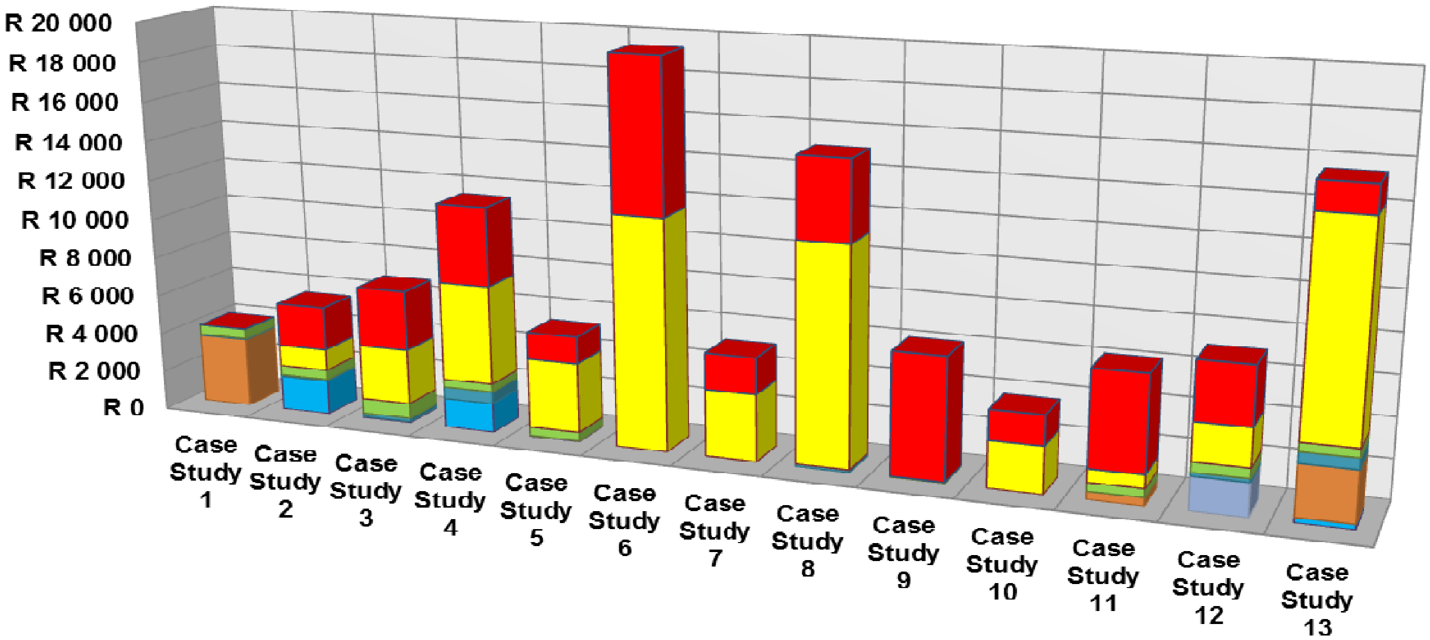
The argument that expenditure originating from the perceived ineffective government services is perceived as an additional tax by taxpayers is found to be a valid theme to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in the present study.

7.5.4.3 Summary of the results from Theme 7

The results of the data from the case study research, summarised in Tables 83 and 84, suggest that the participating households were generally of the opinion that the complexity of taxes and the taxpayer-government exchange in South Africa affected the tax burden of their households. The participating households that expressed this opinion all indicated, in one way or another, that they saw expenditure originating from complex taxes or ineffective government services in South Africa as additional taxes that increased the tax burden of their households. However, the results from the case study research also highlighted that the complexity of taxes, measured only in terms of the monetary costs related to tax practitioners, does not provide a sufficiently comprehensive basis for measuring the complexity of taxes. Of the thirteen households that participated in the case studies, only six incurred costs related to tax practitioners and in each case, the amount was relatively immaterial compared to the households' expenses in total. Because all the households should at least be affected by complying with the requirements in the Income Tax Act (58 of 1962), it is possible to conclude that the cost of compliance for these households must contain some of the elements of the 'hardcore' costs discussed in Section 5.6.3.1 of the current study. For instance, they must at least some spend time on completing and submitting their annual income tax returns.

The graph in Figure 15 below provides an overview and a summary of the perceived taxes of the participating households. The perceived taxes in Figure 15 were formulated in line with the theoretical concepts explained in Sections 5.6.3.1 and 5.6.3.2 of the current study.

Figure 15: Participating households' perceived taxes



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Medical fund aid contributions	-	2 210	3 035	4 000	1 364	7 747	1 827	4 030	6 155	1 506	4 800	2 900	1 380
Private pension and annuity fund contributions	-	1 080	2 808	5 000	3 520	11 675	3 369	11 000	-	2 344	660	1 900	10 429
Private security expenses	495	500	780	400	445	-	-	-	50	-	430	500	435
Toll fees	58	84	175	614	-	-	-	132	-	-	-	175	546
Private schools fees	-	-	-	-	-	-	-	-	-	-	-	1 670	-
Tertiary institutions fees	3 526	-	-	-	-	-	-	-	-	-	400	-	2 542
Cost of compliance	-	1 750	67	1 500	50	-	20	-	-	-	-	-	261

Source: Table 92, Annexure F

7.6 MEASURING AND COMPARING THE TAX BURDEN

The thematic framework formulated in the present research used the constructs from Table 70 as an underpinning.[187] Therefore, it was considered to be appropriate to use the constructs from Table 70 as a structure to present a summary of the results from the data analysis, as set out in the sections above in the current chapter. Table 70, in essence, provides a framework for measuring the tax burden of individual taxpayers in South Africa. This measurement is used as an underpinning for evaluating the tax burden of these individual taxpayers.

7.6.1 Main Theme 8: Measuring the tax burden

From the theory in the present research, it was established that the tax burden of individual taxpayers in South Africa can be measured by determining the economic and the perceived spending ability of a taxpayer's household, as well as by using the concept of effective tax rates as a basis for measurement (see Section 5.5).

The data from the case study research was used to determine the economic and perceived spending ability of the participating households, together with the effective tax rates, as formulated in Table 70 of the present study. The case study research showed that the theoretical constructs used in the present study to underpin the measurement of the tax burden of individual taxpayers in South Africa provide a consistent and reliable basis for measuring the tax burden. The results of applying the theoretical constructs in a real-life context using case studies are presented in Table 85, overleaf.

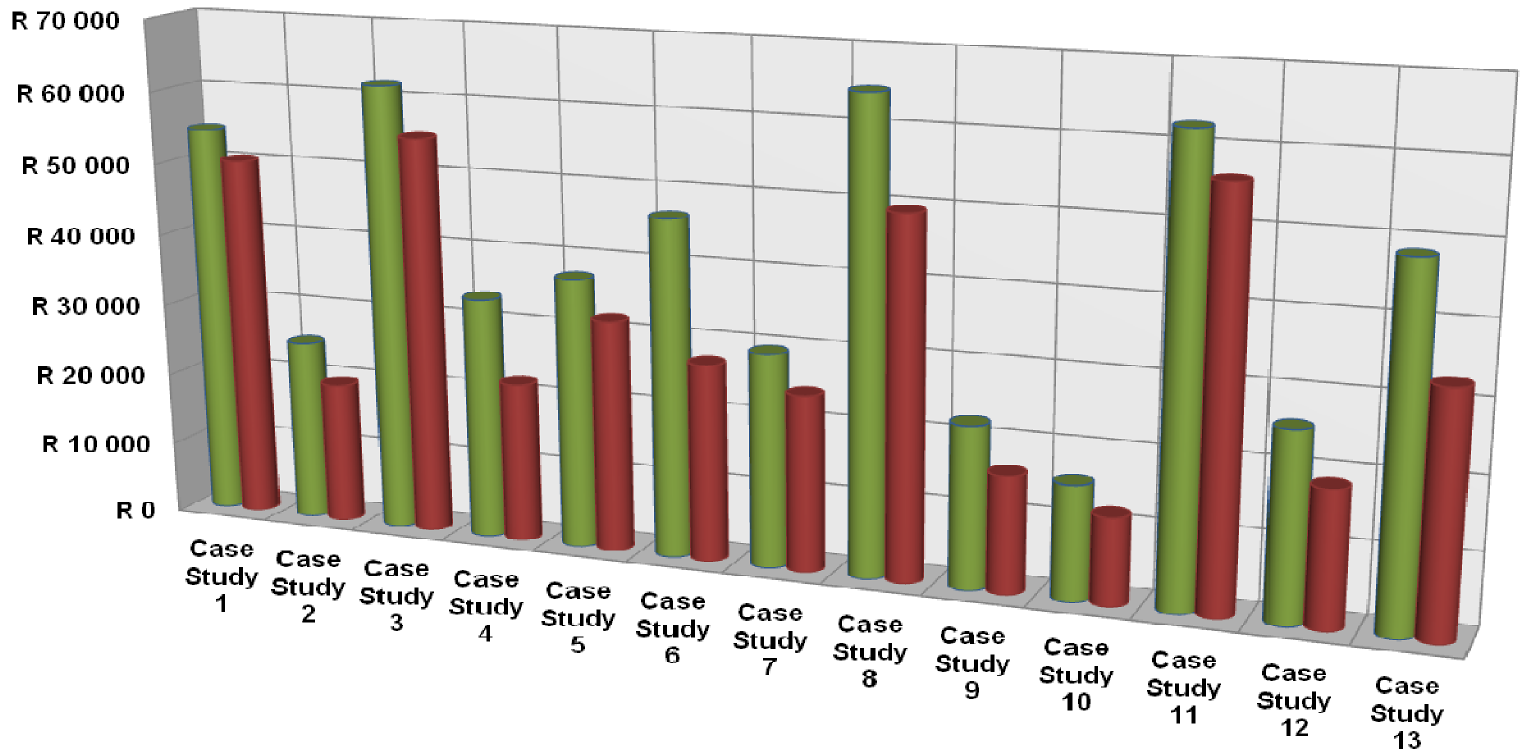
[187] See Section 7.2.2 of the current study.

Table 85: Measuring the tax burden of the participating households

Detail	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Gross monthly household income:	**75 840**	**40 000**	**91 666**	**53 000**	**56 800**	**74 280**	**40 544**	**90 500**	**40 367**	**18 666**	**91 000**	**35 000**	**67 965**
Less: Imposed taxes:	21 344	14 814	29 670	19 365	19 358	27 593	11 022	25 722	17 955	2 797	28 458	9 172	19 418
• *Direct recurrent taxes*	16 254	8 844	24 425	11 976	13 185	23 998	9 387	22 706	11 419	2 152	21 793	6 651	15 634
• *Indirect recurrent taxes*	5 089	5 970	5 244	7 389	6 173	3 594	1 635	3 015	6 536	644	6 665	2 521	3 783
Economic spending ability:	**54 496**	**25 186**	**61 996**	**33 635**	**37 442**	**46 687**	**29 522**	**64 778**	**22 412**	**15 869**	**62 542**	**25 828**	**48 547**
Less: Perceived taxes:	**4 079**	**5 624**	**6 865**	**11 514**	**5 379**	**19 422**	**5 216**	**15 162**	**6 205**	**3 850**	**6 290**	**7 145**	**15 593**
• *Complexity of taxes*	-	1 750	67	1 500	50	-	20	-	-	-	-	-	261
• *Taxpayer-government exchange*	4 079	3 874	6 798	10 014	5 329	19 422	5 196	15 162	6 205	3 850	6 290	7 145	15 332
Perceived spending ability:	**50 418**	**19 562**	**55 131**	**22 121**	**32 063**	**27 265**	**24 306**	**49 617**	**16 207**	**12 019**	**56 252**	**18 682**	**32 955**
Effective tax rates													
Imposed effective rate	28%	37%	32%	37%	34%	37%	27%	28%	45%	15%	31%	26%	29%
Perceived effective rate	34%	51%	40%	58%	44%	63%	40%	45%	60%	36%	38%	47%	52%
Estimated effective rate	48%	60%	40%	60%	45%	60%	50%	60%	70%	13%	42%	14%	30%
Preferred effective rate	20%	10%	25%	25%	10%	35%	25%	35%	35%	10%	30%	7%	15%

Table 85 provides a clear indication that the economic spending ability of the participating households, comprised of the gross monthly household income, less the taxes imposed monthly on the households, differs from the perceived spending ability of the participating households. The graph in Figure 16 shows a comparison between the economic and the perceived spending abilities of the participating households.

Figure 16: Economic and perceived spending ability of the participating households

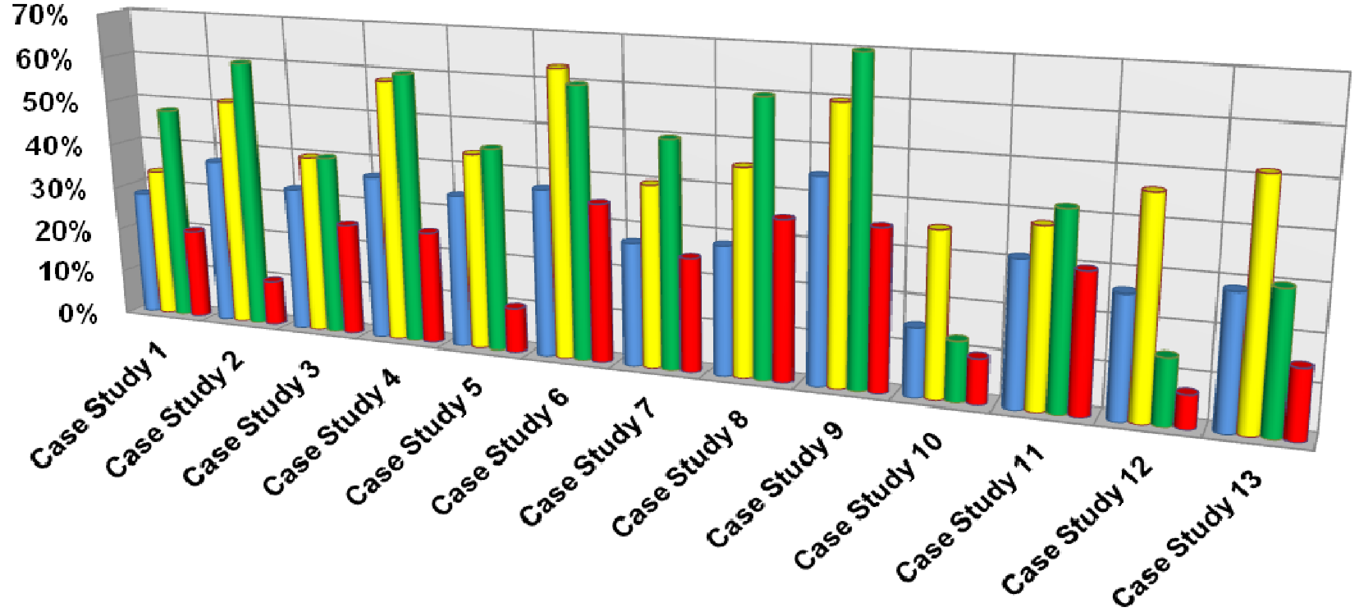


	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Economic spending ability	54 496	25 186	61 996	33 635	37 442	46 687	29 522	64 778	22 412	15 869	62 542	25 828	48 547
Perceived spending ability	50 418	19 562	55 131	22 121	32 063	27 265	24 306	49 617	16 207	12 019	56 252	18 682	32 955

Source: Table 85 of the current study

Table 85 also provides a clear indication that there is a difference between the effective tax rates used to measure the different constructs that contribute to the evaluation of the tax burden of individual taxpayers in South Africa. The graph in Figure 17 below shows a comparison between the differences of these effective tax rates for each of the participating households.

Figure 17: Effective tax rates of the participating households



	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
- Imposed effective tax rate.	28%	37%	32%	37%	34%	37%	27%	28%	44%	15%	31%	26%	29%
- Perceived effective tax rate.	34%	51%	40%	58%	44%	63%	40%	45%	60%	36%	38%	47%	52%
- Estimated effective tax rate.	48%	60%	40%	60%	45%	60%	50%	60%	70%	13%	42%	14%	30%
- Preferred effective tax rate.	20%	10%	25%	25%	10%	35%	25%	35%	35%	10%	30%	7%	15%

Source: Table 85 of the current study

The results of measuring the tax burden of the participating households, as presented in Table 85 and Figures 16 and 17, indicate that there is clearly a difference between measuring the imposed tax burden objectively and measuring the perceived tax burden subjectively.

Conclusion 7.9

It is concluded from the case study research that the imposed tax burden and the perceived tax burden as constructs defined in the present study are both valid constructs to include in the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in the present study.

Measuring the tax burden of individual taxpayers is only one of the components essential for evaluating the tax burden of individual taxpayers in South Africa. Another component of evaluating the tax burden of individual taxpayers in South Africa is to compare the tax burden of individual taxpayers on an equal basis.

7.6.2 Main Theme 9: Comparing the tax burden

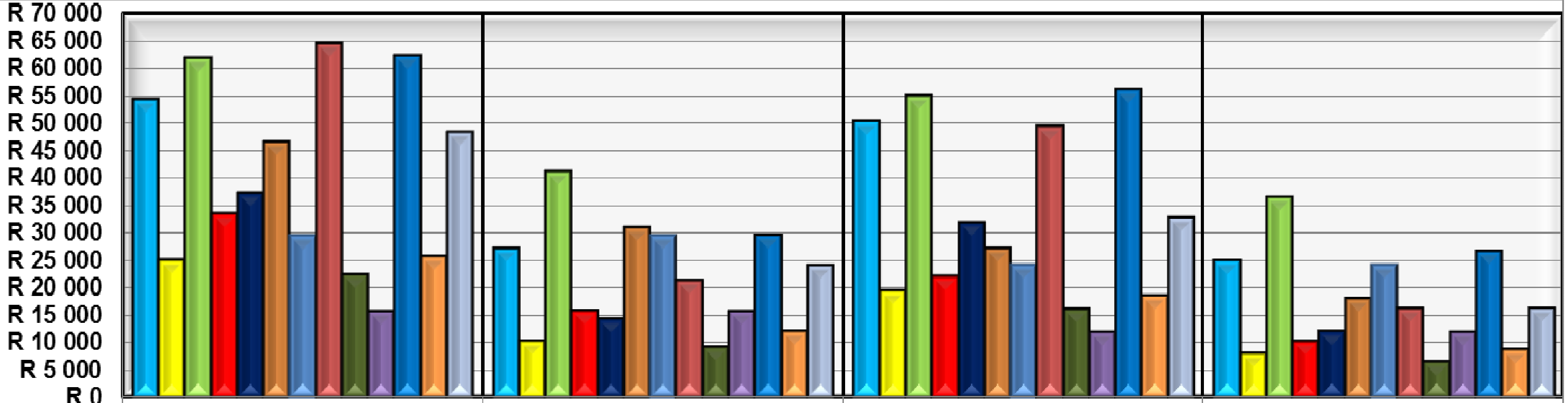
The current study used the construct of equivalence scales as a theoretical underpinning to provide an equitable foundation from which to compare the tax burdens of households in South Africa. As indicated previously in Section 5.8 of the current document, studies traditionally used the cash income adjusted in many ways to measure and compare economic well-being between households, but the modern trend is to focus on *equivalent disposable income* that is widely used in studies measuring and comparing the distribution of economic well-being. The disposable income, for the purposes of this study, refers to the **economic spending ability** and the **perceived economic spending ability** of a household as determined in terms of Table 70. This theoretical basis was applied to a real-life context by using the data from the case study research, especially the data from Main Themes 1 and 8, as an underpinning. The results are presented in Table 86, overleaf.

Table 86: Comparing the tax burden of the participating households

Detail	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Equivalence scales													
Number of persons in the household:													
Adults in the household	3	2	2	2	3	2	1	5	2	1	2	2	3
Children in the household	0	3	0	2	2	0	0	0	3	0	2	2	0
Equivalence scale factors:													
Head X factor 1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Additional adults X factor 0.5	1.0	0.5	0.5	0.5	1.0	0.5	0	2.0	0.5	0	0.5	0.5	1.0
Each child X factor 0.3	0	0.9	0	0.6	0.6	0	0	0	0.9	0	0.6	0.6	0
Cumulative equivalent factor:	**2.0**	**2.4**	**1.5**	**2.1**	**2.6**	**1.5**	**1.0**	**3.0**	**2.4**	**1.0**	**2.1**	**2.1**	**2.0**
Comparison of the spending abilities of the participating households:													
Economic spending ability of the participating households:													
Economic spending ability	54 496	25 186	61 996	33 635	37 442	46 687	29 522	64 778	22 412	15 869	62 542	25 828	48 547
Equivalent economic spending ability	27 248	10 494	41 331	16 016	14 401	31 125	29 522	21 593	9 338	15 869	29 782	12 299	24 274
Perceived spending ability of the participating households:													
Perceived spending ability	50 418	19 562	55 131	22 121	32 063	27 265	24 306	49 617	16 207	12 019	56 252	18 682	32 955
Equivalent perceived spending ability	25 209	8 151	36 754	10 534	12 332	18 177	24 306	16 539	6 753	12 019	26 786	8 896	16 477

The results from using equivalence scales as a basis for comparing the effect of tax burdens (expressed in terms of imposed and perceived taxes) on the economic well-being of the participating households set out in Table 86, are illustrated by referring to the economic spending ability and the perceived economic spending ability, before and after the application of the scales. The graph in Figure 18 illustrates the effect of using equivalence scales as a basis for comparison.

Figure 18: Effect of equivalence scales as a basis for comparing the tax burden of the participating households



	Economic spending ability	Equivalent economic spending ability	Perceived spending ability	Equivalent perceived spending ability
Case Study 1	54 496	27 248	50 418	25 209
Case Study 2	25 186	10 494	19 562	8 151
Case Study 3	61 996	41 331	55 131	36 754
Case Study 4	33 635	16 016	22 121	10 534
Case Study 5	37 442	14 401	32 063	12 332
Case Study 6	46 687	31 125	27 265	18 177
Case Study 7	29 522	29 522	24 306	24 306
Case Study 8	64 778	21 593	49 617	16 539
Case Study 9	22 412	9 338	16 207	6 753
Case Study 10	15 869	15 869	12 019	12 019
Case Study 11	62 542	29 782	56 252	26 786
Case Study 12	25 828	12 299	18 682	8 896
Case Study 13	48 547	24 274	32 955	16 477

Source: Table 86 of the current study

In summary, Table 86 and Figure 18 clearly indicate that the unique composition of a household in terms of the number of persons in the household is relevant to the comparison of the effect of the imposed tax burden and the perceived tax burden on the economic well-being of these participating households. Equivalence scales make provision for the unique composition of participating households, which, in turn, provide a basis for comparing the tax burden of the participating households on an equal basis. Together with the results illustrated in Figure 18, it is possible to conclude that the comparison of the tax burdens of households on an equal basis is relevant to the evaluation of the tax burden of individual taxpayers in South Africa.

Conclusion 7.10
It is concluded from the case study research that equivalence scales, as a basis for an equal comparison of the tax burdens of individual taxpayers, is a valid theme to add to the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in the present study.

7.7 CONCLUSION

In this chapter, the results of the data gathered by means of multiple case studies and analysed using a thematic framework were set out for the constructs that were chosen to underpin the development of a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa in the current study.

The results of applying the theoretical constructs in the current study in a real-life context indicate that the theoretical constructs are valid underpinnings for the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in this study. The results from this chapter also suggest that the households of individual taxpayers as a unit of analysis, the months in a year of assessment as a period for review, and the methodology for measuring and comparing the tax burden, are all valid constructs. However, the main aspect that emerged from the case study research is that there is a distinct difference between the imposed tax burden as it was determined objectively for the participating households, and the tax burden as it was subjectively perceived by the participating households.

The next chapter is the final chapter, which summarises the findings of the study and indicates possible future research to capitalise on the conceptual framework for evaluating the tax burden of individual taxpayers in South Africa developed in this study.

CHAPTER 8:
CONCLUSION

8.1 INTRODUCTION

In South Africa, as in the rest of the world, the tax burden of individual taxpayers is highly controversial. The tax burden is a source of contention and concern, not only in government, academia and the media, but also, and perhaps most importantly, amongst those who experience the burden of paying taxes in real life, namely individual persons who are taxpayers. Studies and debates around the topic in South Africa are often contradictory, depending on the perspective from which the tax burden is evaluated. These contradictory claims relating to the tax burden in South Africa do not arise in a vacuum, but may, to a large extent, be attributed to the lack of a comprehensive basis from which the tax burden of individual taxpayers in South Africa can be evaluated. Hence, there is a need in South Africa for a conceptual framework for evaluating the tax burden of individual taxpayers, not only objectively in terms of the taxes imposed by government on the individual taxpayers (the **imposed tax burden**), but also subjectively, as the tax burden is interpreted by these taxpayers (the **perceived tax burden**).

The primary objective of the present study was to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. This primary objective of the present study was supported by secondary research objectives relating to the definition and formulation of theoretical constructs as an underpinning for the development of a conceptual framework, as well as the validation of these theoretical constructs in a real-life context.

In this final chapter, the conclusions related to the stated objectives of this study are presented.

8.2 SUMMARY OF FINDINGS AND CONCLUSIONS

The construct of the **imposed tax burden** was investigated and, based on the literature, it was determined that the definition of **a tax** is a highly debated topic. An analysis of a number of different definitions from the literature established that the elements of being compulsory, raising revenue for government as funding for general expenditure, and shared benefits for the public as a whole all frequently occur, in one way or another, in these definitions (see Section 2.2.3). From the analysis of the literature, it was concluded that a **user charge** can be defined as a compulsory impost which is mainly intended to recover costs incurred by a government in the direct supply of specific public goods and services to members of the public, in return for the payment of the impost, to the exclusive benefit of the person(s) paying the impost (see Section 2.2.4).

The **(tax) burden** is also an important construct underpinning the imposed tax burden. It was concluded from an analysis of the literature that a tax can affect an individual taxpayer's tax burden in a number of ways. A tax can affect the tax burden either on a recurrent basis over a given period (**a recurrent tax burden**), or on the occurrence of specific transactions or events at a particular point of time (**a random tax burden**) (see Section 2.2.6.1). Both a recurrent and a random tax burden can be imposed directly on the income or wealth of a taxpayer (**a direct tax burden**), or indirectly on the consumptions of goods and services by the taxpayer (**an indirect tax burden**) (see Section 2.2.6.2).

The theoretical constructs underpinning the imposed tax burden were used to formulate a criterion framework (see Table 6)[188] that provides a foundation for classifying government imposts according to their inherent characteristics, irrespective of the label given to the impost by the government. The classification framework in Table 6 was applied as a set of criteria to classify the various government imposts that are used as sources of revenue to fund the public sector in South Africa (see Chapter 3). It can be concluded from the results that the criteria in Table 6 provide objective guidelines for classifying government

[188] See Section 2.2.7.

imposts in terms of their inherent characteristics, irrespective of the label applied to the impost by the government (see Section 3.28).

From the analysis of the construct of the **perceived tax burden**, it emerged that the tax burden as perceived by individual taxpayers in South Africa can be evaluated by referring to the concept of the **fiscal illusion** and the concept of **fiscal perception**, which consist of three important elements, namely the **fairness of taxes**, the **complexity of taxes** and the **taxpayer-government exchange** (see Section 4.2). An analysis of the literature on the perceived tax burden in South African tax led to the conclusion that the imposed tax burden may not necessarily reflect how individual taxpayers in South Africa perceive their tax burden, which may also be vastly different from how theoreticians and policy-makers interpret the tax burden (see Section 4.3).

Theoretical principles originating from fiscal incidence studies (see Section 5.2) were adopted in this study as an underpinning for the **formulation of a conceptual framework** for evaluating the tax burden of individual taxpayers in South Africa, focusing on the recurrent tax burden. It was concluded that the households of individual taxpayers in South Africa as a **unit of analysis** is an appropriate basis from which to evaluate the tax burden of individual taxpayers in South Africa (see Section 5.3). It was concluded that the **period** used by SARS to determine the income tax liability of an individual taxpayer in South Africa, namely the year of assessment, provides a consistent and appropriate period for evaluating the (recurrent) tax burden of individual taxpayers in South Africa (see Section 5.4). Using the **effective tax rate** expressed as a percentage of the gross household income of individual taxpayers as an underpinning was deemed to be an appropriate **method of measurement**,[189] not only for the imposed tax burden, but also for the perceived tax burden (see Section 5.5). The **coverage**[190] of the gross household income is presented as the framework of gross household income (see Section 5.6.1) and it is suggested in the study that the

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[189] The terms ‘measurement’ in this context refers to the underpinning method used to calculate the elements contributing to the tax burden.
[190] The term ‘coverage’ in this context refers to the extent to which the elements underpinning the measurement of the tax burden are covered for the purposes of evaluating the tax burden of individual taxpayers in South Africa.

gross household income be **valued**[191] using this framework and the definition of 'gross' income (see Section 5.5.1), as a basis (see Section 5.7.1). The coverage of the recurrent imposed tax burden is presented in Section 5.6.2 as the 'framework of the imposed recurrent tax burden in South Africa' and it is suggested in the study that the elements underpinning the imposed tax burden need to be valued in terms of the South African legislation applicable to each impost (see Section 5.7.2). It is suggested in the study that the elements underpinning the perceived tax burden be limited to (see Section 5.6.3), and valued (see Section 5.7.3) in terms of the monetary value of private expenditure incurred by taxpayers. This expenditure is related to the perceived complexity of taxes and the perceived inefficiencies of key services provided by government. It was determined from the literature analysis that the concept of **equivalence scales** provides a consistent and recognised basis for a **comparison** of the tax burdens of the households of individual taxpayers in South Africa (see Section 5.8).

The objective of the first phase of the present study, as explained above, was to establish the theoretical constructs underpinning the evaluation of the tax burden of individual taxpayers in South Africa, and to use these theoretical constructs as a basis for formulating a conceptual framework. The objective in the second phase of the study was to establish the validity of these theoretical constructs by applying the newly formulated framework in a real-life context. It was concluded that a qualitative research approach, using multiple case studies as a research tool, is an appropriate strategy to follow in order to achieve the said objective (see Section 6.4).

The primary data collected from the case study research were analysed using the thematic framework analysis technique, which was deemed to be a suitable technique, as it is widely used in qualitative research (see Section 7.2). The results of the data analyses make the following conclusions possible. First, it is concluded from this study that the construct of the **imposed** tax burden, as

[191] The terms 'valued' and 'valuation' in this context must be interpreted as the basis from which a monetary value is attributed to each element used to measure the tax burden.

defined in this study, is a valid construct that provides a relevant foundation for the objective evaluation of the tax burden of individual taxpayers in South Africa (Section 7.4.3.3 and Section 7.4.4.3). Secondly, it is concluded that the construct of the **perceived** tax burden, as defined in this study, is a valid construct that provides a relevant foundation from which the tax burden can be evaluated **subjectively**, as it is perceived by the individual taxpayers in South Africa (Section 7.5). Thirdly, it is possible to conclude that the methodology adopted as the underpinning method for measuring the tax burden provides a valid basis from which to determine and compare the tax burden of individual taxpayers in South Africa (see Section 7.6 and Section 7.7).

Overall, it is possible to conclude that the conceptual framework developed in this study provides a comprehensive basis from which the tax burden of individual taxpayers in South Africa can be evaluated.

8.3 SUMMARY OF THE CONTRIBUTIONS OF THE STUDY

The present study is the first qualitative research study designed to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa objectively from the point of view of the government or the society as an economic community, but also subjectively from the point of view of the taxpayer. This threefold point of view is in line with the arguments of Brennan and Buchanan (1980:225) and Stamp (1921:201), who emphasise that it is important for policymakers not to lose sight of the taxpayers on whom the tax burden is imposed.

The results of the present case study research confirm the theory established in the current literature that, in evaluating the tax burden of individual taxpayers in South Africa, a distinction must be made between the imposed tax burden and the perceived tax burden. The present study therefore proposed a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa which incorporates both the imposed tax burden and the perceived tax burden.

8.4 LIMITATIONS OF THE PRESENT RESEARCH

Critical reflection on the present research revealed a number of limitations that could be addressed by future research to augment and enhance the findings of the present study.

The first limitation noted is that the present research did not analyse all public entities that function as part of the public structure in South Africa, but only focused on the key functions of government (see Section 3.4.4). Hence, it is possible that not all the imposts (which are inherently taxes in terms of the criteria in Table 6) used by government to fund these entities were identified. However, the purpose of the present research was to validate the theoretical constructs underpinning the conceptual framework and not to perform a complete analysis of the entire public service structure in South Africa. Therefore, this limitation does not affect the results of the present research.

The second limitation is that the analysis of the revenue sources used as funding for the public entities included in the present research was limited to those revenue sources that comprise more than 80% of the funding of the entity (see Section 3.4.4). Therefore it is possible that not all the imposts (which are inherently taxes in terms of the criteria in Table 6) used by these entities to raise revenue were identified. However, as explained in the first limitation in the paragraph above, the purpose of the present research was to validate the theoretical constructs from this study and not to perform a complete analysis of these public entities. Hence, this limitation does not affect the results of this research.

The third limitation is that the majority of the participants in the case study research belonged to only one population group (see Section 7.3). This limitation may have an impact on the degree to which the results from the case study data can be generalised. However, as indicated before, this limitation does not alter the conclusions of this study, as the purpose of the study was not to generalise the results, but to validate the theoretical constructs underpinning the development of the conceptual framework. Moreover, an attempt was made to address this limitation by adding four additional cases (using respondents from additional population groups) to the original nine cases (which were all white respondents).

The fourth limitation related to the complexity of taxes, measured in terms of the cost of compliance (see Section 5.5.4.2, Section 5.5.6.1 and Section 5.7.3). In the case study research, the cost of compliance was limited to the actual monetary costs incurred by the taxpayers related to the services of tax practitioners. However, the results of the case study research clearly indicated that this basis is not adequate (see Section 7.5.4.3) and hence should be broadened in any future study when used as basis for measuring the complexity of taxes as perceived by the taxpayer.

The last important limitation to consider is that the participants in the case study research all reside in the Tshwane metropolis (see Section 7.3). Taxpayers living in other municipal areas may have a different perception of their tax burden, and this may be influenced by the level of service delivery by government in their area. This also affects the degree to which the results can be generalised. However, as the purpose of the case study research was limited to validating the conceptual framework formulated on the basis of the literature, this limitation does not alter the results of this study.

8.5 FUTURE RESEARCH

The present research provided a first stepping stone to the development of a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa. Further research is required to build onto, and to refine, this initial conceptual framework. Each of the constructs that emerged from the present research as a theme in evaluating the tax burden of individual taxpayers in South Africa presents an opportunity for future research.

The present research to develop a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa was carried out at a particular time and in a particular context. Therefore, as the tax environment in South Africa changes, these changes may necessitate adjustments in future to the initial conceptual framework emerging from this study.

Finally, although the results of the present research were used to develop an initial conceptual framework for evaluating the tax burden of individual taxpayers in the South African context, the opportunity exists to target individual taxpayers in other countries to determine whether they perceive their tax burdens in the same way that individual taxpayers in South Africa do.

8.6 CONCLUDING REMARKS

Oberholzer (2008:245) found that South African taxpayers' perceptions regarding their tax burden influence their attitudes towards tax compliance. This finding by Oberholzer highlights the importance of the present study in developing a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa, not only from policymakers' and the community's point of view, but also from the taxpayers' point of view.

The present research has proposed a conceptual framework for evaluating the tax burden of individual taxpayers in South Africa, both objectively and subjectively. The conceptual framework from the present study can be used as a basis for other studies to evaluate the tax burden of individual taxpayers, not only in South Africa, but perhaps also in other countries. The conceptual framework from the present research not only provides a basis for other researchers to pursue the tax burden of individual taxpayers as a research topic, but may also stimulate the momentum of research related to the tax burden in the broader tax environment.

In the words of Aristotle, a 'whole is that which has a beginning, a middle, and end' (translated by Butcher, 2000:12) – this is not the end, not even close to the middle, but rather the very beginning.

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NEMISA – see National Electronic Media Institute of South Africa

NERSA – see National Energy Regulator of South Africa

NHBRC – see National Homebuilders Registration Council

NHFC – see National Housing Finance Corporation Limited

NHLS – see National Health Laboratory Service

NNR – see National Nuclear Regulator

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ANNEXURE A

QUESTIONNAIRE USED IN PHASE 1 OF THE STUDY
TO INVITE POTENTIAL PARTICIPANTS
FOR THE CASE STUDIES IN PHASE 1 OF THE STUDY
(ENGLISH VERSION)

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

For office use

1 Respondent number

2 Informed consent.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Faculty of Economic and Management Sciences

Covering letter and informed consent form for participation in academic research

Department of Taxation

Title of the study: ***A conceptual framework for evaluating the tax burden of individual taxpayers in South Africa***

Research conducted by:
Mr T.L. Steyn
Telephone number: (012) 420 3406

Dear Respondent

Please note the following:

- This study involves an anonymous survey. Your name will not appear on the questionnaire, except if you voluntarily provide your contact details for participation in future research on the topic. The answers you give will be treated as strictly confidential under all circumstances. Your participation in this study is very important. You may, however, choose not to participate, and you may also stop participating at any time without any negative consequences. However, please note that consent cannot be withdrawn after the questionnaire has been submitted.
- Please contact my study leaders if you have any questions or comments regarding the study:

Study leader	**Contact number**
Prof. R. Franzsen	(012) 420 5538
Prof. M. Stiglingh	(012) 420 4983

Please tick the block if you have read and understood the information above. Ticking the block also signifies your consent to participate in the study voluntarily.

3 Please indicate your age (in years).

4 Please indicate your gender:

Male	1
Female	2

5 Please indicate to which population group you belong.

White	1
Indian	2
Coloured	3
Black	4
Asian	5
Other, please specify: ____________	6

6 Please indicate your employment status:

Salaried employee – public sector	1
Salaried employee – private sector	2
Self-employed	3
Unemployed	4
Pensioner	5
Other, please specify: ____________	6

7 Please indicate the city/town and province in South Africa where your household is situated.

City/town:	
Province:	

8 Please indicate the number of persons living in your household.

	No
Adults:	
Children (below 18 years of age):	

Here are some questions about taxes in relation to your household.

9 What is the **total monthly gross income of your household** in a normal month?

R0 – R10 000	1
R10 001 – R20 000	2
R20 001 – R30 000	3
R30 001 – R40 000	4
R40 001 – R50 000	5
R50 001 – R60 000	6
R60 001 – R70 000	7
R70 001 – R80 000	8
R80 001 – R90 000	9
R90 001 – R100 000	10
R100 001 – R150 000	11
R150 001 – R200 000	12
R200 001+	13

10 What percentage of your total monthly gross household income, in **your estimation**, is paid to the government (national, provincial, municipal, and other government entities) in the form of taxes?

%

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11 In your opinion, what would be a more **realistic and reasonable percentage** of tax on your household's total monthly gross income?

______ %

12 What is the total amount of **expenses** of your household in a normal month?

R0 – R10 000	1
R10 001 – R20 000	2
R20 001 – R30 000	3
R30 001 – R40 000	4
R40 001 – R50 000	5
R50 001 – R60 000	6
R60 001 – R70 000	7
R70 001 – R80 000	8
R80 001 – R90 000	9
R90 001 – R100 000	10
R100 001 – R150 000	11
R150 001 – R200 000	12
R200 001+	13

13 Future research

Tax burdens are an important topic for research in South Africa. This questionnaire forms the basis for future research.
If you are interested in participating in future research on this topic in the form of a case study, please supply your name and contact details below, or alternatively send a separate e-mail with your contact details to ts@up.ac.za. This contact information will be kept **strictly confidential** and will only be used for the purpose of inviting you to participate in future research on this topic by the University of Pretoria.

Name (optional): ______________________

E-mail (optional): ______________________

Contact number (optional): ______________________

ANNEXURE B

FINAL INTERVIEW SCHEDULE USED IN PHASE 2 OF THE STUDY TO COLLECT DATA RELATING TO THE PARTICIPANTS' HOUSEHOLDS (ENGLISH VERSION)

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Faculty of Economic and Management Sciences

Letter of Introduction and Informed Consent for participation in academic research

Dept. of Taxation

Title of the study
A conceptual framework for evaluating the tax burden of individual taxpayers in South Africa

Research conducted by:
Mr. T.L. Steyn (8421668)
Telephone number: (012) 420 3406

Dear Respondent

You are invited to participate in an academic research study conducted by Theuns Steyn, a doctoral student at the Department of Taxation at the University of Pretoria. The purpose of the study is to develop a conceptual framework that can be used to evaluate the tax burden in South Africa as it is interpreted and experience by individuals as taxpayers.

Please note the following:

- This study takes the form of a case study. Your name will not appear on any documents, and the information you provide will be treated as <u>strictly confidential</u> under all circumstances.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences. However, please note that your consent cannot be withdrawn after the information has been submitted.
- The results of the study will be used for academic purposes only and may be published in academic journals locally and internationally. Please note that in no instance will any information be included in any documents which may reveal your identity. We will provide you with a summary of our findings on request.
- Please contact my study leaders if you have any questions or comments regarding the study:

Study leader	Contact number	E-mail
Prof R. Franzsen	(012) 420 5538	riel.franzsen@up.ac.za
Prof M. Stiglingh	(012) 420 4983	madeleine.stiglingh@up.ac.za

Thank you for participating in the study.

Please sign the consent form to indicate that

- you have read and understand the information provided above; and
- you give your consent to participate in the study on a voluntary basis.

______________________ ______________________

Respondent's signature **Date**

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UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Interview schedule

For office use

1 Case study number

The following questions relate to __the head__ of your household.

(Interviewer: Ask the following questions only in relation to the head of the household. If there is any objection to answering any of the questions, please indicate this, or use the option provided for such a response.)

2 Who is the head of your household? (Husband, wife, other).

3 What is the age of the head of the household? (Years)

4 What is the gender of the head of the household?

Male	1
Female	2
Not disclosed	3

5 What population group does the head of the household belong to?

White	1
Indian	2
Coloured	3
Black	4
Asian	5
Other, please specify:	6
Not disclosed	7

6 What is the head of the household's highest qualification?

No schooling	1
Completed primary education	2
Completed secondary education	3
Tertiary – Undergraduate	4
Tertiary – Post graduate	5
Other, please specify:	7

7 Please indicate the employment status of the head of the household.

Salaried employee – public sector	1
Salaried employee – private sector	2
Salaried employee – semi-public sector	3
Self-employed	4
Unemployed	5
Pensioner	7
Other, please specify:	8

8 How would you rate the knowledge and experience of tax of the head of the household?

	Knowledge	Experience
High	1	1
Medium	2	2
Low	3	3
None	4	4

The following questions relate to your <u>household unit</u>.

9 What is the name of the city (or town), and the name of the province where the household is situated?

City/town:	
Municipal area:	
Province:	

10 How many adults and how many children make up your household?

	Adults	Children (Below 18 years of age)
Number of persons in the household:		
Number of these persons that regularly contribute to the household's income:		

Here are some questions <u>about income and taxes</u> as they relate to your household.

11 What is your household's **total monthly (gross) income** from each one of the following sources?

(Interviewer: Gross income refers to income before the deduction of any taxes or expenses. Please remember to include the income for <u>each person</u> regularly contributing to the household's normal monthly gross income.)

Income source	Rand per month
Income from employment (salary, benefits, etc)	
Income from business	
Income from capital (rent, interest, etc.)	
Income from private pensions and annuities	
Income from government grants (old age and war pensions, disability or child grants, etc.)	
Other income (please specify):	

Total monthly gross monthly income ☐

☐

12 What is the **total monthly amount** that your household pays towards pay-as-you-earn (PAYE)?

(Interviewer: Please remember to include all amounts paid by <u>each person</u> who regularly contributes to the normal monthly household income.)

Detail	Amount in Rand
Pay-as-you-earn (PAYE) on income from employment (salary, benefits, etc)	
Pay-as-you-earn (PAYE) on private pensions and annuities	
Other (please specify):	

Total monthly amount of PAYE ☐

☐

13 What is the **total monthly amount** that your household pays towards the Unemployment Insurance Fund (UIF)?

(Interviewer: Please remember to include all amounts paid by each person who regularly contributes to the normal monthly household income.)

Detail	Amount in Rand
UIF – **Employee** contribution on income from employment	
UIF – **Employer** contribution on income from employment	
UIF – **Employer** contribution for domestic workers in the household	
Other (please specify):	

Total monthly amount of UIF contributions

14 Please provide the following information on the **latest income tax assessments** from the South African Revenue Service (SARS).

(Interviewer: Please remember to include the information for each person who regularly contributes to the normal monthly household income.)

Detail	Amount in Rand
Taxable income per assessment(s)	
Normal tax per table	
Rebates	
Normal income tax liability	

Here are some questions about expenses as they relate to your household.

15 What are your household's average monthly expenses for each of the following?

(Please state the gross amounts inclusive of VAT and other taxes)

Household expense	Amount in Rand
Food and non-alcoholic beverages	
Basic food (maize, fruit, vegetables, milk, etc.)	
Other food and non-alcoholic beverages	
Plastic shopping bags	
Alcoholic beverages and tobacco	
Beer	
Wine	
Spirits	
Tobacco products	
Housing, water, electricity, gas and other fuels	
Rental for housing	
Water	
Refuse collection	
Sewerage collection	
Municipal property rates	
Electricity	
Gas	
Paraffin	
Health	
Medical payments to State-provided healthcare services	
Medical aid contributions to private medical funds	
Transport	
Fuel	
Toll fees	
Road transport (bus or taxi)	

Rail transport		
Communication		
Telephone services – Telkom		
Telephone services – Other		
Recreation and cultural		
National lottery		
Education		
State schools and tertiary institutions		
Private schools and institutions		
Miscellaneous		
Contributions to private pension and annuity funds		
Short-term insurance		
Financial services – life insurance, bank fees, etc.		
Private security expenses		
Tax practitioners – compliance assistance (returns, etc.)		
National lottery		
Other (specify)		
Total monthly household expenses		

16 What is the average water (kilolitres) and electricity (kilowatts) consumption of your household in a <u>normal month</u>?

Detail	**Amount in Rand**
Water (kilolitres per month)	
Electricity (kilowatts per month)	

Here are some questions on how you <u>perceive the tax burden</u> of your household.		
17	In **your own words** how would you describe the **tax burden of your household**? (Interviewer: If a respondent makes some statement, explore the reasoning behind each statement with 'why' and 'how' questions).	

18	What percentage of your total monthly gross household income, in your best **estimate**, is paid to the government (national, provincial, municipal, and other government entities) in the form of taxes? [ ] %	[ ]
19	Please give reasons for your estimate in Question 18: [ ]	[ ]
20	In your opinion, what would be a **realistic and reasonable percentage** of tax on your household's total monthly gross income? [ ] %	[ ]
21	Please give reasons for your opinion in Question 20: [ ]	[ ]
22	In your opinion, is your household's tax burden **fair or not fair**?	[ ]

Fair	1
Not fair	2
Unsure or don't know	3

23 Please give reasons for your opinion in Question 22:

24 In your opinion, is the **tax system** in South Africa **complex**?

Yes	1
No	2
Unsure or don't know	3

25 If you think it is complex, in your opinion, does the complexity of taxes **affect** your household's tax burden?

Yes	1
No	2
Unsure or don't know	3

26 If you think it does affect the tax burden of your household, please explain briefly how and why the complexity of taxes, in your opinion, affects your household's tax burden.

27 If goods and services that government provides to the general public (making use of tax money) are not provided or rendered effectively by government, does this in your opinion increase the tax burden of your household?

(These goods and services include, <u>police services</u>, <u>road infrastructure</u>, <u>rail infrastructure</u>, <u>public transport</u>, <u>health services</u>, <u>education</u>, and <u>social assistance</u> in the form of State pensions and other grants).

Yes – the effect is an increase in the tax burden	1
No – it does not affect the tax burden	2
Unsure or don't know	3

28 Please give reasons for your answer in Question 27:

29 In your opinion, does paying for the **consumption of water and electricity** affect the tax burden of your household?

Yes	1
No	2
Unsure or don't know	3

Please give reasons for your answer.

30	Are there any <u>other aspects</u> that in your opinion affect the tax burden of individuals in South Africa? Please explain why and how these aspects affect the tax burden.	

ANNEXURE C

SCHEDULE USED IN PHASE 2

OF THE STUDY AS GUIDELINE FOR

THE PARTICIPANTS TO PREPARE INFORMATION FOR THE INTERVIEW

(ENGLISH VERSION)

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UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Faculty of Economic and Management Sciences

Covering letter and informed consent form for participation in academic research

Department of Taxation

Title of the study: ***A conceptual framework for evaluating the tax burden of individual taxpayers in South Africa***

Research conducted by:

Mr T.L. Steyn
Telephone number: (012) 420 3406
E-mail: ts@up.ac.za

Dear respondent

You are invited to participate in an academic study conducted by Theuns Steyn, a doctoral student at the Department of Taxation at the University of Pretoria. The purpose of the study is to develop a conceptual framework that can be used to evaluate the tax burden in South Africa as it is interpreted and experienced by individuals as taxpayers.

Please note the following:

- This study takes the form of a case study. Your name will not appear on any documents, and the information you provide will be treated as **strictly confidential** under all circumstances.
- Your participation in this study is very important. You may, however, choose not to participate and you may also stop participating at any time without any consequences. However, please note that your consent cannot be withdrawn after the information has been submitted.
- The results of the study will be used for academic purposes only and may be published locally and internationally. Please note that under no circumstances will any information be included in any documents which may reveal your identity. A summary of the findings will be provided to you on request.
- Please contact me or my study leaders if you have any questions or comments regarding the study:

Study leader	**Contact number**
Prof RCD Franzsen	(012) 420 5538
Prof M Stiglingh	(012) 420 4983

Thank you for participating in the study.

Schedule of household income, taxes and expenditure

The purpose of this information is to enable the researcher to calculate the imposed (actual) tax burden of the household. Therefore it is important that the respondent complete this schedule as accurately as possible. All information will be treated as strictly confidential and will only be used for purposes of this study.

Please complete the schedule before the interview and bring the completed schedule with you to the interview. If you are not certain about some of the questions, please mark them and we can discuss it on the interview. You are welcome to contact Theuns Steyn at 082 784 0346 if you have any questions.

Here are some questions about income, taxes and expenses as they relate to your household.

1 What is your household's (total) **gross monthly income** from each one of the following sources? (Gross income refers to income before the deduction of any taxes or expenses).

(Please remember to include the information for each person who contributes regularly to the normal monthly household income.)

Income source	**Rand per month**
Income from employment (salary, benefits, etc.)	
Income from business	
Income from capital (rent, interest, etc.)	
Income from private pensions and annuities	
Income from government grants (old age and war pensions, disability or child grants, etc.)	
Other income (please specify):	
Total gross monthly income	

2 What is the total monthly amount that your household pays towards **Pay-as-you-earn (PAYE)** as it relate to the following?

(Please remember to include the information for each person who contributes regularly to the normal monthly household income.)

Income tax source	Amount in Rand
Pay-as-you-earn on income from employment.	
Pay-as-you-earn on income from pensions and annuities.	
Pay-as-you-earn on other income sources (please specify):	
Total monthly amount of Pay-as-you-earn (PAYE)	

3 What is the total monthly amount that your household pays towards the **Unemployment Insurance Fund (UIF)** as it relate to the following?

(Please remember to include the information for each person who contributes regularly to the normal monthly household income.)

Income tax source	Amount in Rand
UIF – employee contribution on income from employment.	
UIF – employer contribution on income from employment.	
UIF – contribution to UIF for domestic workers in the household.	
UIF contributions on other income sources (please specify):	
Total monthly amount of Unemployment insurance Fund contributions	

4 Please provide the following information on the **latest income tax assessments** from the South African Revenue Service (SARS).

(Please remember to include the information for each person who contributes regularly to the normal monthly household income.)

Details	Amount in Rand
Taxable income per assessment(s)	
Normal tax per tables	
Rebates	
Normal income tax liability	
Year of assessment:	

5 What is your household's **<u>average monthly spending</u>** on the following?

(Please state the <u>gross amounts **inclusive**</u> of any VAT and other taxes)

Household expense		Amount in Rand
Food and non-alcoholic beverages		
Basic food (maize, fruit, vegetables, milk, etc.)		
Other food and non-alcoholic beverages		
Plastic shopping bags		
Alcoholic beverages and tobacco		
Beer		
Wine		
Spirits		
Tobacco products		
Housing, water, electricity, gas and other fuels		
Rent for housing		
Water	(please also provide kilolitres): KL	
Refuse collection		
Sewerage collection		
Municipal property rates		
Electricity	(please also provide kilowatt): KW	
Gas		
Paraffin		
Health		
Medical payments to State healthcare services		
Medical aid contributions to private medical fund		
Transport		
Fuel		
Toll fees		
Road transport (bus or taxi)		
Rail transport		
Communication		
Telephone services – Telkom		
Telephone services – Other		
Education		
State schools and tertiary institutions		
Private schools and institutions		
Miscellaneous		
Contributions to private pension and annuity funds		

	Short-term insurance	
	Financial services – life insurance, bank fees, etc.	
	Private security expenses	
	Tax practitioners – compliance assistance	
	National lottery	
	Other (specify)	
	Total monthly household expenses	

ANNEXURE D

INTERVIEW SCHEDULE

FROM THE CASE STUDY RESEARCH

Interview schedule from the case study research

Case Study 1
The interview of the respondent from Case Study 1 was conducted on 27 September 2011. The meeting started at 14:00 at the respondent's office, and only the head of the household attended the meeting and answered the questions.

Case Study 2
The interview of the respondent in Case Study 2 was conducted on 10 October 2011. The meeting started at 17:00 at the respondent's home. The head of the household was present, and provided all the answers to the questions in the standard interview schedule.

Case Study 3
The interview of the respondent in Case Study 3 was conducted on 28 September 2011. The meeting started at 19:00 at the respondent's home. The head of the household and his spouse were present, and both participated in answering the questions in the standard interview schedule.

Case Study 4
The interview of the respondent in Case Study 4 was conducted on 12 October 2011. The meeting started at 18:00 at the respondent's home. Only the head of the household was present, and provided all the answers to the questions in the standard interview schedule.

Case Study 5
The interview of the respondent in Case Study 5 was conducted on 26 September 2011. The meeting started at 12:30 at the respondent's office. Only the head of the household was present, and provided all the answers to the questions in the standard interview schedule.

Case Study 6
The interview of the respondent in Case Study 6 was conducted on 29 September 2011. The meeting started at 13:00 at the respondent's office. Only the head of the household was present, and provided all the answers to the questions in the standard interview schedule.

Case Study 7
The interview of the respondent in Case Study 7 was conducted on 7 October 2011. The meeting started at 16:00 at the respondent's home. Only the head of the household was present, and provided all the answers to the questions in the standard interview schedule.

Case Study 8

The interview of respondents in Case Study 8 was conducted on 26 September 2011. The meeting started at 17:00 at the respondent's home. The head of the household and his spouse were both present, and both participated in answering the questions in the standard interview schedule.

Case Study 9

The interview of the respondent in Case Study 9 was conducted on 14 October 2011. The meeting started at 09:00 at the respondent's office. Only the head of the household was present and provided all the answers to the questions in the standard interview schedule.

Case Study 10

The interview of the respondent in Case Study 10 was conducted on 31July 2012.

Case Study 11

The interview of the respondent in Case Study 11 was conducted on 1 Aug 2012.

Case Study 12

The interview of the respondent in Case Study 12 was conducted on 1 Aug 2012.

Case Study 13

The interview of the respondent in Case Study 13 was conducted on 31July 2012.

ANNEXURE E

CODING FRAMEWORK FOR THE CLASSIFICATION OF THE DATA FROM THE CASE STUDY RESEARCH

Table 87: Coding framework for classifying the data from the case study research

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
Informed consent							
	Informed consent signed?			Q1	Yes	NU	**1**
					No	NU	**2**
1.	**Demographic profile**						
	1.1	**Head of the household**					
		1.1.1	Who is the head of the household?	Q2	Husband	NU	**1**
					Wife	NU	**2**
					Other	NU	**3**
		1.1.2	Specify alternative person as head of the household	Q2	Description of the head of the household	TX	**AHH**
		1.1.3	What is the age of the head of the household?	Q3	Age in years	NU	**AGE**
		1.1.4	What is the gender of the head of the household?	Q4	Male	NU	**1**
					Female	NU	**2**
		1.1.5	To which population group does the head of the household belong?	Q5	White	NU	**1**
					Indian	NU	**2**
					Coloured	NU	**3**
					Black	NU	**4**
					Asian	NU	**5**
					Other	NU	**6**

Theme number		Identifier	Detail	Question no	Descriptor	Format of data	Code
Main	Sub						
		1.1.6	Specify alternative population group.	Q5	Description of population group.	TX	**APG**
		1.1.7	What is the head of the household's highest qualification?	Q6	No schooling		**1**
					Completed primary school	NU	**2**
					Completed secondary school	NU	**3**
					Tertiary – B-degree	NU	**4**
					Tertiary – Postgraduate	NU	**5**
					Other	NU	**6**
		1.1.8	Specify alternative qualification	Q6	Description of qualification	TX	**ALQ**
		1.1.9	What is the employment status of the head of the household?	Q7	Salaried employee – public sector	NU	**1**
					Salaried employee – private sector	NU	**2**
					Salaried employee – semi-public sector	NU	**3**
					Self-employed	NU	**4**
					Unemployed	NU	**5**
					Pensioner	NU	**6**
					Other	NU	**7**
		1.1.10	Specify alternative employment status	Q7	Description of employment status	TX	**AES**
		1.1.11	What is the head of the household's level of tax knowledge?	Q8	High	NU	**1**
					Medium	NU	**2**
					Low	NU	**3**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
					None	NU	**4**
		1.1.12	What is the head of the household's level of tax experience?	Q8	High	NU	**1**
					Medium	NU	**2**
					Low	NU	**3**
					None	NU	**4**
	1.2	**Location of the household**					
		1.2.1	In what city or town is the household located?	Q9	Name of city or town	TX	**CIT**
		1.2.2	In what municipal area is the household located in?	Q9	Name of municipal area	TX	**MUN**
		1.2.3	In what province is the household located?	Q9	Name of province	TX	**PRO**
	1.3	**Composition of the household**					
		1.3.1	Number of adults in the household	Q10	Number	NU	**NPH**
		1.3.2	Number of children below 18 years of age in the household	Q10	Number	NU	**NCH**
		1.3.3	Number of these persons that regularly contribute to the household's income	Q10	Number	NU	**NPC**
2.	**Gross monthly household income**						
	2.1 & 2.2	**Gross monthly household income of the participating households (nature of income and person contributing)**					
		2.x.1	Employment income – head of the household	Q11	Rand amount	NU	**EIH**
		2.x.2	Employment income – other members of the	Q11	Rand amount	NU	**EIO**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
			household				
		2.x.3	Business income – head of the household	Q11	Rand amount	NU	**BIH**
		2.x.4	Business income – other members of the household	Q11	Rand amount	NU	**BIO**
		2.x.5	Capital income – head of the household	Q11	Rand amount	NU	**CIH**
		2.x.6	Capital income – other members of the household	Q11	Rand amount	NU	**CIO**
		2.x.7	Retirement income – head of the household	Q11	Rand amount	NU	**RIH**
		2.x.8	Retirement income – other members of the household	Q11	Rand amount.	NU	**RIO**
		2.x.9	Government grants – head of the household	Q11	Rand amount	NU	**GGH**
		2.x.10	Government grants – other members of the household	Q11	Rand amount	NU	**GGO**
		2.x.11	Other income – head of the household	Q11	Rand amount	NU	**OIH**
		2.x.12	Specify the source of the other income	Q11	Description of other source of income	TX	**SOH**
		2.x.13	Other income – other members of the household	Q11	Rand amount	NU	**OIO**
		2.x.14	Specify the source of the other income	Q11	Description of other source of income	TX	**SOO**
3.	**Imposed direct recurrent taxes**						
	3.1 & 3.2	**Direct taxes imposed monthly on the participating households (nature of the tax and the person on whom it was imposed)**					
		3.x.1	PAYE – head of the household - on income from	Q12	Rand amount	NU	**PEH**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
			employment				
		3.x.2	PAYE – other members of the household - on income from employment	Q12	Rand amount	NU	**PEO**
		3.x.3	PAYE – head of the household - on income from retirement	Q12	Rand amount	NU	**PRH**
		3.x.4	PAYE – other members of the household - on income from retirement	Q12	Rand amount	NU	**PRO**
		3.x.5	PAYE – head of the household - on other income (amount)	Q12	Rand amount	NU	**POH**
		3.x.6	PAYE – head of the household - on other income (specify nature)	Q12	Description of other source of income	TX	**PNH**
		3.x.7	PAYE – other members of the household - on other income (amount)	Q12	Rand amount	NU	**POO**
		3.x.8	PAYE – other members of the household - on other income (specify nature)	Q12	Description of other source of income	TX	**PNO**
		3.x.9	Head of the household – date of last assessment	Q14	Date of latest assessment	NU	**DLH**
		3.x.10	Head of the household – taxable income from last assessment	Q14	Rand amount	NU	**TIH**
		3x.11	Head of the household – normal tax per tables on last assessment	Q14	Rand amount	NU	**TTH**
		3.x.12	Head of the household – tax rebate on last	Q14	Rand amount	NU	**TRH**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
			assessment				
		3.x.13	Head of the household – tax normal income tax liability on last assessment	Q14	Rand amount	NU	**TNH**
		3.x.14	Other members of the household – date of last assessment	Q14	Date of latest assessment	NU	**DLO**
		3.x.15	Other members of the household – taxable income from last assessment	Q14	Rand amount	NU	**TIO**
		3.x.16	Other members of the household – normal tax per tables on last assessment	Q14	Rand amount	NU	**TTO**
		3.x.17	Other members of the household – tax rebate on last assessment	Q14	Rand amount	NU	**TRO**
		3.x.18	Other members of the household – tax normal income tax liability on last assessment	Q14	Rand amount	NU	**TNO**
		3.x.19	SDL – head of the household as employer - monthly liability	Q15	Rand amount	NU	**SDH**
		3.x.20	SDL – other members of the household as employers – monthly liability	Q15	Rand amount	NU	**SDO**
		3.x.21	Property rates – head of the household	Q15	Rand amount	NU	**PRH**
		3.x.22	Property rates – other members	Q15	Rand amount	NU	**PRO**
		3.x.23	Turnover tax – head of the household	Q15	Rand amount	NU	**TOH**
		3.x.24	Turnover tax – other members	Q15	Rand amount	NU	**TOO**

Theme number		Identifier	Detail	Question no	Descriptor	Format of data	Code
Main	Sub						
		3.x.25	UIF – head of household – employee contribution on income from employment	Q13	Rand amount	NU	**UEH**
		3.x.26	UIF – head of household – employer contribution on income from employment	Q13	Rand amount	NU	**UEO**
		3.x.27	UIF – other members of the household – employee contribution on income from employment	Q13	Rand amount	NU	**URH**
		3.x.28	UIF – other members of the household – employer contribution on income from employment	Q13	Rand amount	NU	**URO**
		3.x.29	UIF – head of household – employer contribution on income of domestic workers	Q13	Rand amount	NU	**UDH**
		3.x.30	UIF – other members of the household – employer contribution on income of domestic workers	Q13	Rand amount	NU	**UDO**
		3.x.31	UIF – head of the household – other (amount)	Q13	Rand amount	NU	**UOH**
		3.x.32	UIF – head of the household – other (specify nature)	Q13	Description of other source of income	TX	**UAH**
		3.x.33	UIF – other members of the household – other (amount)	Q13	Rand amount	NU	**UOO**
		3.x.34	UIF – other members of the household – other	Q13	Description of other source of	TX	**UAO**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
			(specify nature)		income		
		3.x.35	Compensation fund contributions – head of the household	Q15	Rand amount	NU	**CFH**
		3.x.36	Compensation fund contributions – other members	Q15	Rand amount	NU	**CFO**
		3.x.37	Deductible expenses related to employment income – head of the household	Q11	Rand amount	NU	**EEH**
		3.x.38	Deductible expenses related to employment income – other members of the household	Q11	Rand amount	NU	**EEO**
		3.x.39	Deductible expenses related to business income – head of the household	Q11	Rand amount	NU	**EBH**
		3.x.40	Deductible expenses related to business income – other members of the household	Q11	Rand amount	NU	**EBO**
		3.x.41	Deductible expenses related to capital income – head of the household	Q11	Rand amount	NU	**ECH**
		3.x.42	Deductible expenses related to capital income – other members of the household	Q11	Rand amount	NU	**ECO**
4.	**Imposed indirect recurrent taxes**						
	4.1	**Monthly household expenditure of the participating households**					
		4.1.1	Basic food (maize, fruit, vegetables, milk, etc.)	Q15	Rand amount	NU	**E1**
		4.1.2	Other food and non-alcoholic beverages	Q15	Rand amount	NU	**E2**

Theme number		Identifier	Detail	Question no	Descriptor	Format of data	Code
Main	Sub						
		4.1.3	Plastic shopping bags	Q15	Rand amount	NU	**E3**
		4.1.4	Beer	Q15	Rand amount	NU	**E4**
		4.1.5	Wine	Q15	Rand amount	NU	**E5**
		4.1.6	Spirits	Q15	Rand amount	NU	**E6**
		4.1.7	Tobacco products	Q15	Rand amount	NU	**E7**
		4.1.8	Rent for housing	Q15	Rand amount	NU	**E8**
		4.1.9	Water	Q15	Rand amount	NU	**E9**
		4.1.10	Refuse collection	Q15	Rand amount	NU	**E10**
		4.1.11	Sewerage collection	Q15	Rand amount	NU	**E11**
		4.1.12	Municipal property rates	Q15	Rand amount	NU	**E12**
		4.1.13	Electricity	Q15	Rand amount	NU	**E13**
		4.1.14	Gas	Q15	Rand amount	NU	**E14**
		4.1.15	Paraffin	Q15	Rand amount	NU	**E15**
		4.1.16	Incandescent light bulbs	Q15	Rand amount	NU	**E16**
		4.1.17	Medical payments towards State healthcare services	Q15	Rand amount	NU	**E17**
		4.1.18	Medical aid contributions towards private medical funds	Q15	Rand amount	NU	**E18**
		4.1.19	Medical payments towards private medical funds not recovered from medical aid fund	Q15	Rand amount	NU	**E19**
		4.1.20	Fuel	Q15	Rand amount	NU	**E20**
		4.1.21	Toll fees	Q15	Rand amount	NU	**E21**
		4.1.22	Road transport (bus or taxi)	Q15	Rand amount	NU	**E22**

Theme number		Identifier	Detail	Question no	Descriptor	Format of data	Code
Main	Sub						
		4.1.23	Rail transport	Q15	Rand amount	NU	**E23**
		4.1.24	Telephone service –Telkom	Q15	Rand amount	NU	**E24**
		4.1.25	Telephone service – other	Q15	Rand amount	NU	**E25**
		4.1.26	State schools	Q15	Rand amount	NU	**E26**
		4.1.27	Private schools	Q15	Rand amount	NU	**E27**
		4.1.28	Tertiary institutions	Q15	Rand amount	NU	**E28**
		4.1.29	Contributions to private pension and annuity funds	Q15	Rand amount	NU	**E29**
		4.1.30	Short-term insurance	Q15	Rand amount	NU	**E30**
		4.1.31	Financial services (life insurance, funeral policies)	Q15	Rand amount	NU	**E31**
		4.1.32	Financial services (bank fees, etc.)	Q15	Rand amount	NU	**E32**
		4.1.33	Private security expenses	Q15	Rand amount	NU	**E33**
		4.1.34	Tax practitioners for compliance assistance (returns, etc.)	Q15	Rand amount	NU	**E34**
		4.1.35	National lottery	Q15	Rand amount	NU	**E35**
		4.1.36	Clothes	Q15	Rand amount	NU	**E36**
		4.1.37	DSTV	Q15	Rand amount	NU	**E37**
		4.1.38	Body corporate levies on housing	Q15	Rand amount	NU	**E38**
		4.1.39	Maintenance expenditure	Q15	Rand amount	NU	**E39**
		4.1.40	Administration expenditure	Q15	Rand amount	NU	**E40**
		4.1.41	Motor vehicle licence fees	Q15	Rand amount	NU	**E41**
		4.1.42	Firearms licence fees	Q15	Rand amount	NU	**E42**
		4.1.43	Television licence fees	Q15	Rand amount	NU	**E43**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
		4.1.44	Drivers' licences	Q15	Rand amount	NU	**E44**
		4.1.45	Business and liquor licences	Q15	Rand amount	NU	**E45**
		4.1.46	Water consumption in kilolitres	Q16	Kilolitres	NU	**WKL**
		4.1.47	Electricity consumption in kilowatts	Q16	Kilowatts	NU	**EKW**
5.	**Fiscal illusion**						
	5.1	**Estimated effective tax rate by the participating households**					
		5.1.1	Estimated effective tax rate	Q18	Percentage	NU	**EER**
	5.2	**Conceptual elements contributing to the fiscal illusion of the participating households**					
		5.2.1	Hidden taxes	Q17 Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any reference by the participants to hidden taxes in South Africa, for instance unknown taxes, taxes unaware of, who knows how many taxes, and other similar and related comments from the participants	TX	**HID**
		5.2.2	Number of taxes	Q17 Q19 Q21 Q23 Q26	Any reference by the participants to the number of taxes in South Africa. This includes the naming or referring to more than one tax in the comments or rationales	TX	**NTX**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
				Q28 Q29 Q30			
		5.2.3	Double taxation	Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any reference to taxpayers being taxed more than once on the same income	TX	**DTX**
		5.2.4	Tax shifting	Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any reference to aspects such as that taxes are levied on taxes, cumulative effect of taxes, companies including their tax as part of prices, or any other related reference to the shifting of taxes	TX	**TSH**
6.	**Fairness of taxes**						
	6.1	**Preferred effective tax rate by the participating households**					
		6.1.1	Preferred effective tax rate	Q20	Percentage	NU	**PET**
		6.1.2	In your opinion, is your household's tax burden	Q22	Fair	NU	**1**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
			fair?		Not fair	NU	**2**
					Unsure or don't know	NU	**3**
	6.2	**Conceptual elements contributing to the participating households' perceptions on the fairness of taxes in South Africa**					
		6.2.1	Horizontal fairness	Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any reference by the participants that compare the tax burden to other person on a similar level. This includes references to taxpayers in other countries.	TX	**HOR**
		6.2.2	Vertical fairness	Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any reference by the participants that compare the tax burden to other persons in South Africa, perceived to be either richer or poorer. This includes references to race, some groups receiving benefits from the tax money than others, or any related comments.	TX	**VER**
		6.2.3	Level of the tax burden	Q19 Q21 Q23 Q26	References to a high tax burden, too much tax paid by taxpayers, unacceptable level of tax, and other similar comments.	TX	**LEV**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
				Q28 Q29 Q30			
		6.2.4	Number of taxpayers	Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any comment about, or reference to, the number of persons contributing to the taxes in South Africa	TX	**NTP**
		6.2.5	Mix of direct and indirect taxes	Q19 Q21 Q23 Q26 Q28 Q29 Q30	Any comment about, or reference to, the mix between direct and indirect taxes in South Africa	TX	**MIX**
7.	**Perceived taxes**						
	7.1	**Complexity of taxes in South africa as perceived by the participating households**					
		7.1.1	Are taxes in South Africa complex?	Q24	Yes	NU	**1**
					No	NU	**2**

Theme number Main	Theme number Sub	Identifier	Detail	Question no	Descriptor	Format of data	Code
					Unsure or don't know	NU	**3**
		7.1.2	Does the complexity of taxes affect the tax burden of the household?	Q25	Yes	NU	**1**
					No	NU	**2**
					Unsure or don't know	NU	**3**
		7.1.3	Perceived tax	Q19 Q21 Q23 Q26 Q28 Q29 Q30	References or comments referring to taxpayers incurring costs to comply with tax legislation. This will include comments such as needing to pay someone to assist, and to difficult to do oneself. Comments that these expenses are nothing other than tax or similar comments.	TX	**PTX**
	7.2	**Taxpayer-government exchange as perceived by the participating households**					
		7.2.1	Does ineffective service delivery by government affect the tax burden?	Q27	Yes – the effect is an increase in the tax burden	NU	**1**
					No – it does not affect the tax burden	NU	**2**
					Unsure or don't know	NU	**3**
		7.2.2	Does paying for water and electricity affect the tax burden of the household?	Q29	Unsure or don't know	NU	**1**
					No	NU	**2**
					Yes	NU	**3**
		7.2.3	Ineffective services	Q19 Q21	Comments or references to government not rendering effective services, quality of	TX	**IES**

Theme number		Identifier	Detail	Question no	Descriptor	Format of data	Code
Main	Sub						
				Q23 Q26 Q28 Q29 Q30	service delivery, corruption in government, wasting of taxpayers' money, the benefits that taxpayers' receives from government in return for taxes, benefits that they do not use, and other similar comments		
		7.2.4	Perceived tax	Q19 Q21 Q23 Q26 Q28 Q29 Q30	References or comments referring to taxpayers incurring expenditure that originate from ineffective government services, as well as comments that these expenses are nothing other than tax or similar comments.	TX	**PTX**

ANNEXURE F

DETAILED SCHEDULES OF DATA COLLECTED FROM THE HOUSEHOLDS PARTICIPATING IN THE CASE STUDY RESEARCH

Table 88: Monthly gross household income of the participating households

	Case study 1	Case study 2	Case study 3	Case study 4	Case study 5	Case study 6	Case study 7	Case study 8	Case study 9	Case study 10	Case study 11	Case study 12	Case study 13
Gross income from employment	**28 880**		**88 916**	**13 000**	**56 800**	**74 280**	**40 544**	**90 500**	**40 367**	**18 666**	**91 000**	**35 000**	**56 433**
- Head of household	0	0	60 000	0	17 100	74 280	40 544	43 700	40 367	18 666	60 000	20 000	56 433
- Other members	28 880	0	28 916	13 000	39 700	0	0	46 800	0	0	31 000	15 000	0
Gross income from business	**24 110**	**40 000**	**0**	**37 000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
- Head of household	24 110	40 000	0	37 000	0	0	0	0	0	0	0	0	0
- Other members	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross income from capital	**22 850**	**0**	**2 750**	**3 000**									**6 800**
- Head of household	22 850	0	2 750	3 000	0	0	0	0	0	0	0	0	6 800
- Other members	0	0	0	0	0	0	0	0	0	0	0	0	0
Private pensions and annuities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4 732**
- Head of household	0	0	0	0	0	0	0	0	0	0	0	0	4 732
- Other members	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**75 840**	**40 000**	**91 666**	**53 000**	**56 800**	**74 280**	**40 544**	**90 500**	**40 367**	**18 666**	**91 000**	**35 000**	**67 965**

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Table 89: Direct taxes imposed monthly on the participating households

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Income tax	**15 596**	**8 146**	**23 629**	**10 677**	**12 348**	**23 024**	**9 215**	**21 816**	**10 098**	**1 980**	**19 767**	**4 978**	**14 978**
- Head of the household	9 753	8 146	17 612	9 198	2 504	23 024	9 215	10 224	10 098	1 980	14 792	3 114	14 978
- Other members of the household	5 843	-	6 017	1 479	9 844	-	-	11 592	-	-	4 975	1 864	-
Property rates	**582**	**622**	**470**	**1 068**	**511**	**753**	**-**	**488**	**1 120**	**-**	**1 700**	**1 400**	**433**
- Head of the household	582	622	470	1 068	511	753	-	488	1 120	-	1 700	1 400	433
- Other members of the household	-	-	-	-	-	-	-		-	-	-	-	-
Turnover tax	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Head of the household	-	-	-	-	-	-	-	-	-	-	-	-	-
- Other members of the household	-	-	-	-	-	-	-	-	-	-	-	-	-
Motor vehicle licence renewal	**58**	**58**	**58**	**88**	**58**	**78**	**29**	**134**	**58**	**29**	**58**	**15**	**80**
- Head of the household	58	58	58	44	58	78	29	76	58	29	58	15	80
- Other members of the household	-	-	-	44	-	-	-	58	-	-	-	-	-
Television licences	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**	**18**
- Head of the household	18	18	18	18	18	18	18	18	18	18	18	18	18
- Other members of the household	-	-	-			-	-		-	-	-	-	-
Firearms, liquor and business licences	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Head of the household	-	-	-	-	-	-	-	-	-	-	-	-	-
- Other members of the household	-	-	-	-	-	-	-	-	-	-	-	-	-
UIF contribution - employee	**-**	**-**	**250**	**125**	**250**	**125**	**125**	**250**	**125**	**125**	**250**	**240**	**125**
- Head of the household	-	-	125	-	125	125	125	125	125	125	125	120	125
- Other members of the household	-	-	125	125	125	-	-	125	-	-	125	120	-
Other direct recurrent taxes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Head of the household	-	-	-	-	-	-	-	-	-	-	-	-	-
- Other members of the household	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**16 254**	**8 844**	**24 425**	**11 976**	**13 185**	**23 998**	**9 387**	**22 706**	**11 419**	**2 152**	**21 793**	**6 651**	**15 634**

Table 90: Monthly household expenditure of participating households

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Food and non-alcoholic beverages													
Basic food (maize, fruit, vegetables, milk, etc)	621	2 000	2 000	500	1 000	600	1 500	2 000	1 500	800	3 500	3 500	3 376
Other food and non-alcoholic beverages	2 180	4 000	6 000	3 500	4 000	5 400	4 000	3 000	5 000	700	1 000	1 000	3 376
Plastic shopping bags	2	2	2	2	2	2	2	2	2	5	2	2	2
Alcoholic beverages and tobacco													
Beer	504	-	300	150	-	-	100	117	140		220		
Wine	780	400	200	65			500	117				200	
Spirits	330		300	130	100		50	117		200	190		
Tobacco products			1 200				120						
Housing, energy, water, and other fuels													
Rent for housing							5 220			3 100		6 000	
Water	500	425	1 169	725	449	378		347	465	46	300	140	410
Refuse collection	109	109	110	109	109	109		109	109		90	70	136
Sewerage collection	143	153	199	168	187	150		160	121			90	170
Municipal property rates	582	622	470	1 068	511	753		488	1 120		1 700	1 400	433
Electricity	1 357	2 340	1 479	1 655	2 055	1 867	450	1 095	1 071	422	1 810	1 380	1 514
Gas	28												
Incandescent light bulbs	3	3	3	3	3	3	3	3	3	3	3	3	3
Health													
Medical payments towards state healthcare services													
Medical aid contributions towards private medical funds		2 210	3 035	4 000	1 364	7 747	1 827	4 030	6 155	1 506	4 800	2 900	1 380

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Medical payments towards private medical not recovered from medical aid fund		1 240	350	3 000	16	219		350					1 676
Transport													
Fuel	1 820	1 500	3 700	6 000	1 833	2 000	1 000	2 500	2 500	400	3 000	3 000	3 730
Toll fees	66	96	200	700				150				200	622
Road transport (bus or taxi)									100			600	
Rail transport	-	-	-	-	-	-	-	-	-			2 500	1 000
Communications													
Telephone service - Telkom	350	500	200	450	871	520	800	800	469				728
Telephone service - other	1 250	500	800	1 500	1 250	550	100	1 700	550	500	300	1 200	758
Education													
State schools	2 000	1 800		1 700	2 910				3 600		4 000		
Private schools												1 670	
Tertiary institutions	3 526										400		2 542
Miscellaneous													
Contributions to private pension and annuity funds		1 080	2 808	5 000	3 520	11 675	3 369	11 000		2 344	660	1 900	10 429
Short-term insurance	1 685	1 298	2 100	3 500	1 733	3 742		1 050	1 084		850	1 100	2 176
Financial services (life insurance, funeral policies)	5 900	600	1 800	2 200	2 100	196		1 800	6 000		1 300		322
Financial services (bank fees, etc)	584	500	300	800	262	370	600	850	639	170	300	400	200
Private security expenses	495	500	780	400	445				50		430	500	435
Tax practitioners for compliance assistance (returns, etc)		1 750	67	1 500	50		20						261
National lottery				200				40					50
Additional expenses from interviews													
Clothes		700	280	560	200	200	140	200	200		600		308
DSTV		622	622	622	622	622	622	622	622		340	500	333

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Body corporate levies on housing			500								1 600		1 133
Maintenance expenditure						1 750					460	700	351
Administration expenditure						33							
Motor vehicle licence fees	58	58	58	88	58	78	29	134	58	29	58	15	80
Television licence fees	21	21	21	21	21	21	21	21	21	21	21	21	21
Drivers licence	3	3	3	3	3	3	3	3	3	3	6	6	10
Business licences													
Total monthly household expenditure	**24 897**	**25 032**	**31 056**	**40 319**	**25 674**	**38 988**	**20 476**	**32 804**	**31 582**	**10 249**	**27 940**	**30 997**	**37 964**

Monthly consumption:	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Water - kiloliter per month	42	42	86	57	39	34	-	34	40	8	30	17	36
Electricity - kilowatt per month (Municipality)	1 088	1 793	1 180	1 334	1 621	1 483	400	900	880	365	1 430	1 100	1 156

Table 91: Indirect taxes imposed monthly on the participating households

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Value-added tax	1 276	1 864	2 059	2 433	1 521	1 958	927	1 338	1 297	255	850	921	1 653
Skills development levy	-	-	-	-	-	-	-	-	-	-	-	-	-
Specific excise duties	293	59	490	70	24	-	138	68	28	48	89	29	-
Fuel taxes	544	449	1 107	1 795	548	598	299	748	748	120	898	898	1 116
Drivers licences	-	488	25	140	-	-	70	18	-	-	-	-	22
UIF contributions - employer	-	80	-	-	-	-	-	-	-	-	-	-	-
Compensation fund contributions	432	678	464	518	618	569	196	366	359	184	551	436	456
Electricity taxes	318	318	823	485	287	236	-	236	297	30	191	89	257
Water taxes	3	3	3	3	3		3	3	3	3	6	6	0
Business licences	-	-	-	-	-	-	-	-	-	-	-	-	-
Public school fees	2 000	1 800	-	1 700	2 910	-	-	-	3 600	-	4 000	-	-
Other consumption taxes	223	232	273	245	261	229	2	238	204	4	81	142	270
Total indirect taxes	**5 089**	**5 970**	**5 244**	**7 389**	**6 173**	**3 594**	**1 635**	**3 015**	**6 536**	**644**	**6 665**	**2 521**	**3 783**

Table 92: Perceived taxes of households participating in the case study research

	Case Study 1	Case Study 2	Case Study 3	Case Study 4	Case Study 5	Case Study 6	Case Study 7	Case Study 8	Case Study 9	Case Study 10	Case Study 11	Case Study 12	Case Study 13
Cost of compliance													
Tax practitioners for compliance assistance (returns, etc)	-	1 750	67	1 500	50	-	20	-	-	-	-	-	261
Taxpayer-government exchange													
Medical aid contributions towards private medical funds	-	2 210	3 035	4 000	1 364	7 747	1 827	4 030	6 155	1 506	4 800	2 900	1 380
Contributions to private pension and annuity funds	-	1 080	2 808	5 000	3 520	11 675	3 369	11 000	-	2 344	660	1 900	10 429
Private security expenses	495	500	780	400	445	-	-	-	50	-	430	500	435
Toll fees	58	84	175	614	-	-	-	132	-	-	-	175	546
Private schools fees	-	-	-	-	-	-	-	-	-	-	-	1 670	-
Tertiary institutions fees	3 526	-	-	-	-	-	-	-	-	-	400	-	2 542
Total perceived taxes	**4 079**	**5 624**	**6 865**	**11 514**	**5 379**	**19 422**	**5 216**	**15 162**	**6 205**	**3 850**	**6 290**	**7 145**	**15 593**