Abstract
This study provides a baseline measurement for annual tax compliance costs for small businesses. An empirical study amongst tax practitioners to identify and measure the annual tax compliance costs for small businesses throughout South Africa revealed that R7 030 per annum is the average fee that tax practitioners charge their small business clients to ensure that their tax returns (for four key taxes – income tax, provisional tax, value added tax and employees’ tax) are prepared, completed and submitted as SARS requires. From a time and cost perspective, preparing, completing and submitting VAT returns takes the longest and costs the most. It is evident that, overall, the compliance costs are regressive – the smaller the business, the heavier the burden.

Acknowledgements
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Introduction

Background
Governments all over the world recognize that small businesses are economically very important. They are a great and well-proven engine for wealth and job creation (Chamberlain & Smith, 2006:3; Commission of the European Communities, 2002:4; Davie & Hetherington, 1999:2). In South Africa, the small business sector also has the potential to mop up unemployment and to drive growth (South African Revenue Service SMME Team, 2004:3; Upstart Business Strategies CC., 2004:2). Small, medium and
micro-enterprises (“SMMEs”) contribute 36.1% of the country’s gross domestic product (“GDP”) and employ 68.2% of the workforce in the private sector. In the agriculture, construction and retail sectors, SMMEs employ more than 80% of the total workforce. Over the last few years, the growth in employment by SMMEs in South Africa has exceeded the growth in their contribution to the GDP, highlighting the job creation potential of this sector of the economy (Arendse, Karlinsky, Killian & Payne, 2006:1).

The expansion of business in South Africa is clearly highly desirable, but regulations and red tape are reported to be the greatest constraint to such expansion (Grant Thornton, 2006:1-2). International research in this field shows that tax regulatory compliance costs make up a significant portion of the total regulatory cost (Evans, 2003:68). Several other patterns have emerged in various local and international studies; among the most important is the fact that tax compliance costs constitute a much larger proportion of total compliance costs for smaller firms than for large ones (SBP, 2005:42; Upstart Business Strategies CC., 2004:7).

Regulatory costs specifically relating to small businesses and taxation were raised in the 2005 Budget Speech made by Finance Minister, Trevor Manuel (2005:28), in which he commented as follows:

“…we have directed attention this year at the costs and complexity for small businesses of the tax code, because there is compelling evidence that simplified arrangements can assist significantly in creating an environment conducive to enterprise development.”

Furthermore, Manuel (2005) suggested that any approach to assist small business requires both policy and administration model adjustments in order to be effective. The 2005 year, therefore, saw the beginning of a process of structural change in the South African Revenue Service (“SARS”) that was intended to assist small business in its start-up phase, to reduce compliance costs and red-tape, and to provide tax education and assistance.
In order to discuss any such small business reform initiatives in progress meaningfully, it is essential to understand what a “small business” is. It would appear from the literature that was reviewed, that, from an economic perspective, references to the term “small business” include micro and medium-sized businesses and that therefore the term “SMME” (to a large extent) is used as a synonym for the term “small business” (Business Map Foundation, 2006:1; Democratic Alliance, n.d.:4; RSA, 1995:8; RSA, 1996:13; RSA, 2004:4; DTI, 2003:71; SEDA, 2006:3). However, there does not appear to be one consistent “small business” definition that is used in an economic sense in South Africa.

From a taxation perspective, various relief measures or special dispensations are granted by SARS to small businesses. The qualifying criteria for obtaining these relief measures or special dispensations differ in respect of the individual taxes. Although there are certain similarities between certain of the criteria, SARS does not appear to apply a consistent approach with regard to the taxation of small businesses. It may be argued that using different definitions is a fundamentally valid approach, because each of the taxes could have different objectives, but it must be recognized that the use of different definitions complicates compliance considerably.

For the purposes of this study, the term “small business” is used to refer to small, medium and micro-enterprises. Furthermore, as discussed and agreed with SARS and the National Treasury, the turnover limit for a business to qualify as a small business for the purposes of this study was a turnover smaller than R14 million.

Need for and objective of the study
There is very little information available on the annual tax compliance costs carried specifically by small businesses in South Africa (Chamberlain & Smith, 2006:iii). To date, in South Africa, there is no comprehensive system for regular annual accounting of tax compliance costs (Gurd, Smith & e Turner, 1998:95). The objective of this study is therefore to establish what the cost of annual tax compliance for small businesses is. To reach this objective, it is important to understand what is meant by “compliance costs” (see Section 2 of this article). After clarifying this term, the results of an empirical study
– a survey of the accountants and bookkeepers (“tax practitioners”) who assist small businesses with their tax affairs – are presented.

**Compliance costs**

Irrespective of the size of a business, it is subject to numerous regulations (Commission of the European Communities, 2002:11; SBP, 2005:18; Upstart Business Strategies CC, 2004:3). In order to comply with these regulations, a small business has to incur certain costs (*Mail & Guardian*, 2005:2). One of these costs is compliance costs. Hence, this study focuses specifically on tax compliance costs.

Whilst this is an area in which there will always be some debate, overall, all the definitions or descriptions of tax compliance costs generally appear to include the following elements (Arendse *et al.*, 2006:4; Evans, 2006:3, Gurd *et al.*, 1998:96; SBP, 2003:2):

- the value of time spent by business owners, managers, staff etc, on understanding the rules and applying them;
- record-keeping costs, that is, the costs of compiling the necessary receipts and other records and costs incurred in respect of the preparation of tax returns;
- the payments made for the expertise of professional advisors such as consultants, lawyers and accountants; and
- incidental costs for postage, telephone and travel in order to communicate with advisers or the tax authorities.

However, compliance costs are not limited to direct cash outlays, such as the costs mentioned above, but also include the time costs spent in carrying out tax-related obligations and the stress, anxiety or discomfort which results from complying with tax liabilities (*Katz Commission 1994:47*).

Certain costs – due to their nature or due to the fact that they are intertwined with other non-tax compliance costs – make separation between the different costs difficult.
According to Evans (2006:3), examples of these are:

- psychological costs;
- social costs;
- computational and tax planning costs; and
- accounting costs.

**Psychological costs** include the mental and emotional costs, anxiety and so on which taxpayers and/or their advisors experience when dealing with tax legislation (Coleman, McKerchar, Walpole, Woellner & Zetler 2005:270). Unfortunately, no studies have yet managed to successfully quantify these psychological costs, although some research in this area is now being done (Evans, 2006:3).

In addition to psychological costs, there may be **other social costs** that are difficult to quantify (and which therefore tend to be ignored in the literature). An example of such social costs – which are often on the borderline with efficiency costs – is where a tax change, such as the introduction of a higher rate of VAT on a particular range of goods, causes a trader to stop stocking those goods (in order to keep tax affairs simple), thereby inconveniencing customers who have to travel further to continue to buy those goods and who will possibly have to pay more because of the reduction in competition (Evans, 2006:3).

Compliance costs are sometimes divided into **computational** (unavoidable or involuntary) and **tax planning** (avoidable or voluntary) costs (Johnston, 1963). This distinction has caused a controversy that has not yet been (and possibly will never be) fully resolved in the tax compliance literature. Many tax lawyers and policy makers continue to insist that only computational costs constitute legitimate measures of taxation compliance costs, and some attempts have been made to disentangle the two (Chen, Fayle & Pope, 1991). However, most major recent studies have not distinguished between computational and tax planning costs in their estimates of compliance costs – if only for the obvious reason that it is often almost impossible to disentangle the one from the other.
Moreover, as noted by Slemrod and Sorum (in Evans, 2006:4), “both kinds of costs are real resource costs of collecting the taxes”.

Despite careful attempts in most recent studies to isolate tax compliance costs from the underlying costs of being in business, there is almost certainly some overlap between business or accounting costs and tax compliance costs (Allers, 1994; Evans, 2006:4). There is uncertainty about the extent of overlap and therefore most estimates of taxation compliance costs can only be indicative at best (Evans, 2006:4). Being able to distinguish a clear cut-off point between these types of costs and tax compliance costs is very difficult, if not impossible (Evans, 2006:4).

Due to the difficulties in isolating and quantifying psychological costs or social costs, no specific consideration was given or attempt was made in this study to separately identify and distinguish them from the costs included in the general taxation compliance cost definition. It is thus acknowledged that the results of this study do not include any psychological costs or social costs, as the study merely identifies the annual general taxation compliance costs incurred and then goes on to attempt to measure these costs. The measurement of these costs is also a debatable point. However, a very rough idea of how to calculate the average cost of time spent on taxation compliance activities could be obtained by multiplying the average time taken by the average or market cost per hour, as suggested by Gurd et al. (1998:95).

**Empirical research findings**

**Data collection**

In order to establish the extent of the tax compliance burden for small businesses, research was conducted among tax practitioners throughout South Africa registered with the South African Institute of Chartered Accountants (“SAICA”), the South African Institute of Professional Accountants (“SAIPA”) or the South African Institute of Certified Bookkeepers (“SAICB”). A database of all the members of SAICA (20 279), SAIPA (5 294) and the SAICB (2 174) was provided (27 747 participants in total). No sample was selected and the entire population was used.
Obtaining information from a small business can be a difficult task (Commission of the European Communities, 2002; Upstart Business Strategies CC, 2004:35), but their professional advisors might be able to provide the required information. Small businesses generally require the assistance of tax practitioners because they have neither the time nor the expertise to perform the tax function themselves (Gurd et al., 1998:98; UNISA, 2005:118; Upstart Business Strategies CC, 2004:35). It has also been found that between 60% and 98% of small business hire tax practitioners to assist them with their tax affairs (Small Business Deregulation Task Force, 1996:96; UNISA, 2005:114; Upstart Business Strategies CC, 2004:36). Tax practitioners are therefore a valuable source of information to help to quantify the tax compliance costs for small businesses, and it is for this reason that tax practitioners appointed by small businesses were used as respondents in this study.

An electronic internet-based questionnaire administered by Bluetub Design and Production was selected as the research instrument with which to conduct the research. The questionnaire was developed by a team that consisted of the World Bank survey experts and a South African consultant, a senior lecturer in the Department of Taxation at the University of Pretoria. Pre-identified tax experts (from local and international universities), as well as from SARS and the National Treasury were selected to review the survey questionnaire for relevance, structure, flow and content.

A pilot study was run from 15 September 2006 to 4 October 2006. The overall response rate of the pilot study was 14.5%. The final questionnaire was sent out on 1 November 2006 and access to this questionnaire was closed on 5 January 2007. The overall response rate was 15.75% (3 429 respondents). The pilot response rate and the overall response rate appear to be in line with the response rates received for online surveys (Hamilton, n.d.). The questions contained in the electronic internet based questionnaire concentrated on the time and costs involved in complying with tax legislation.
Profile of the respondents

As can be seen in Figure 1, below, the largest category of respondents (44%) were from Gauteng; however, at least 3% of the respondents came from each of the remaining eight provinces in South Africa, with the exception of the Northern Cape, which had a 1% representation. This appears to be in line with the demographics of the institutions’ members, as the survey team was informed that, for instance, SAICA has fewer than 40 members in the Northern Cape (Coates, 2006:1). The cities that had more than 7% representation were Johannesburg (12.8%), Pretoria (14.6%), Cape Town (10.8%) and Durban (7.1%). As these are arguably the four most important cities in South Africa, it seems appropriate that a higher percentage of responses came from these cities. Of all the respondents, 11% reported that their offices were situated in a rural area.

Figure 1: Provinces where establishments are primarily situated

It was established that the majority (53%) of the respondents that provide professional services related to taxation matters to individuals and businesses in South Africa were registered with SAICA, whereas 43% were registered with SAIPA and 4% with SAICB. This is in line with the membership size of each of the professional institutions.

When considering the experience levels of the tax practitioners, it was found that at least 85% of the respondents have more than five years of experience in assisting clients with taxation matters, and 59% have more than 11 years of experience in this task (Figure 2).
Thus the majority of the respondents appear to be well established in their businesses and therefore their responses will be of great value and will add credibility to the results.

Figure 2: Years of professional experience in assisting clients with taxation matters

Due to the nature of tax legislation, changes are inevitable. Tax practitioners need to be up-to-date with all the changes in the legislation; it was established that it takes, on average, at least seven days per year for each tax practitioner to familiarize him/herself with all the obligations and changes in the Income Tax laws and regulations. Each of the other taxes (Provisional tax, Value Added Tax (“VAT”) and Employees’ tax) takes the tax practitioners on average between three to five days per year. Thus, practitioners spend at least two weeks per year in total on maintaining and improving their ability to provide clients with the best service possible. This is time that is not directly billable to the tax practitioner’s clients, but that will hopefully result in future billable hours. Therefore, it may even be possible to argue that the time spent by a tax practitioner on this activity could influence the price that he/she will charge his/her client – the longer it takes the tax practitioner to grasp the new legislation, the more expensive the service could potentially be.
Profile of respondent’s clients

The distribution of tax practitioner’s clients businesses according to turnover (see Figure 3 below) reveals that most (76%) of the tax practitioners surveyed serve clients that have a turnover of between R300 001 and R1 000 000. However, the other turnover categories below this category (R1 to R300 000) and above this category (R1 000 001 to R6 million and R6 000 001 to R14 million), are also frequently served by tax practitioners. As this study was aimed at small businesses (defined as businesses with a turnover of R14 million or less), this is a good indication that the appropriate individuals responded, as all turnover bands are fairly represented. The total of this graph does not add up to 100%, as some tax practitioners may serve clients in more than one turnover band. This graph thus represents the percentage of all the tax practitioners surveyed that have clients in each turnover band.

Figure 3: Turnover bands of tax practitioner’s clients

The distribution of businesses by legal form (see Figure 4 below) indicates that close corporations followed by individuals/sole proprietors are the dominant legal forms in which the clients of the tax practitioners surveyed conduct their business. Once again there is fair representation of all the other legal forms in which a small business can operate, thus ensuring that the results are not significantly biased in respect of legal form. The total of this graph does not add up to 100%, as some tax practitioners may serve
clients in more than one turnover band. This graph thus represents the percentage of all the tax practitioners surveyed that have clients in each turnover band.

**Figure 4: Legal form of respondent’s clients**

The analysis according to activity as set out in Figure 5, below, reveals that the majority of the respondents have clients that operate in the wholesale, retail, trade, hotel and restaurant sector. This is closely followed by the finance, real estate and business services sector. Mining and quarrying enterprises have the lowest representation; however, as this is a specialized area in taxation, this should not affect the representativeness of the responses received. Overall, all sectors in the South African economy are represented in the results received, once again ensuring that there is no significant bias in respect of the area of activity.
The tax practitioners were requested to answer most of the questions in the questionnaire based on their “focus” clients – clients that were randomly selected out of the pool of all the tax practitioners’ clients. This selection was made based on the tax practitioners’ clients’ economic activity, their turnover, and the types of tax that the tax practitioners assist their clients with.

**Quantifying taxation compliance costs**

The primary objective of the survey was to establish what the cost of compliance is for small businesses in South Africa. In order to do this, the compliance costs first had to be established per tax and then analysed further per business size (turnover) where possible. The time and costs involved in most of the significant processes in complying with tax laws and regulations were investigated in order to establish what the average compliance costs were and if there was an undue tax compliance burden on enterprises with a smaller turnover.

Due to time and cost constraints, only the following four key taxes were investigated in this study – Income Tax, Provisional Tax, VAT and Employees’ Tax. Various significant
processes in complying with the above mentioned tax laws and regulations were investigated in the study, but this article focuses on and is limited to the preparation, completion and submission of annual tax returns.

The results of the survey are calculated based on the weighted average of the mid-points of each category offered in each question in the questionnaire. In those questions where the last category was “open” – for example, R3 000 and above – the lowest end of this category (that is, R3 000 in this example) was used as the estimate (if respondents did in fact choose this category).

**Time taken to prepare, complete and submit tax returns**
Preparation, completion and submission of *each* of the provisional tax returns (first, second and third) as well as the (monthly) employees’ tax return takes tax practitioners on average between 1.1 and 1.2 hours. However, for income tax (annual) and value added tax returns (per VAT period – ranging from one month to every 12 months) this process takes on average 3.1 hours per return. Preparation of the VAT and then income tax returns thus takes the longest of the four taxes – irrespective of the turnover level of the tax practitioner’s clients. Table 1 below sets out the average time taken per annum to prepare, complete and submit tax returns per turnover category and in total. It must be noted that the time reflected in this table in respect of provisional tax represents the average time taken to submit two provisional tax returns per annum. For VAT, this time represents the average time taken to submit the returns every two months for a year. For employees’ tax, this represents the time taken to submit 12 monthly employees’ tax returns (this excludes the time taken to prepare the annual employees’ tax reconciliation – which would take on average 4.11 hours per annum).
Table 1: Average time taken per annum to prepare, complete and submit tax returns

<table>
<thead>
<tr>
<th>TAX</th>
<th>TURNOVER</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>R1 - R300 000</td>
<td>R300 001 - R1m</td>
<td>R1m - R6m</td>
<td>R6m - R14m</td>
</tr>
<tr>
<td>Income Tax</td>
<td>3.07</td>
<td>2.87</td>
<td>2.99</td>
<td>2.97</td>
<td>2.91</td>
</tr>
<tr>
<td>Provisional Tax</td>
<td>2.27</td>
<td>2.22</td>
<td>2.25</td>
<td>2.29</td>
<td>2.22</td>
</tr>
<tr>
<td>VAT</td>
<td>18.77</td>
<td>18.41</td>
<td>19.02</td>
<td>19.40</td>
<td>18.76</td>
</tr>
<tr>
<td>Employees' tax</td>
<td>13.93</td>
<td>13.25</td>
<td>13.47</td>
<td>13.79</td>
<td>13.44</td>
</tr>
<tr>
<td>Total time taken</td>
<td>38.04</td>
<td>36.75</td>
<td>37.73</td>
<td>38.44</td>
<td>37.34</td>
</tr>
</tbody>
</table>

If the time taken per turnover category is investigated, the survey has established that the costs to prepare, complete and submit the tax returns increase steadily as the turnover increases, until the turnover reaches the R1 million to R6 million band, after which the costs decrease slightly. The exception to this appears to be in respect of income tax, where the costs begin to decrease when the turnover of the business reaches R1 million. A possible reason for this might be the fact that the tax deductions, allowances, and so on, do not change or differ significantly compared to a business with a turnover between R300 001 and R1 million and thus a tax practitioner does not have to spend additional time to complete the tax return. Further research will need to be conducted to establish exactly why this is the case.

Costs to prepare, complete and submit tax returns

The average Rand amount that a tax practitioner charges his/her client to prepare, complete and submit the annual income tax return, one provisional tax return, one VAT period’s VAT return and one month’s employees’ tax return is set out below.
In addition to the above costs, it costs on average R597 to prepare, complete and submit the annual employees’ tax reconciliation (IRP 5 reconciliation) when a small business uses a tax practitioner to perform this function.

From Figure 6 above it appears that the income tax return is the most costly tax return that needs to be prepared, completed and submitted, but it should be borne in mind that

- an income tax return has to be submitted once annually;
- an employees’ tax return (EMP201) has to be submitted monthly;
- a VAT return (VAT 201), depending on the taxable supplies of the enterprise, has to be submitted either every month or every second, fourth, sixth or twelfth month; and
- at least two provisional tax returns need to be submitted per annum.

The costs in Figure 6 for employees’ tax, provisional tax and VAT represent only one month’s employees’ tax return, one VAT period’s return and one provisional tax return. Thus, in order to establish what the annual costs would be to ensure that all the tax returns that are due in one year are prepared, completed and submitted correctly, a new calculation is needed (refer to Table 2 below). In this calculation, it is assumed that the small business has to submit only two provisional tax returns (the minimum), employees’
tax returns (excluding annual reconciliation) every month (the minimum) and VAT returns every second month. A two-month VAT period was chosen because, according to SARS (Mogotsi, 2007:1), 91.3% of VAT filers file every two months. Only 0.1% of the total VAT registered filers on the SARS system submit their VAT returns annually or every four months.

Table 2: Cost in Rands of preparation, completion and submission of tax returns (excluding IRP5 reconciliation) per turnover category per annum

<table>
<thead>
<tr>
<th>Turnover Category</th>
<th>R1 - R300 000</th>
<th>R300 001 - R1 000 000</th>
<th>R1 000 001 - R6 000 000</th>
<th>R6 000 001 - R14 000 000</th>
<th>Total (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax (1 return)</td>
<td>723</td>
<td>786</td>
<td>844</td>
<td>835</td>
<td>787</td>
</tr>
<tr>
<td>Provisional tax (2 returns)</td>
<td>363</td>
<td>389</td>
<td>398</td>
<td>416</td>
<td>388</td>
</tr>
<tr>
<td>VAT (6 returns)</td>
<td>2,825</td>
<td>2,918</td>
<td>3,166</td>
<td>3,195</td>
<td>2,975</td>
</tr>
<tr>
<td>Employees’ tax (12 returns)</td>
<td>2,693</td>
<td>2,866</td>
<td>2,964</td>
<td>2,672</td>
<td>2,880</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,604</td>
<td>6,959</td>
<td>7,372</td>
<td>7,118</td>
<td>7,030</td>
</tr>
</tbody>
</table>

Tax practitioners on average charge their small business clients R7 030 per annum to ensure that all their tax returns (for the above taxes) are prepared, completed and submitted as required by SARS. VAT returns appear to be the most expensive returns for the businesses to obtain assistance with from a tax practitioner. This is followed by the monthly employees’ tax returns. If the IRP 5 reconciliation is also prepared by the tax practitioner, on average, it will cost the small business an additional R597.

It is evident that the costs for preparation of the provisional tax and VAT returns rise as the entity’s turnover increases. In respect of income tax and employees’ tax, this is also the case; however, the costs start diminishing once the turnover of the business reaches R6 million. A possible reason for this could be that the tax complexities relating to preparing, completing and submitting the income tax and employees’ tax returns of such a business does not increase proportionally as the turnover of the business increases. More research needs to be conducted on this issue before any final conclusions on this matter can be reached.
The basic costs that a tax practitioner would charge his/her clients for completing their tax returns per annum, for the four taxes covered in the survey, have now been established. An interesting comparison would be to compare the cost of an annual retainer (for taxation services) paid to a tax practitioner by a small business to the above costs. The respondents were therefore asked the following two questions:

- Do any of your focus clients pay you in the form of a retainer?
- How much on average is the retainer per annum?

The responses are set out in Figures 7 and 8, below.

**Figure 7: Payment of retainers for tax-related services**

**Figure 8: Cost of retainers for tax-related services**
It is therefore apparent that small businesses do not frequently pay retainers to tax practitioners. One of the reasons for this may be the cost of retainers. The average costs involved are shown in Figure 8 above.

If the total weighted average retainer paid by a small business is to be calculated from the information contained in Figure 8 above, it would amount to R24 158. If this is compared to the total weighted average cost of R7 030 (Table 2) for preparing tax returns for four taxes for a whole year, it is evident from the information in Figure 8 that per turnover category, a retainer is significantly higher than the cost of merely preparing tax returns for a whole year (noting, however, that the sum of the individual tax returns reported above is only for four taxes). There may be several reasons for this; the most obvious is that a retainer would include additional tax services, such as objections and appeals, provision of opinions in respect of certain tax matters, assistance with tax administrative issues such as meetings with SARS and so forth. Another obvious reason might be the cash flow shortages/struggles that most small businesses appear to experience. This would result in a small business only being able to pay for tax services as and when they are required and not having to pay a fixed amount each month, irrespective of the service rendered. More in-depth research needs to be performed to establish the exact reason(s) for this large difference in costs in order to ascertain whether paying a retainer, as opposed to paying for a tax service as and when it is performed, is more or less beneficial for a small business.

As mentioned in Section 1.4 above, one of the problems associated with obtaining reliable estimates of taxation compliance costs is the split between true tax costs and actual accounting costs. Tax practitioners can perform both of these services for their clients, as can be seen from Figure 9 below.
After having established what the annual costs charged by tax practitioner’s were for completing tax returns and tax retainers, the respondents were asked to indicate what the annual costs that they charged their clients were for completing and maintaining their accounting and bookkeeping records. This therefore ensured that some distinction was drawn by the tax practitioners themselves between true tax and accounting costs. From our discussions with various tax practitioners and small businesses, it appears that tax practitioners are in a better position to provide information on this sort of distinction compared to the small business owners themselves.

From Figure 10 above, it is evident that the accounting costs appear to increase as the turnover of the business increases.
A summary of the average costs that a business would pay for taxation and accounting services is set out in Tables 3 and 4 below. Table 4 sets out the following:

- the annual costs for small businesses of tax practitioners assisting them with the preparation, completion and submission of their income tax, provisional tax (two returns), VAT (two monthly submission of returns) and employees’ tax (monthly) returns; and
- annual retainers for taxation services.

Table 3: Summary of annual taxation costs per turnover category

<table>
<thead>
<tr>
<th>SERVICE RENDERED</th>
<th>R1 – R300 000</th>
<th>R300 001 – R1 000 000</th>
<th>R1 000 001 – R6 000 000</th>
<th>R6 000 001 – R14 000 000</th>
<th>AVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax returns</td>
<td>R 6,604</td>
<td>R 6,959</td>
<td>R 7,372</td>
<td>R 7,118</td>
<td>R 7,030</td>
</tr>
<tr>
<td>Various services – Tax retainer</td>
<td>R 22,800</td>
<td>R 19,829</td>
<td>R 24,400</td>
<td>R 27,311</td>
<td>R 24,158</td>
</tr>
</tbody>
</table>

A retainer for taxation services normally includes the costs of completing tax returns and can also be regarded as an insurance policy against the likelihood of queries, objections, inspections, etc. Therefore it can be concluded that the **minimum** that a small business would pay to a tax practitioner for the preparation, completion and submission of **tax** returns to SARS would be **R7 030**. However, this minimum is clearly under-estimated, given that only four taxes are covered in this estimate. If we were then to estimate the **maximum** exposure to a small business in respect of annual taxation costs (for the four taxes under review), then the retainer figure of **R24 158** would be the best estimate. It can also probably be assumed that if the average maximum cost exceeds the retainer of R24 158, then more entities are likely to opt for the retainer option. Taking R24 158 as the maximum exposure would therefore seem to be in order.

As discovered in Figure 9 above, approximately a quarter to one third of tax practitioners’ clients request their assistance with completing/maintaining the small businesses’ accounting and bookkeeping records. Table 4 below sets out the annual cost that a small business would incur for assistance with its accounting/bookkeeping...
functions, as well as the maximum amount that a small business would pay a tax practitioner for assistance with its tax and accounting affairs in one year.

**Table 4: Summary of annual tax and accounting costs per turnover category**

<table>
<thead>
<tr>
<th>SERVICE RENDERED</th>
<th>R1 – R300 000</th>
<th>R300 001 - R1 000 000</th>
<th>R1 000 001 - R6 000 000</th>
<th>R6 000 001 - R14 000 000</th>
<th>AVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax retainer</td>
<td>R 22,800</td>
<td>R 19,829</td>
<td>R 24,400</td>
<td>R 27,311</td>
<td>R 24,158</td>
</tr>
<tr>
<td>Accounting services</td>
<td>R 11,590</td>
<td>R 12,082</td>
<td>R 13,151</td>
<td>R 13,489</td>
<td>R 12,185</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>R 34,390</strong></td>
<td><strong>R 31,911</strong></td>
<td><strong>R 37,551</strong></td>
<td><strong>R 40,800</strong></td>
<td><strong>R 36,343</strong></td>
</tr>
</tbody>
</table>

If a small business requests assistance from a tax practitioner with its accounting and bookkeeping records, then it would need to pay an average of R12 185 in addition to the tax fees. This amounts to a **total maximum cost** of **R36 343 per annum** for the basic tax and accounting/bookkeeping services. The size (based on turnover) of the business also appears to influence the costs that the business will incur. That is, the greater the turnover of the business, the greater the sum that it has to pay a tax practitioner to assist it with its tax and accounting/bookkeeping services will be. The only exception to this appears to be small businesses with a turnover between R300 001 and R1 million. The reason(s) for this phenomenon need to be researched further.

It is evident that the smaller the business (in terms of turnover), the greater the compliance cost burden becomes. This is demonstrated in Table 5 below.

**Table 5: Tax and accounting costs as a percentage of turnover (based on highest turnover in each turnover bracket)**

<table>
<thead>
<tr>
<th>COST AS A % OF TURNOVER</th>
<th>R1 - R300 000</th>
<th>R300 001 - R1 000 000</th>
<th>R1 000 001 - R6 000 000</th>
<th>R6 000 001 - R14 000 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay for min tax services</td>
<td>2.2%</td>
<td>0.7%</td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Pay for tax &amp; accounting services (maximum)</td>
<td>11.5%</td>
<td>3.2%</td>
<td>0.6%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

The compliance cost burden appears to be much higher for smaller businesses. Furthermore, although these percentages appear to be quite low, it should be noted that for a small business, it is not necessarily the turnover figure that should be used as an
indicator in calculating the compliance cost burden, but rather the net profit before tax, as arguably the ability to pay depends on profitability and not on turnover. It is estimated that this figure could become a significant portion of the net profit before tax, resulting in a compliance cost that could be unduly high for a small business.

**Conclusion**

This study is the first ever of its kind to try to estimate the tax compliance costs for all small businesses in South Africa. This was achieved by questioning tax practitioners from SAICA, SAIPA and the SAICB who assist small businesses with their tax affairs, as they are generally the ones who perform the functions that were reviewed.

The findings revealed that R7 030 per annum is the average fee tax practitioners charge their small business clients to ensure that their tax returns (for four key taxes – income tax, provisional tax, value added tax and employees’ tax) are prepared, completed and submitted as required by SARS. From a time and cost perspective, registering and preparing, completing and submitting VAT returns (assuming that six returns are filed annually) takes the longest and costs the most. Overall, it became evident that the compliance costs are regressive – the smaller the business, the heavier the burden. This leaves small firms more vulnerable to the compliance burden and at a significant competitive disadvantage.

As one of the main reasons for small businesses to make use of tax practitioners is their lack of tax expertise, it is recommended that until they have gained such expertise, training and mentoring services funded by the government should be provided free of charge to small businesses to assist them in becoming and remaining compliant. In providing such a service, SARS will show its willingness to consult with taxpayers in order for SARS to identify the problems small businesses face.

In the longer term, National Treasury should consider making changes to the tax legislative system. This would firstly involve that SARS and National Treasury staff actually spend time with small businesses in order to gain a greater understanding of their
needs and concerns. Secondly, the current “Small Business Unit” at SARS should be dedicated to the above activities, and it should assess the potential impact that any recommended changes will have on small businesses by implementing an assessment programme. This unit should be empowered to effect any necessary changes and the final assessment of the change or regulation should be published and made available to all interested parties.

If SARS and the National Treasury implement these recommendations, SARS will emphasize its commitment to simplifying the tax environment and reducing the compliance cost burden. To ascertain whether SARS has been successful in this quest (in other words, to decrease compliance costs on a year-on-year basis), it is recommended that this study be used as a baseline measurement of compliance costs. It should be continuously updated and used to inform small businesses and their tax practitioners of the progress made in respect of the reduction of compliance costs.

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