

**FACTORS CONTRIBUTING TO TAXPAYER MORALE: A MULTI-COUNTRY
PERSPECTIVE**

A thesis submitted in partial fulfilment of the requirements for the degree of

MASTER OF COMMERCE (TAXATION)

of

RHODES UNIVERSITY

by

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December 2017

Abstract

Tax morale is the intrinsic motivation to pay taxes that arises either from a belief that one should contribute towards society by paying taxes or from a moral obligation to pay taxes. The goals of this thesis were to identify the various factors that influence tax morale in a country and use these factors in order to attempt to determine whether tax morale in South Africa has improved or deteriorated over the years. A further goal of this thesis was to identify strategies that could be implemented by a country in order to improve the tax morale of its citizens. The period covered by this thesis is between the years 2000 and 2015.

The factors that have an effect on tax morale were identified by a review of the literature. It was found that a number of factors appear to have an impact on tax morale, but certain of these factors are incapable of being directly influenced by tax administrations. With regard to South Africa, it was found that a number of factors affecting tax morale appear to have improved over the years, while others had deteriorated. However, overall it appeared that tax morale in South Africa had deteriorated.

With regard to strategies that could be used to improve tax morale, a number were identified by reviewing the literature and include strategies implemented in certain countries, as well as those discussed by scholars. It was found that South Africa had implemented a number of the strategies aimed at improving tax morale in its own tax system, but the manner in which some of them were implemented could have been improved. Furthermore, a number of strategies were identified that South Africa has not yet implemented and thus should look to attempting to implement these strategies to improve tax morale.

Key words: Tax avoidance, tax morale, tax compliance

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CHAPTER ONE: INTRODUCTION

1.1 Research Context

Tax evasion and tax avoidance both share the same goal of reducing or eliminating a taxpayer's tax liability. According to Stiglingh, Koekemoer, van Zyl, Wilcocks and de Swart (2016) tax evasion involves the taxpayer engaging in illegal acts to reduce his or her tax liability. Prebble and Prebble (2012) report that such acts include the taxpayer purposely under-reporting, or not reporting all of his or her receipts, or claiming deductions for expenses that have not been incurred. Stiglingh *et al* (2016) explain that tax avoidance is similar to tax evasion but differs in that activities related to it are not illegal in nature. According to Prebble and Prebble (2012), tax avoidance involves a taxpayer arranging his or her affairs by the use of various legal measures and even if the Commissioner discovers the avoidance it is unlikely to result in the taxpayer being subject to criminal sanctions. In the case of *Hicklin v SIR*, 1980 (1) SA 481, 41 SATC 179, it was also made clear that a taxpayer is perfectly entitled to try to avoid a tax liability by adopting a legitimate course of action. Others claim that tax avoidance is morally wrong, as in the case of *COT v Ferera*, 1976(2) SA 654 (RAD), 38 SATC 66, where the judge stated that tax avoidance was “an evil” as it allowed a taxpayer to escape the obligation to society and thus placed a greater burden on those who do not choose to engage in tax avoidance.

Measures have been introduced into legislation aimed at deterring both tax evasion and tax avoidance. As the activities related to tax evasion result in non-compliance with tax acts and are criminal offences, a taxpayer who engages in tax evasion will be subject to administrative non-compliance penalties in terms of the Tax Administration Act, 28 of 2011 (referred to as the Tax Administration Act) (sections 208 - 220), understatement penalties (sections 221 - 233) and criminal sanctions (sections 234 and 235). In regard to tax avoidance, a number of anti-avoidance measures have been introduced into the Income Tax Act, 58 of 1962 (referred to as the Income Tax Act), such as sections 80A to 80L, section 7 and section 23H, which are aimed at closing certain loopholes or curtailing certain schemes.

Tax evasion and tax avoidance both share the same goal of reducing or eliminating a taxpayer's tax liability, but the methods adopted to achieve the goal differ greatly. This raises the question why a taxpayer would engage in tax evasion, as tax evasion results in the taxpayer willingly exposing him or herself to risks such as tax penalties and criminal

prosecution should his or her activities be detected. A number of theoretical models have been proposed to explain why a taxpayer chooses to engage in tax evasion, such as the Allingham-Sandmo model (Slemrod & Yitzhaki: 2002), where it was shown that evading tax could be seen as a gamble by the taxpayer in which he or she weighs up the gains from purposely not reporting receipts to the Commissioner, against the potential cost that could arise should the tax evasion be discovered.

It is unlikely that a model that only takes into account the cost of the risk that a taxpayer exposes himself or herself to in committing tax evasion would explain how tax compliant a taxpayer will be. Cummings, Martinez-Vazquez, McKee and Torgler (2006) present a body of evidence that indicates that enforcement efforts by tax authorities result in an increase in tax compliance, although these efforts do not explain why taxpayers are as tax compliant as they are. Cummings *et al* (2006) claim that if enforcement efforts to ensure tax compliance become too extreme the opposite effect could occur, with a decrease in tax compliance. Therefore, it appears that there are other factors that influence the decision of the taxpayer whether or not to be tax compliant.

One of the possible factors is what is referred to as “tax morale”. Cummings *et al* (2006) define tax morale as the intrinsic motivation to pay taxes that arises either from the belief that one should contribute to society by paying taxes or from a moral obligation to pay taxes. Cummings *et al* (2006) link tax morality to the societal and cultural norms of a country and if tax compliance is to be promoted an understanding of these norms would be required in order to formulate policies which enhance them, to complement the policies already in use to enforce tax compliance.

Torgler and Schaltegger (2005) have identified a number of variables that explain why taxpayers are tax compliant. These variables can be grouped into a number of categories. The first of these categories is demographic attributes, which include variables such as age, gender and education. Many of these variables are incapable of being influenced by fiscal policy but are still important in describing the basis underpinning tax morale. Another category of variables is economic factors. This category includes such variables as whether or not a taxpayer is employed, as well as the current economic profile of a taxpayer, mainly relating to their level of income. Another category is social factors, certain variables of which seem most likely to be capable of being influenced by policies adopted by the government. There are a variety of variables that fall into this category, including the marital status of a taxpayer,

whether the taxpayer is religious, how much trust taxpayers have in their government and how they are treated by government officials, whether they believe that other taxpayers are getting away with not paying their taxes, if they are educated with regard to taxation, as well as whether taxpayers have national pride. Another set of variables are those related to government and its policies. The variables that form a part of this category include the type of government in place, whether it is a direct or representative democracy, as well as the degree to which the state attempts to enforce tax compliance. In South Africa, Cummings *et al* (2006) conducted a study in order to determine the effects of tax morale on tax compliance. The study identified a number of factors that affect the morale of South African taxpayers and concluded that taxpayer's morale was lower in South Africa than in Botswana. The survey reports used in the study originated from *Afrobarometer* (Online) and such surveys continue to be conducted to the present day.

Torgler and Schaltegger (2005) have noted that, as a result of the findings that indicate that tax morale does have an effect on the tax compliance of citizens, a number of tax authorities have shifted towards a more balanced set of strategies in order to improve tax compliance. South Africa has adopted a number of deterrent measures in order to enforce tax compliance, such as the penalties contained in the Tax Administration Act and the anti-avoidance measures in the Income Tax Act. Measures that do not focus on deterrence have also been implemented by governments across the world in order to improve tax compliance. Torgler (2004) found that in Japan the tax authorities go to great lengths to provide the public with information in regard to tax. Furthermore, where taxpayers make obvious errors with their tax returns they are informed and it is explained to them why it is wrong, in order to help them to better understand the errors. Torgler and Murphy (2004) found that the tax morale in Australia had improved and that this was a result of it adopting a self-assessment system for taxation, tax reforms which improved the fairness of the tax system and the tax authorities changing their organizational structure so that it was less focused on compliance management and risk control and more focused on customers, transparency, services, quality and process improvement.

It should be noted that a number of the works cited in this thesis appear to conflate "tax morale" and "tax compliance", however these remain distinct, although not entirely unrelated, concepts. Tax compliance is defined as the "degree to which a taxpayer complies (or fails to comply) with the tax rules of his country" (Money Control: Online), such as by under-declaring income earned in a year. Thus, tax morale would have an effect on how tax

compliant a taxpayer is. It is possible, however, that a taxpayer may have a low tax morale, yet maintain a high tax compliance, due to other factors such as fear of being caught committing tax evasion and penalised accordingly. This fear of being penalised could also result in an effect on a taxpayer's tax morale.

The purpose of this mini-thesis is to identify what are the determinants of tax morale and determine which of these determinants currently have a positive influence on South Africa's tax morale. The time frame covered by this thesis is between the years 2000 and 2015. The mini-thesis will also identify various strategies that been formulated, and in some cases utilized, that the South African Revenue Service (referred to as “SARS”), or other government departments, could attempt to implement in South Africa in order to improve tax morale, as a higher tax morale improves tax compliance, which in turn increases tax revenue and which provides government with more resources that it can use to provide services to its citizens.

The tax question is therefore what factors contribute to taxpayer morale and what are the measures that SARS could implement to promote taxpayer morale?

1.2 Goals of the Research

The goal of the research is to identify factors that contribute to taxpayer morale and policies adopted in selected countries to enhance taxpayer morale, in order to assess the application of these policies in a South African context. The sub-goals of the research are:

- to analyse the latest survey report from the website *Afrobarometer* (Online) and compare it with previous surveys conducted by *Afrobarometer*, to determine the level of tax morale in South Africa and whether it has improved or deteriorated in recent years;
- to analyse the literature to identify the various determinants of tax morale that are applicable in various countries, including South Africa;
- to analyse the literature relating to policies countries have introduced to improve the morale of taxpayers; and
- to assess the policies that have been identified in order to form an opinion whether they could be implemented in South Africa.

1.3 Methods, Procedures and Techniques

The research will be conducted wholly by means of an analysis of relevant literature. The research orientation to be adopted can therefore be described as interpretative, as it seeks to understand and describe, and the methodology to be applied is qualitative in nature (Babbie & Mouton: 2009). Literature to be reviewed will include literature related to the level of taxpayer morale in South Africa, the determinants of taxpayer morale, and policies designed to improve taxpayer morale. The documentary data that will be used in the research will be sourced in South Africa and selected foreign jurisdictions and will include:

- legislation;
- case law;
- policy documents;
- statistical and other reports;
- articles in accredited journals; and
- other relevant documentary data.

The validity and reliability of the research and the conclusions will be ensured by:

- placing greater evidential weight on the writings of acknowledged experts in the field;
- discussing the opposing viewpoints and concluding, based on a preponderance of credible evidence; and
- the rigour of the arguments.

1.4 Ethical Considerations

As all the data are publically available, no ethical considerations arise in relation to their use. Interviews will not be conducted; opinions will be considered in their written form. The data will not be exaggerated or filtered, or results interpreted to support a particular viewpoint. Content will not be withheld or toned down. All sources of data will be appropriately acknowledged, and full references provided.

1.5 Overview of the chapters

This chapter introduces the topic of tax morale and provides a context for the research. It discusses tax avoidance, tax evasion and tax morale and explains that tax morale may be one of the factors that results in individuals engaging in tax avoidance or tax evasion. The chapter also identifies that there are a number of factors that influence tax morale and that various countries have adopted strategies focusing on improving tax morale. It then goes on to set out the goals of the thesis, the methods, procedures and techniques that will be used and the reason why no ethical considerations need to be taken into account.

Chapter Two discusses the various factors that affect tax morale and whether these factors appear to have improved or deteriorated in South Africa over the years. The various factors are divided in four categories, these being demographic factors, social factors, economic factors and government-related factors. Reports from *Afrobarometer* (Online) are used in order to estimate how these factors have changed in South Africa.

Chapter Three discusses the various strategies that could be adopted by a country in order to improve its tax morale. The various strategies are identified using the available literature, with a number of strategies having also been tested in various countries as experiments or by being implemented by the governments of those countries. The possibility of implementing these strategies in South Africa is also discussed in this chapter.

Chapter Four summarizes the findings in the previous chapters and provides a conclusion to the research. It summarizes the determinants of tax morale and concludes as to whether South Africa's tax morale appears to have improved or deteriorated. Furthermore, it also summarizes the various strategies that can be implemented in order to improve tax morale in a country and speculates on which of these strategies could potentially be implemented in South Africa.

CHAPTER TWO: TAX MORALE: DETERMINANTS AND SOUTH AFRICAN TAX MORALE

2.1. Introduction

There are a wide variety of factors that determine and influence tax morale. Some factors only apply in certain countries. The goal of this chapter is to identify and discuss the various determinants of tax morale that have been identified in the tax literature and to speculate on whether they are relevant with regard to determining South Africa's tax morale. Both determinants that are shown to be statistically significant and have an association with tax morale and those that appear in a wide range of countries are likely to be relevant in relation to South Africa's tax morale. Statistical significance is important as it indicates that the relationship that the factor has with tax morale is not the result of random chance (Investopedia: Online).

A further goal of this chapter is to determine whether South Africa's tax morale has improved or deteriorated in recent years. In addressing this goal, reports that are related to relevant determinants are sourced from *Afrobarometer* (Online) and analysed.

2.2. Demographic Factors

One category of factors that may have an effect on tax morale is demographic factors. Although these factors cannot be changed by any interventions on the part of the South African Revenue Service (SARS), individuals falling within these categories may be able to be influenced by SARS to promote tax compliance.

2.2.1. Age

According to Torgler and Schaltegger (2005), in most situations age has a positive association with tax compliance or tax morale. The older a taxpayer is the more likely he or she is to be tax compliant. Furthermore, the effect that age has on tax compliance is statistically significant. According to Tittle (1980), older taxpayers are more tax compliant as they are both more sensitive to the threat of penalties should they not be tax compliant and because, over the years, they have acquired greater social stakes, either status, material goods or dependency on how others view them, resulting in an increased potential cost of punishment.

Another reason presented by Torgler (2004) is that older taxpayers may have been living in the same place for a certain length of time, resulting in them becoming more attached to the community and this attachment in turn may have a positive effect on their tax morale. Torgler (2004) also claims that another reason may be that older people, that is, those older than 65, have a different attitude towards tax compliance and thus a higher tax morale is because they are usually not subject to income tax, due to lower post-retirement income. Torgler (2004) also states that the tax morale of younger taxpayers may be lower than that of older taxpayers in places where living standards are declining rather than improving, which results in reduced positive expectations of the future. In cases where an increase in age results in a decline in tax morale, Torgler (2004) claims that this might be due to older people being more experienced when it comes to matters relating to taxation, which may result in them being less tax compliant as they could be aware of ways to effectively evade taxes.

The positive association between age and tax morale applies in a large number of countries, including Japan (Torgler: 2004), Australia (Torgler & Murphy: 2004) and many countries in Latin America (Torgler: 2005). In some cases, the effects of age on tax morale will be reduced by other variables, such as in the study by Torgler and Murphy (2004) of Australia, where the variables of income and tax rate diminished the effect of age on tax morale. Nonetheless this does not mean that the variable of age should necessarily be ignored in relation to a country's tax morale.

The study conducted by Cummings *et al* (2006) on South Africa and Botswana found that age had a positive effect on the tax morale in both countries. It is unlikely that the situation in South Africa has changed much in the interim to result in age having a neutral or a negative effect on tax morale. According to the survey reports from *Afrobarometer* (Online), the percentage of respondents in South Africa who were older than 50 years was 17.9% in 2000, while in 2015 it was 22.5%. It therefore appears that the number of older people in South Africa has increased over the years and thus the effect of this variable on tax morale overall may have improved.

2.2.2. Gender

According to Tittle (1980), women are more compliant and less self-reliant than men, resulting in them having higher tax morale and this is as a result of the traditional role of women in society. Torgler and Schaltegger (2005), however, state that this does not

necessarily apply to the present generation of women, who are far more independent than previous generations, which in turn would mean that they may not be more compliant than men as was initially believed. Torgler and Schaltegger (2005), however, believe that women may still be more compliant than men as they are more risk averse, thus still resulting in higher tax morale than males, whether it is in developing or developed countries.

The positive association between being a woman and having a higher tax morale is present in a number of countries, including countries in Asia (Torgler: 2004), Australia (Torgler & Murphy: 2004), the United States of America and Spain (Alm & Torgler: 2006). The study conducted by Cummings *et al* (2006) on South Africa also found that being female had a positive association with higher tax morale.

Based on the survey reports from *Afrobarometer* (Online), the percentage of respondents who were female was 51.6% in 2000 while in 2015 it was 50.5%. It would therefore appear that the overall level of tax morale may have deteriorated slightly with regard to gender.

2.2.3. Education

Regarding the variable of education, Torgler and Schaltegger (2005) do not provide a specific definition as to what they refer to as education, however they state that the education that is being tested is the knowledge that taxpayers have in regard to tax law, as well as fiscal matters. This is because, according to Torgler and Murphy (2004), one can reasonably assume that an educated taxpayer is more likely to know more about fiscal connections and tax laws than one who is uneducated. Thus, an educated taxpayer would be aware of the services and benefits that the state provides to its citizens using the taxes it collects. Lewis (1982) expects that where this is the case it will result in educated taxpayers being more tax compliant. However, this may not necessarily always be the case. According to Torgler and Schaltegger (2005) taxpayers who are highly educated may also be more aware of inefficient use of tax revenue by the state and thus they may become less compliant rather than more. Furthermore, Torgler and Schaltegger (2005) state that a more educated taxpayer may also be less tax compliant because he or she is more aware of how the tax system works, thus allowing them to better identify and take advantage of opportunities for avoidance and evasion, as well as being more critical about the manner in which the state uses its tax revenue. It is clear that, compared to age and gender, the potential effect that education has on tax morale is more mixed, capable of improving or worsening it. Nonetheless Torgler and

Schaltegger (2005) found that in many estimates the effect of the variable of education tends not to be statistically significant and in cases where it is the results tend to be mixed. Torgler and Schaltegger (2005) believe that, based on these results, the effect education has on tax morale is affected by the current politico-economic situation, such as the relationship between taxes paid and benefits obtained and government spending.

This mixed effect that education has on tax morale is seen clearly in a number of studies. In the study conducted by Torgler and Schneider (2007) it was found that in the three countries they were studying, Switzerland, Belgium and Spain, education is negatively associated with tax morale. A study of various countries conducted by Torgler (2006) also found that education and tax morale were negatively associated, including in Russia, Venezuela, South Korea, Finland and Serbia. Another study conducted in Australia by Torgler and Murphy (2004) also found that education and tax morale were negatively associated. In regard to the study conducted on South Africa and Botswana by Cummings *et al* (2006) on the association between education and tax morale, it was found to have a positive association; however, the result was not statistically significant.

With regard to the survey reports from *Afrobarometer* (Online), in 2000 the percentage of respondents that had a post-secondary education was 14.5%, while in 2015 the percentage of respondents that had obtained some form of post-secondary qualifications was 26.4%. It should be noted that the majority (14.7%) of post-secondary qualifications obtained in 2015 were those other than from a university. Nonetheless it would appear that the education in South Africa has improved and this in turn could have resulted in an overall improvement in tax morale.

While SARS cannot affect the overall level of education of South African, campaigns targeted at informing the public about the need to meet their tax obligations, the use to which tax revenue is put and the penalties for tax avoidance may have a positive effect on taxpayer compliance behaviour.

2.3. Economic factors

The second group of variables that may have an effect on taxpayer morale and compliance is the level of economic well-being. While SARS could not influence the economic well-being

of taxpayers, it may be able to influence the individuals who fall into the higher levels of economic well-being to promote tax compliance.

2.3.1. Employment status

Employment status refers both to whether a taxpayer is employed or unemployed or whether they are self-employed, in full-time or part-time employment. Torgler and Schaltegger (2005) paid specific attention to whether the tax morale of a taxpayer who is self-employed is lower than that of a taxpayer who is employed on a full-time basis. Torgler and Schaltegger (2005) tested a number of countries but found that the overall effect of whether or not a taxpayer was employed was not statistically significant, except in transition countries, such as East Germany, where self-employment had a negative association with tax morale. Torgler and Schaltegger (2005) speculated that this was as a result of self-employed taxpayers in those countries feeling far more financially restricted than in other countries, due to the tax and compliance cost necessary to pay those taxes. Lewis (1982) also argued that self-employed taxpayers had higher compliance costs compared to persons employed on a full-time basis, which resulted in taxes becoming more visible for them. Torgler and Murphy (2004) presented another possibility as to why self-employed taxpayers had lower tax morale. They suggested that tax evasion depended on the opportunities presented to taxpayers to avoid or evade taxes and self-employed taxpayers had more opportunities to evade paying taxes than full-time employed taxpayers, whose taxes were deducted by their employers from their wages. Nonetheless, unlike in other international research, Torgler and Murphy (2004) did not find that self-employment had a negative effect on a taxpayer's tax morale in Australia. A study conducted by Schmolders (1960) analysed the tax morale of self-employed taxpayers in Europe and found that tax morale was lower for self-employed taxpayers than those who were employed on a full-time basis, whether it was working for an organization or for other people. Although there was one instance where self-employment did not result in an effect on tax morale, this seemed to be the exception rather than the norm and thus it seems likely that in South Africa self-employed taxpayers will have lower tax morale than taxpayers in full-time employment.

Torgler (2004) also found that unemployment resulted in lower tax morale as a result of higher compliance and opportunity costs that arise as a result of being honest. He also presented the possibility that unemployed individuals had a greater incentive to make use of the shadow economy, which in turn could have an influence on their attitude towards

committing tax evasion. A study conducted by Tekeli (2011) also found that taxpayers in Turkey and Japan who were unemployed were significantly less opposed to evading taxes than those who were employed on a full-time basis. A study conducted by Torgler (2005) on Latin America also found that unemployment had a negative association with tax morale. It would therefore seem that the same could be said of taxpayers in South Africa where, if they are unemployed, people are likely to have lower tax morale.

According to *Afrobarometer* (Online), the percentage of respondents in South Africa who never had a job in 2000 was 14.3% while in 2015 it was 11.0%. This would seem to indicate that unemployment has decreased. However, the question was framed in such a way that it asked what the respondents' current or previous occupation was, which meant that the survey did not indicate whether the respondent was currently unemployed. In the previous study conducted by Cummings *et al* (2006) it was found that the occupations of miners and domestic workers had a negative association with tax morale.

Another question in the *Afrobarometer* (Online) survey in 2000 asked whether the respondent had a job for over a month in the past 12 months and the result was that 59.5% of respondents did not. The 2015 survey had a similar question, but this question asked if the respondent was currently employed, and the result was that 53.3% of respondents did not have a job. The response to the question indicates that 12.1% of respondents were employed part-time, but this result cannot be compared with the 2000 survey question as the respondents did not have the option to answer the question whether they were employed part-time, simply whether they were employed. Therefore, it cannot be ascertained whether the number of taxpayers in South Africa who are working part-time has increased or decreased since 2000, using the reports from *Afrobarometer* (Online).

2.3.2. Economic situation

According to Torgler (2004) the effects of income on tax morale are difficult to assess theoretically. The effects depend on the risk preferences of taxpayers as well as the progressivity of the income tax schedule, and thus the level of income may increase or reduce tax morale. Torgler and Schaltegger (2005) argue that in countries with a progressive income tax rate, taxpayers who have a high income achieve a higher return by evading tax than taxpayers with lower income, but this could also result in less economic utility. With regard to taxpayers who have a lower level of income, Torgler and Schaltegger (2005) state that,

although these taxpayers may have lower societal stakes or restrictions, they are in a worse position to take such risks than their higher income counterparts. This is because of the high marginal utility loss that would occur in the event that they are caught and penalized. Alm and Torgler (2006), however, argue that in terms of rational choice theory it is predicted that individuals in lower income classes are more likely to engage in criminal activities than taxpayers in higher income classes due to their lower opportunity cost. Often results are mixed, but Torgler and Schaltegger (2005) have found that there is tendency that higher income results in lower tax morale.

Torgler (2004) found that in both Japan and India, where taxpayers were in an "upper class" economic situation, this had a negative association with tax morale, compared to taxpayers in the working class. In Asia as a whole Torgler (2004) found that there was a strong negative association between upper class taxpayers and tax morale. With regard to the working-class taxpayers there was also a negative association with tax morale, but this was found to be statistically insignificant and the lower middle-class taxpayers had a positive association with tax morale, which gives credence to the argument that higher income levels result in lower tax morale.

South Africa currently has progressive income tax rates. The tax rate at the lowest level of the tax schedule is 18%, while at the highest level it is 45%. It therefore seems likely that taxpayers with a higher level of income in South Africa would be less tax compliant than those with a lower level of income due to the benefit that would arise from successfully evading the payment of taxes.

The survey reports by *Afrobarometer* (Online) do not include a question that would serve to identify the level of income of a respondent. A question relating to present living conditions was, however, asked in the survey and one could potentially say that living conditions are a reflection of economic situation. With regard to living conditions, in 2002 5.5% of respondents found them to be very good while 31.5% of respondents found them to be fairly good. By comparison, in 2015, 9.2% of respondents found their present living conditions to be very good while 35.2% found them to be fairly good. The living conditions of a respondent are likely to be dependent on their current economic situation and therefore it would appear that overall there were more taxpayers in 2015 that had a high level of income than in 2003. The higher levels of income, together with the progressive rate of tax, may indicate that, overall, tax morale may have declined in South Africa.

2.4. Social factors

Certain social factors discussed below are incapable of being influenced by any actions on the part of SARS, while a targeted media campaign addressing issues such as trust in the government and national pride may have a positive effect on tax morale.

2.4.1. Marital status

According to Torgler and Schaltegger (2005) marital status could influence the behaviour of taxpayers, depending on the extent to which a taxpayer is constrained by his or her social network. This argument arises due to the study conducted by Tittle (1980), where it was believed that how prone an individual was to rule breaking varies inversely with the extent to which a person is involved with their social networks that have a constraining effect on them and he found significant differences between the marital statuses. Torgler and Schaltegger (2005) believe that such social constraints could have a positive influence on a taxpayer's tax morale if one assumes that couples have higher social stakes in their neighbourhood and feel more committed to both the political and social community in which they live, than those who are single. Torgler and Schaltegger (2005), however, also present the possibility that being married may have a negative influence on tax morale rather than a positive one. This negative effect can be attributed to the manner in which a country's tax system treats married and non-married couples.

Torgler (2006) found that a number of studies claim that this negative effect occurs in the United States of America (USA), where studies revealed that non-compliance was higher among couples than singles and that this was as a result of the tax system. The tax system in the USA at the time treated the dual incomes of a couple as one, thus resulting in them being taxed in a higher tax bracket and thus less likely to be tax compliant. In the study conducted by Tekeli (2011) neither of the countries being studied, Turkey and Japan, had such a tax system. He found that married people did not have higher tax morale than singles in Turkey and that overall the marital status did not have any effect on tax morale. These studies also appear to be contrary to findings by Torgler and Schaltegger (2005), whose study found evidence that married couples in Switzerland and the USA had a tendency to have stronger tax morale than singles. Furthermore, Torgler and Schaltegger (2005) found that such a tendency was present in different cultural settings.

Torgler (2004) found that in Japan being married associated negatively with tax morale, although this was not statistically significant, while being separated resulted in a positive association. Furthermore Torgler (2004) found that in India being married did not have a much effect on tax morale, but where individuals were separated their tax morale was lower than single people, while for those who were widowed was higher. In another study Torgler and Murphy (2004) found that in all the tests that were conducted in Australia the variable of marital status did not have any significant effect on tax morale. Torgler (2005) also conducted a study on countries in Latin America and found that there was a positive association between tax morale and being married. Based on these studies it is clear that the effect that marital status has on tax morale differs from country to country, but often it does not have a large effect on a taxpayer's tax morale.

In South Africa, the Income Tax Act taxes each spouse separately on his or her income, except where either section 7(2) or 7(2A) applies. Section 7(2) of the Income Tax Act is an anti-avoidance provision with the purpose of preventing married couples, whether married in or out of community of property, from arranging their income in such a way that a splitting of income results in a reduction of their normal tax liability. Section 7(2A), on the other hand, provides for marriage in community of property. Where a marriage in community of property exists, there is one joint estate in which each spouse has a 50% interest, but some assets may not form a part of the joint estate depending on the wording of the act of grant or will in terms of which a spouse obtains the asset. Although there are certain exceptions, generally income that accrues to spouses in community of property accrues to each spouse equally. This means that, unless either of these sections applies, marriage, death of a spouse, divorce or separation will have no effect when determining the normal tax liability of a taxpayer.

It would therefore appear that the tax laws in South Africa do not necessarily result in a married taxpayer being in a worse position when it comes to tax than one who remains single, as the income streams of married taxpayers are not aggregated, but rather remain separate. It therefore does not seem that a married taxpayer would have lower tax morale due to the tax system, which was a possibility presented by Torgler (2006). Rather it seems that tax morale is likely to either remain the same or improve should a taxpayer be married, based on the results of the various studies cited above.

The surveys conducted by *Afrobarometer* (Online) for the years 2000 and 2015 did not include a question as to the marital status of the respondent.

2.4.2. Religiosity

Torgler (2006) conducted a study on the effects of religion on tax morale and found that there was a strong positive association between religiosity and tax morale. It was also found to be statistically significant and that a strong effect on tax morale was observed for those taxpayers who had a religious education and for taxpayers who were actively involved with either a church or a religious organization. It was observed that there also a tendency for Catholics, Buddhists, Hindus and people from other religious persuasions to have a higher tax morale than those who had no religious denomination, but it was also found that Orthodox Christians and Protestants tended to have a lower tax morale, although this was not always statistically significant. For these two religions, Torgler (2006) found that the positive effect they had on tax morale depended on the extent to which a taxpayer was an active follower. He concluded that religiosity did exert a systematic influence on tax morale, with this effect persisting even after controlling for various other factors.

Torgler and Schaltegger (2005) conducted a study and part of this study involved measuring church attendance and the perceived degree of religiosity. They found that there appeared to be a positive association between tax morale and religiosity and church attendance. Torgler and Schaltegger (2005) also suggested that the history that the state has with religious institutions could also have influenced the effect that religion had on tax morale. Lago-Peñas and Lago-Peñas (2010) also believe that religiosity improves tax morale and state that the reason for this is because religious people are concerned with what is right and wrong and thus believe that there are certain duties that they are required to perform, one of these being the payment of tax. Alm and Torgler (2006) also argue that religious organisations can affect the moral state, including that of social capital, in a society and that religion provides a certain level of enforcement to act according to accepted rules. In his study Tekeli (2011) concluded that, in a large number of religions, religiosity does have an effect on the degree to which taxpayers break the rules and that one may assume that it can act as a restriction on tax evasion.

Based on these studies it seems likely that the same will apply in South Africa in that religion plays a role in encouraging people to pay taxes. According to the survey reports from *Afrobarometer* (Online) the question as to the religion of the respondent was not asked in 2000, but it was asked in 2002 and 2015. According to the survey reports 12% of respondents were not part of any religion in 2002 while in 2015, 7.2% of respondents were not a part of

any religion. This indicates an increased number of people in South Africa have joined a religious association.

Afrobarometer (Online) also posed a question in the 2015 survey as to how often respondents practise their religion. How often taxpayers practise their religion may also have an effect on whether religion improves tax morale. This question could also give an indication as to the state of tax morale in South Africa. This question was not asked in any of the surveys in prior years conducted by *Afrobarometer* (Online) and thus it cannot be determined whether there has been an increase in religious practice by taxpayers as no reports prior to 2015 are available.

2.4.3. Trust

Torgler and Schaltegger (2005) recognised that tax morale was capable of being affected by more than just the socio-demographic and socio-economic background of a taxpayer. They also recognised that the trust that a taxpayer has in the government and the credibility associated with actions taken by the government also has an influence on the tax morale of taxpayers. It was noted by Torgler and Schaltegger (2005) that trust was not something that the state could demand of its citizens, rather trust was something that taxpayers either bestowed upon the government or not. It is, however, possible for government to foster trust in taxpayers where government has a positive historical record, which in turn would result in a good reputation. Thus, this is a variable that the state is capable of influencing by the actions it takes and the policies that it implements.

Torgler and Murphy (2004) state that the relationship between taxpayers and the state could be seen as a relational or a psychological contract that involves strong emotional ties and loyalties. This psychological contract is capable of being maintained by the state by means of positive actions that are based on trust. This in turn means that if the state acts in a trustworthy manner, taxpayers in turn are more likely to be tax compliant.

Feld and Frey (2002) also speak of a psychological contract between the taxpayer and tax authorities and that tax authorities must take positive actions in order to maintain it and negative actions in order to prevent it from being breached. This contract relies on trust between the taxpayer and tax authorities and thus there is a belief between the parties that they will act honestly. Therefore, in this psychological contract tax authorities assume that

taxpayers will report their tax income honestly when making their tax declarations, while taxpayers expect that they will be treated respectfully, as if they had honestly paid their taxes. Feld and Frey (2002) state that if the tax authorities were to treat taxpayers as if they were evading tax from the outset, this would result in the psychological contract between the two parties being undermined.

Torgler and Schaltegger (2005) also found that where trust could be seen as the willingness of the taxpayer to pay, this was capable of being influenced strongly by the manner in which the tax authorities treated taxpayers. They state that respectful treatment of taxpayers tends to improve tax morale. This, in turn, lowers the cost of tax collection for the tax authorities as taxpayers will be more tax compliant and audits will not need to be conducted as frequently. On the other hand, should taxpayers be treated in a disrespectful manner they are unlikely to be willing to pay their taxes, which in turn would increase collection costs for the tax authorities as they would need to conduct audits often in order to successfully collect taxes.

Leonardo (2011) also observed that the presence of trust in the government can, in turn, be associated with higher tax morale. He also presented two possible explanations as to how governments were able to earn the trust of their taxpayers. The first of these explanations is that taxpayers are more willing to trust the government where the government acts trustworthily and exhibits an image that results in it being perceived as being fair. The other explanation is that taxpayers have more trust in the government when it delivers what individuals demand and that where there is widespread support for actions taken by the government this both justifies their actions to taxpayers and imposes a social norm on them to pay their taxes.

Leonardo (2011), however, then went on to identify problems with these explanations. One problem was that it seemed unlikely that decisions related to tax compliance were primarily driven either by what political institutions decided or what the results were from elections. This was especially the case in advanced democracies where large parts of the population did not vote and thus it would be difficult for government to determine what their taxpayers wanted if they did not express their preferences in policy by voting. The other problem was that it did not explain why taxpayers would still be willing to pay their taxes in situations where their preferences were not selected, be it either a preferred candidate or preferred policy. Leonardo (2011) thus states that if individuals are compliant due to the actions taken by government matching their preferences, there should be widespread tax non-compliance as

a large number of taxpayers either do not vote or support a losing candidate. Reviewing the literature, Leonardo (2011) found that the reason why this was not necessarily the case was that as long as individuals are provided with an outlet to express their opinions on which policies should be adopted this has a positive effect on tax compliance regardless of which policy is chosen by government. This may be due to individuals valuing how government regards them in the same way that they value which policies are implemented by government. Thus, individuals may interpret government asking them about their preferences as a signal that government views them as responsible and mature partners in governance, which in turns causes them to reciprocate by willingly paying their taxes. Leonardo (2011) concluded that trust in the government is the result of individuals being given fair treatment by officials from the output side of government, that is, the part of government which goes about delivering goods and services to taxpayers. Leonardo (2011) thus recommended that if government wanted to improve tax compliance it should focus on ensuring that government organizations that regularly interact with taxpayers, not just the tax authorities, treat taxpayers fairly.

The study conducted by Frey (2003) appears to support these recommendations as it found that there were two aspects of importance when it comes to the respectful treatment of taxpayers. The first is that there must be transparency of the procedures that are conducted by the tax authorities. Where arbitrary decisions and procedures take place, taxpayers get the feeling that they are being treated unfairly and not being taken seriously, while if decisions taken by the government can easily be comprehended by taxpayers and the procedures undertaken are openly and clearly communicated to them, then their motivation to comply with tax law will be higher. The other aspect that Frey (2003) identified was that taxpayers systematically respond to the personal treatment that they receive from members of government, public officials and especially officials related to taxation. Where taxpayers are treated as if they are inferior in a hierarchical relationship their motivation to comply with tax laws declines, while if they are treated as if they are partners in a psychological relationship they are likely to behave more honestly. Frey (2003), however, makes a point that this does not mean that deterrence measures should no longer be used. Rather it is necessary that they are used against dishonest taxpayers so that honest taxpayers do not end up being exploited. What is important is finding the optimal balance between the use of deterrence measures and the respectful treatment of taxpayers, with the goal being the implementation of a system that is capable of distinguishing between when a minor mistake has occurred that should not be treated as a criminal offence and when cheaters are attempting to systematically defraud the tax authorities. The effectiveness of such a system is seen in the study conducted by Feld and

Frey (2002), which showed that taxpayers who were treated with respect by the tax administration had a higher tax compliance and tax evasion was found to be lowest where minor mistakes in tax declarations were not treated as criminal offences, while intentional tax fraud was punished severely.

In order to determine the level of trust in the government, several studies have looked at other areas in which taxpayers place their trust. The study conducted by Torgler (2005) on countries located in Latin America determined how much trust taxpayers had in the government by looking at how much trust they had in the president and government officials and found that there was a positive association between these two factors and tax morale. In his study on tax morale in Asian countries Torgler (2004) identified that, in addition to trust in government, there was a positive association between trust in the legal system and tax morale. Similarly, Torgler and Murphy's (2004) study on Australia's tax morale also identified trust in the legal system as having a positive association with tax morale, as well as trust in parliament. Torgler and Schneider (2007) also identified that, in addition to trust in government, trust in political institutions also had a positive effect on tax morale.

Leonardo (2011) found in his study, however, that the evidence he obtained with regard to the effect that political organizations, such as parliament, had on tax morale did not support the findings of prior studies, which were that trust in political organisations should have a positive effect on tax morale. In fact, he found that in certain cases a higher trust in parliament resulted in a negative influence on tax morale. Although he accepted that trust in government could, in certain cases, be fostered as a result of political leadership, such as when there is a charismatic leader in place, he concluded that the main driver that fostered trust in government was the fair treatment of citizens.

With regard to the study of Cummings *et al* (2006), it was found that Botswana's tax morale was higher than that of South Africa and this was as a result of its rankings in terms of the perceived fiscal exchange, the overall attitude taxpayers had towards the government and the fairness of the tax administration. Cummings *et al* (2006) assessed the possibility that the difference between the two countries was as a result of differences in risk attitudes of citizens in the two countries. They found that the risk attitudes in both countries were identical and thus the difference in tax morale was due to the cultural factors of each country. Cummings *et al* (2006) presented several reasons as to what specifically may have affected tax morale. They noted that, at the time of the study, South Africa's penalty structure was much harsher

than Botswana's, with one example being that a failure to file a return could result in either a R2 000 fine or imprisonment for up to twelve months. In addition, they found that South Africa's tax authorities exploit high profile cases in order to reinforce their reputation of being tough on enforcement, while also having a policy of not revealing audit rules or penalties. Furthermore, the lack of trust in government was probably a result of it being relatively new at the time the study reports were collected and thus had not yet generated a record for a sufficient period of time to establish trust.

With regard to South Africa, the surveys conducted by *Afrobarometer* (Online) have often asked respondents questions related to how much they trust various parts of government. One question was how much the respondent would trust the president to do what is right and the result in 2000 was that 11.6% of respondents trusted him always, 29.7% trusted him most of the time, 36.8% distrusted him sometimes and 15.4% never trusted him. In comparison to these results, in 2015 the results were that 13.8% of respondents trusted the president always, which is an improvement. However, both trusting the president most of the time and distrusting him sometimes both dropped to 17.9% and 26.2% respectively. Furthermore, the percentage of respondents who do not trust the president at all increased to 41.3%, a notable jump from the 15.4% in 2000. It would therefore appear that overall the trust that people have in the president has deteriorated over the years.

The survey conducted by *Afrobarometer* (Online) also asked a question as to how much the respondent trusted the courts in South Africa. This question is similar to the one seen in previous studies about whether taxpayers trusted the legal system and thus is relevant in determining South Africa's tax morale. In 2000 the survey found that 11.7% of respondents placed a lot of trust in the courts and 31.6% of respondents trusted them somewhat. The percentage of respondents who only trusted the courts sometimes, however, was 39.3% and 12.8% of them did not trust them at all. It is clear that in 2000 a large portion of the respondents had a low opinion of the courts. On the other hand, in 2015 it was found that 23.9% of respondents placed a lot of trust in the courts, a large increase from the 11.7% in 2000, and 32.6 of respondents now trusted them somewhat, which was also an increase in trust. In turn 27% of respondents trusted the courts a little and 13.9% did not trust them at all. Although there was a small increase in the percentage of those who did not trust the courts at all, the main shift came from the number of people who only trusted the courts a little. It would therefore appear that the people of South Africa have more trust in the courts in recent years than they did in the past.

Another question that was asked by *Afrobarometer* (Online) in its survey that is relevant to tax morale is how much trust respondents had in parliament. This question was not asked in the survey conducted in 2000, but it was asked in each surveyed conducted from 2002 onwards. The results for 2002 indicated that 6.7% of the respondents had a great deal of trust in government and 24.5% of respondents had a lot of trust. *Afrobarometer* (Online) however does not state what exactly the distinction is between these two degrees of trust, but nonetheless this means that 31.2% of respondents trusted the government in 2002. The percentage of respondents who did not trust government at all was 20.1% and those who only trusted it a little was 43.1%. It appears that a large portion of South Africans did not hold much trust in parliament, which possibly may have been due to the government, and in turn parliament, not yet having a long enough positive record in order for people to place trust in it, as was suggested by Cummings *et al* (2006) in his study. The survey in 2015 (enough time may have passed for parliament to establish a positive reputation for itself and thus be considered trustworthy by the populace) revealed that 13.9% of respondents now trusted parliament a lot and 25.4% of respondents now trusted it somewhat. In turn 31.4% of respondents only trusted parliament a little and 28.1% did not trust it at all. It would seem that the change in opinion of respondents was mixed as the percentage of respondents who trusted parliament a lot and somewhat both increased, but the percentage of respondents who do not trust parliament at all had also increased. Overall, it does not appear that there was an improvement of the trust in parliament, and the effect it would have on tax morale is uncertain. This is due to prior studies indicating that trust in parliament had a positive association, but the more recent study by Leonardo (2011) found that there was a negative association between the two.

Another question that *Afrobarometer* (Online) posed to respondents that could be relevant for determining the trust that citizens have in government is whether the respondents trusted the tax department. Trust in the tax department was referred to in prior studies as the purpose of the fair treatment of taxpayers that has been advocated for is in order to foster trust in such institutions. The question, however, has only recently appeared in *Afrobarometer's* (Online) surveys with the earliest being in 2011. In 2011 the percentage of respondents who trusted the tax department a lot was 27.8% and 33.2% trusted it somewhat. In addition, 21.7% of respondents only trusted the tax department a little and 8.4% did not trust it at all. It appears that in 2011 a sizeable portion of respondents had a positive view of the tax department. With regard to whether this positive view persisted, or even improved in 2015, 34% of respondents

trusted the tax department a lot and 28.5% trusted it somewhat. In turn, 18.9% of respondents only trusted the tax department a little but 12.2% of respondents did not trust it at all. There was an increase in the percentage of respondents who trusted the tax department a lot by a fair margin but those who only trusted it a little decreased. However, the percentage of respondents who did not trust the department at all increased and those who somewhat trusted the tax department also decreased. Overall it seems that there may only have been a slight improvement in trust due to the mixed shift in people's attitudes towards the tax department.

Afrobarometer (Online) did not ask a question in its surveys as to whether the respondents trusted the government as a whole. One can get an idea of the general shift in attitude that the people have had towards government based on how their trust has shifted in the various other sectors that other studies have used to determine trust in government. The trust that people had in both parliament as well as the president has deteriorated since the early 2000s. Furthermore, the trust that respondents had in the tax department has only slightly improved, but there has been a notable increase in the number of people who trust the courts. Nonetheless people are more likely to view the president and parliament as more closely linked to government than the courts and it is therefore likely that the trust that people have in government has deteriorated over the years. This may point to a corresponding deterioration in tax morale in South Africa.

2.4.4. National Pride

Torgler and Schaltegger (2005), in their study, identified national pride as another variable that affects a country's tax morale. They recognize that the variable has been mostly ignored in the literature related to tax compliance, but nonetheless they believe that, based on their evidence, more attention should be paid to national pride and its effect on tax morale, especially as in most of their estimates they found that national pride results in a stronger tax morale.

Torgler (2004) found pride to be a widespread phenomenon and that individuals could be proud of a number of things, including having pride in their country. Pride, in turn, results in a sense of group identification for individuals and this group identification can be found in a number of places, such as in international soccer games. Tyler (2000) reinforces the idea that pride could have an effect on tax morale as he argues that pride is capable of influencing people's behaviour in organizations, groups and societies. Torgler (2005) appears to agree

with this line of thought as he claims that being proud of one's country enhances an individual's identification with the state, which may be why people behave co-operatively and find it important to pay their taxes.

Nonetheless, although national pride has not enjoyed much attention in economic literature, there have been a number of studies that have tested its effect on tax morale. Torgler (2005), in his study on Latin America, found that national pride has a positive association with tax morale as those identified as having national pride often argued that tax evasion is never justifiable. Torgler (2004) also conducted a study on a number of Asian countries, including China, Japan and Taiwan, and also found that national pride has a positive association with tax morale. The only country for which national pride was observed not to be statistically significant was Japan, but nonetheless it still had a positive effect. A more recent study by Tekeli (2011) examined the effect that national pride had on the tax morale of both Turkey and Japan. The study found that national pride still had a positive effect on tax morale in Japan, although it was concluded that those who did not have national pride were also strongly opposed to tax evasion. With regard to the effect that national pride has on Turkey, it was found that it also has a positive effect on Turkey's tax morale although, unlike Japan, those who did not show any national pride were the most in favour of cheating the tax system.

In regard to South Africa, *Afrobarometer* (Online) did not ask a question specifically whether the respondent had pride in South Africa. They did, however, include a question in their 2015 survey that could be considered as a test of how patriotic the respondent was by asking the respondent whether being South African was a very important part of how the respondent saw him or herself. The results were that 44.4% of respondents agreed that being South African was an important part of their being and 45.7% strongly agreed with the statement. This gives an indication that a large number of South Africans appear to take pride in being South African and this could have a positive effect on tax morale. This specific question was only asked in the survey conducted in 2015 and the results obtained cannot be compared to prior years.

An analysis of *Afrobarometer's* (Online) surveys by Lekalaka (2015) found that South Africans consistently both identified with their national identity and were proud of it. The analysis focused on South Africans between the ages of 18 and 35 and found that in 2002 91% of respondents considered themselves to be proud of their nationality and that this response was consistent throughout the years to 2015 where 89% of respondents considered

themselves to be proud South Africans. The only time a dip occurred was in 2008, which Lekalaka (2015) attributed to the year being politically turbulent due to both the resignation of the President, Thabo Mbeki, and power struggles that occurred within the ruling party, the African National Congress. The question whether the respondents found their South African identity to be important and whether the respondents wanted their children to consider themselves to be South Africans, both had a similarly high percentage of respondents who either agreed or strongly agreed. It was also found that this patriotic attitude was prevalent across racial lines.

It would therefore appear that the majority of South Africans, at least in 2015, are proud of South Africa which, based on previous studies, should result in a positive effect on tax morale. It cannot be said for certain whether national pride in South Africa has improved or deteriorated since 2000 as no question related to pride in South Africa appears to be available from the *Afrobarometer's* (Online) 2000 survey. It is clear that a large number of South Africans in the age group of 18 to 35 have continued to have pride in South Africa from 2000 to 2015, with no significant changes over the period. This could mean that the effect national pride has on tax morale would remain the same throughout the years as well, although this can only be said for the 18 to 35 age group. Lekalaka's (2015) analysis does appear to indicate that South Africans as a whole are consistently proud of their national identity.

2.4.5. Political attitude

According to Tekeli (2011) political attitudes, be they either related to partisan or ideological positions, are capable of having an effect on the willingness of taxpayers to comply with their country's taxes. Lago-Peñas and Lago-Peñas (2010) also believe that the political attitudes that taxpayers have can have an effect on their tax compliance and they found that individuals who are in favour of limiting the revenue that government makes, that is the collection of taxes, are less likely to be tax compliant.

In addition to the ideological basis, Torcal and Montero (2006) found that there are other political attitudes capable of having an effect on tax morale. Specifically, Torcal and Montero (2006) identified political disaffection as having an effect on tax morale. According to Torcal and Montero (2006) political disaffection is defined as "the subjective feelings of cynicism, powerlessness and general lack of confidence in politicians, the political process and democratic institutions, but with no questioning the political regime." Political disaffection

results in individuals being less engaged with regard to matters that relate to the general system of government and having a weaker tendency to pay taxes.

The study by Leonardo (2011) hypothesised that individuals with a left-wing ideology would be more tax compliant, while those with a right-wing ideology would be the opposite. The results of the study were mixed as results in certain countries were in line with what was hypothesized while in others the opposite effect was found. It was, however, found that the size of the effects was noticeably small and that in countries the study considered to be known as advanced democracies, ideology did not have any impact on tax morale. It was concluded that ideology did not have much of an impact on tax morale, but it was also suggested that there may be better methods to measure taxpayers' ideology than was used in the study. Furthermore, the study stated that, with regard to the implications this had for the creation of policies by government, it was unlikely that government would be able to change ideological beliefs in the population, just as it was unlikely to influence religious beliefs. Rather it was suggested that ideology be looked at as a parameter to be considered when creating policies that could either impede or facilitate policy implementation with regard to tax compliance.

With regard to other political attitudes, Tekeli (2011) believes that individuals who have a pro-democratic attitude are more likely to be tax compliant. Tekeli (2011) theorizes that this is because in a democracy, citizens are offered the possibility of being able to express their preferences and furthermore they are able to both better monitor and control their politicians, thus resulting in a reduction of the asymmetry between themselves and their representatives. Tekeli (2011) also suggests that the level of satisfaction with how democracy works could also serve as a measure for political disaffection in a country. The study by Torgler and Schaltegger (2005) appears to support the positive effect that a pro-democratic attitude may have on tax compliance as it found that a higher pro-democratic attitude leads to higher tax morale in both transition countries as well as in countries situated in Latin America. The study suggests that a move towards more democracy may help to enhance tax morale and civic virtue over time, as seen in the transition countries that it observed. Another study which supports a pro-democratic attitude having a positive effect on tax morale is that of Torgler and Schneider (2007), which looked at three different countries, Belgium, Switzerland and Spain. It found that where taxpayers supported democracy, which in the study for Spain and Belgium was measured by how much individuals approved of democracy as being a good system to govern one's country, while for Switzerland it was the association between direct democracy

and tax morale, there were higher levels of tax morale and this was found to be the case for all three countries in the study.

The study by Leonardo (2011) also looked at the effect of support for democracy on tax morale and the ways used to measure it. The study observed that support for democracy having a positive effect on tax morale was seen in predominantly democratic countries and questioned whether a similar effect would be seen where taxes were used to support a political regime other than a democracy. The results of the study were that there was no evidence to support the view that non-democratic political regimes were capable of eliciting a response of voluntary tax compliance similar to that seen in democracies. Leonardo (2011) claims that the reason for this was probably due to non-democratic regimes being unable to create trust and cooperation between its authorities and taxpayers and that even if such regimes were to implement tax policies present in developed democracies this would not necessarily result in the same effect, due to individual rights and freedoms either being unenforced, curtailed or both in such regimes.

Leonardo (2011) also found that individual support for democracy did have a positive effect on tax morale among those who preferred democratic over non-democratic regimes, among all the countries identified in the study. This further reinforces the findings of prior studies of the positive effect that a support for democracy has on tax morale. Furthermore Leonardo (2011) claimed that, at least in free countries, support for democracy was affected by the direct experience individuals had of it or it may have been built up during an individual's youth. For the purposes of policy formulation this means that in newly established democracies support for democracy would not necessarily have a positive influence on tax morale, as this would be due to only a minority of the population being in support of democracy.

Based on the study by Leonardo (2011) it appears that the effect that a taxpayer's ideology can have on tax morale is not large and thus questions related to ideology on *Afrobarometer* (Online) will not be analysed. Support for democracy, on the other hand, has been proven to serve as a gauge for the amount of political disaffection in a country as well as having a noticeable effect on tax morale in its own right and thus how it has changed over the years in South Africa should be analysed.

In the surveys conducted by *Afrobarometer* (Online) it asked respondents how much they support democracy. In 2000, respondents in South Africa were given a number of statements and asked to choose which they agreed with most. The result of the survey was that 12.9% of respondents believed that a non-democratic government could work, 21% of respondents did not care what form of government was in place and 60.1% of respondents preferred democracy compared to other forms of government. The same question was asked in the survey conducted in 2015 and it was found that 17.7% of respondents believed that a non-democratic government could work, 16.6% of respondents felt it did not matter what type of government was in place and 62.2% of respondents preferred democracy compared to other forms of government. There was an increase in the number of respondents who supported a form of government other than democracy, but this shift did not result in a decrease in the percentage of respondents that supported democracy, but rather a decrease in those who did not appear to care one way or another. In fact, rather than decreasing, the percentage of respondents who supported democracy had a slight increase of 2.1 percentage points.

It would therefore appear that from 2000 to 2015 there has been an increase in the number of South Africans who support democracy. This is only a small increase and therefore whatever positive effects from this on tax morale is likely to be minor at best. It is also unlikely that the increase in the percentage of respondents who do not support a democratic government will have a negative effect on tax compliance, as nothing in the studies referred to appears to indicate that one of these groups of persons is more tax compliant than the other.

2.4.6. Perceptions of tax collections

According to Torgler and Schaltegger (2005) tax policy needs to maintain a high level of social capital, specifically with regard to how taxpayers perceive the collection of tax. Where individuals believe that others are honest when it comes to paying their taxes, they themselves will also be more willing to pay their taxes and thus tax morale increases. On the other hand, if individuals notice that many people are effectively evading their taxes, their own intrinsic motivation to comply with the payment of taxes will decrease. Torgler and Schaltegger (2005) claim that the occurrence of tax evasion serves as a signal that intrinsic motivation is not recognised and results in other taxpayers eventually feeling as though they may as well be opportunistic, just like those who successfully evaded taxes, and this in turn means that there is a decrease in the moral cost of evading taxes.

The study conducted by Torgler (2005) on a number of Latin American countries found that where the perception that government is unwilling to detect and penalise tax evaders becomes widespread, that perception legitimises tax evasion. Another study by Bergman (2003) analysed the differences in tax compliance between Chile and Argentina and found that the difference in the two countries was as a result of the significant disparities in the two countries with regard to the perception of being caught and thus, in turn, the credibility of the punishments that are implemented. Argentina relied on more penal sanctions than Chile, but this did not result in an improvement in tax compliance as such policies are only effective deterrents where there is some certainty of being detected by the tax authorities. It appears that both studies therefore support the conclusion that taxpayers' perception of whether other taxpayers are effectively evading their taxes has an effect on tax morale.

In regard to South Africa, *Afrobarometer* (Online) did not ask a question that specifically inquired whether the respondents felt that other taxpayers were evading taxes without being detected. There was another question that *Afrobarometer* (Online) asked its respondents that could serve as an indication of how they perceive the collection of tax. The respondents were asked how easy or difficult it was, in their experience, to avoid paying taxes to the government. This question has only recently been asked as it only appears in the reports for the surveys conducted in 2011 and 2015. In 2011 it was found that 20.2% of respondents found it very difficult to avoid paying taxes and 34.4% of respondents found it to be difficult, while 3.2% of respondents found it to be very easy to avoid paying taxes and 15.3% of respondents found it to be easy. It appears that the majority of the respondents did not think that it was easy for them to avoid taxes, which in turn could mean that they did not think that their fellow taxpayers would easily avoid paying tax. It should be noted that 20.2% of the respondents in 2011 did not know whether it was easy or difficult for them to avoid paying taxes. On the other hand, in 2015, the survey found that 30% of respondents now found that it was very difficult to avoid paying taxes and 26.7% found it to be difficult. The percentage of respondents who found it very easy to avoid paying taxes in 2015 was 4.6%, those who found it to be easy was 17.2%, while those who did not know at all was 14.9%. There was a significant increase in the percentage of respondents who found it to be very difficult compared to 2011, however, the percentage of respondents who only found it to be difficult dropped. This would appear at first to be positive, but the percentage of respondents who both found it easy and very easy to avoid taxes also increased from 2011 to 2015. These appear to be only minor increases, but the shift came from the decrease in those who believed it was

difficult to avoid paying taxes and those who did not know if it was difficult to avoid paying taxes.

Overall it would appear that the major shift in the statistics came from those who in prior years either did not know if it was difficult to avoid taxes or those who believed it to be difficult who now believed that it is very difficult to avoid paying taxes. This may mean that they believe that it is also very difficult for their fellow taxpayers to avoid paying taxes. Any perception they may have had in prior years that taxpayers could successfully cheat the system and avoid paying their taxes is likely to have weakened.

2.5. Government-related factors

The final factors that may affect tax morale are factors relating to the influence of the constitutional process and the tax structure. While the first cannot be influenced, the second could be subject to change through the budgetary process.

2.5.1. Constitution related

Torgler and Schaltegger (2005) believed that constitutional requirements that define the basis of the politico-economic process are capable of having an influence on tax morale. The study identified that the presence of a direct democracy as well as stronger local autonomy have a positive effect on tax morale, or at least this was true in the two countries analysed in the study, the United States of America and Switzerland.

Torgler and Schaltegger (2005) claim that granting taxpayers direct political participation by the use of voter initiatives and popular referenda can result in taxpayers being more willing to accept decisions made by the government and thus increase their willingness to be tax compliant. This means that where a direct democracy is in place, decisions made by the government are considered to have a high authorisation due to the fact that the taxpayers themselves voted on whether or not these decisions should be taken and in turn they feel responsible for these decisions. Torgler and Schaltegger (2005) state that this sense of responsibility even extends to taxpayers who fall into the minority and where the decisions they favour could not win at the ballot box. This is because where the process of decision-making is seen to be fair and transparent by taxpayers, they are more willing to contribute

towards public services and goods, even when the decisions taken result in citizens other than themselves receiving the benefits that are derived from those contributions.

Pommerehne and Weck-Hannemann (1996) conducted a study in order to evaluate the impact that direct democracy has on tax compliance. They did this by conducting an empirical analysis on the Swiss cantons and investigating various institutional and economic factors in order to try to explain the amount of income that was not declared. The reason the Swiss cantons were chosen was because there are a large variety of elements of direct democracy that are present in the cantons, which makes them ideal with regard to investigating the impact of direct democracy on tax compliance. The study found that the extent of direct democracy has a positive impact on tax compliance and that this was statistically significant. It was actually found that this determinant was very important as the cantons that made strong use of a direct democracy resulted in 30 percent lower tax evasion than cantons that relied more on a model of representative democracy.

In South Africa, the type of democracy in place at the time of writing this thesis is a representative democracy (Parliament of the Republic of South Africa: Online). A system of representative democracy has been in place in South Africa since 1994. As the form of democracy in South Africa has remained the same, it is unlikely that any improvement or deterioration in tax morale will arise as a result of the type of democracy in place. There was a change in the electoral system in South Africa in 1994 from a completely constituency-based system to a proportional based system for national and provincial elections and a mix of the two systems for local government elections. There is nothing in the literature, however, to indicate whether this would have an effect on tax morale.

2.5.2. Tax structure

According to Güth, Levatti, and Sausgruber (2005) people show a higher tendency to pay their taxes in a decentralised tax structure, that is where taxes that are collected in a specific region are spent only for the purposes of that region, compared to where there is a centralised tax structure, where taxes that are collected across all regions are pooled together and then spent to purchase regional public goods on a *per capita* basis. Torgler and Schaltegger (2005) appear to agree that the decentralisation of tax power will have a positive impact on tax morale. The study claims that this is due to individuals having more trust in local government decisions than those taken by central government. The reasons why this is the case are that

voters have more control over decision-makers that are situated locally, especially as they often tend to know them personally and that at the local level these decision-makers also tend to have more knowledge about the preferences of the taxpayers in their local area and they are more likely to deliver governmental services that meet the specific needs of the individuals in the region. The study by Torgler and Werner (2005) also appears to support the positive impact of the decentralisation of the tax structure, as the study analysed data from a number of German municipalities and it was found that a higher fiscal autonomy had a positive effect on tax morale.

The study by Lago-Peñas and Lago-Peñas (2010), however, cautions that in situations where fiscal equalisation (which according to Blöchliger and Charbit (2008) "is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost") is strong enough, the mechanism that results in the positive effect on tax morale is cancelled out due to decentralisation no longer resulting in reduced interregional distribution. In addition to this, another issue that could arise is that decentralisation results in an increased visibility of interregional transfers, potentially resulting in the creation of political parties that claim to be in support of regional interests. Lago-Peñas and Lago-Peñas (2010) state that one of the effects that may occur as a result of decentralisation of the tax structure where there is strong fiscal equalisation would be that the tendency to pay federal taxes could drop in rich regions. Therefore, a decentralisation of taxing power will not necessarily result in an improvement of tax morale in every situation.

In South Africa, the study by Stanton (2010) found that the steps South Africa had taken with regard to fiscal decentralisation were only resulting in a steady increase in the centralisation of fiscal autonomy. The study concluded that fiscal decentralisation at the time was little more than a theoretical concept and that the systems currently in place relating to fiscal decentralisation only served as a form of delegation. It was also found that local government was heavily reliant on intergovernmental fiscal transfers and that the conditions attached to them limited local autonomy. Furthermore Stanton (2010) identified that there were vast disparities between the various municipalities, whether they are urban or rural, and that some form of fiscal equalisation is necessary in South Africa, which is done by means of grants, such as the Municipal Infrastructure Grant and the Equitable Share. The study by Alm and Martinez-Vazquez (2015) found that there was a lack of equalisation in any transfer, particularly the case of the Provincial Equitable Share that was failing to achieve equalisation as often the higher income provinces tended to receive greater amounts from transfers than

poorer ones, when the opposite should be occurring in order to achieve equalisation across provinces.

In South Africa the system of a highly centralised fiscal autonomy has been present throughout the years. It does appear to have become more decentralised over the years, but the research by Stanton (2010) seems to indicate this has only resulted in it actually becoming more centralised. Furthermore, the study by Alm and Martinez-Vazquez (2015) found that fiscal equalisation is not being achieved in South Africa as the system in place results in high income areas receiving more fiscal resources than low income areas. It would therefore appear that had there been an increase in the decentralisation of fiscal autonomy a positive effect on tax morale would be achieved, but rather than increasing decentralization, there has been an increase centralisation of fiscal autonomy and if there is any effect on tax morale it is likely to be negative.

2.6. Conclusion

This chapter has provided an overview of the various determinants of tax morale. These determinants were identified from the current tax literature available, with some determinants being more widely discussed and their effects more prominently documented than others. The majority of these determinants have been observed to have had an effect in various countries, some that are similar to South Africa and others fairly different.

In addition to the comprehensive literature survey that was used to identify the theoretical basis for variables that affect the level of tax morale in a country, the *Afrobarometer* survey results were used as a proxy to estimate, based on the established theoretical basis, whether tax morale in South Africa appears to have improved or deteriorated.

Table 1 below summarizes the various determinants, the countries identified in the literature where tax morale is affected by these determinants and the statistics established by the *Afrobarometer* surveys for South Africa with regard to these determinants.

Table 1: Determinants of tax morale and changes over the years in South Africa

Country	Factor affecting tax compliance	Association with tax morale?	Was there statistical significance?	How the determinant has changed in South Africa over the past years
Japan, India, Australia, South Africa, USA, Spain, Belgium, Latin America	The age of the population of a country	Positive	Significant	A larger proportion of South Africa's total population consists of older people than in prior years, indicating that the population is aging and thus it is expected that tax morale will improve.
Japan, India, Australia, South Africa, USA, Spain	Gender (female)	Positive	Significant	The proportion of females in South Africa has decreased slightly, which is likely to result in a slight deterioration in tax morale.
Australia, South Africa, Spain, Switzerland, Belgium, Russia, Venezuela, South Korea, Finland, Serbia	Level of education	Negative (majority of countries observed)	Insignificant	Although there has been an increase in the number of South Africans who have been able to obtain a post-secondary education, it cannot be said whether this will have a significant effect on tax morale.
Japan, Spain, Turkey, Latin America	Employment status	Negative	Insignificant (except in transition countries)	No specific reports
Japan, India, Spain	Economic situation	Negative	Significant	More individuals in South Africa find themselves in better economic situations than in prior years and as the economic situation has a negative association with tax morale it is expected that this will result in tax morale deteriorating.
Japan, India, Australia, USA, Spain, Switzerland, Turkey, Latin America	Marital status	Positive	Insignificant	No reports

USA, Spain, Switzerland, Belgium, Latin America	Religiosity	Positive	Significant	An increase in religious observance, which is expected to have a positive impact on tax morale.
Japan, India, Australia, South Africa, USA, Switzerland, Belgium, Russia, Latin America	Trust in government institutions	Positive	Significant	Trust in the government has deteriorated over the years, which in turn is expected to result in lower tax morale as taxpayers feel less inclined to pay their taxes to government.
Japan, India, Spain, Belgium, Russia, Turkey, Latin America	National pride	Positive	Significant	No change
Japan, India, Spain, Belgium, Turkey, Latin America	Support for Democracy amongst individuals	Positive	Insignificant	The number of South Africans who support democracy has increased.
Latin America	Whether taxpayers believe that other taxpayers are successfully evading taxation.	Negative	Significant	There has been an increase in the number of taxpayers who both believe that it is easy to evade taxation as well as those who believe it is very difficult, with the largest decline being in the number of taxpayers who did not know about the difficulty of evading taxes. It therefore cannot be said for certain whether tax morale will deteriorate or improve, but in either case the effect is likely to be insignificant.
Switzerland	Direct versus representative democracy	Positive	Significant	No change
Germany, South Africa	Decentralisation of the tax structure	Positive	Significant	Deteriorated, thus a possible deterioration in tax morale.

(Author's design)

The variables that relate to the constitutional structure or tax structure have only been analysed in respect to a single country or have been discussed in theory only and therefore it cannot be concluded whether these will necessarily apply in South Africa. The majority of the

other variables have been tested in a number of countries and therefore it seems likely that similar associations will be found in South Africa. With regard to the variables affecting tax morale, overall it would appear that most of the variables that have a positive association with tax morale and are statistically significant may have declined over the years in South Africa, especially the variable of trust, which could arguably be considered to have the strongest effect on tax morale. It therefore seems likely that tax morale in South Africa has deteriorated since 2001.

Torgler and Schaltegger (2005) observed that there has been a noticeable shift towards the use of a more balanced set of strategies by various tax administrations in order to improve taxpayer morale. These strategies tend to focus on customer service, the fair and reasonable treatment of taxpayers and increased emphasis on the quality of work done. Considering that the tax morale in South Africa appears to be deteriorating it would be in its tax administration's best interests to similarly adopt such strategies. The next chapter will identify and discuss several strategies that have been utilised by countries across the world to improve tax morale and assess whether they could potentially be implemented in South Africa.

CHAPTER THREE: STRATEGIES TO IMPROVE TAX MORALE

3.1. Introduction

One aspect of the goal of this research is to identify policies adopted in selected countries to enhance taxpayer morale, in order to assess the possible application in a South African context. As the volume of research related to tax morale has increased and it has become understood that tax morale plays a vital role in ensuring tax compliance by taxpayers, more and more countries have begun to implement strategies aimed at improving the tax morale of their citizens. This chapter will identify the various strategies that have been identified in the literature and strategies that have been put into practice in countries aiming to improve the tax morale of their citizens. These strategies comprise tax reforms, including simplification of the tax system and self-assessment, the introduction of tax amnesties, participation in decision-making relating to tax, improved treatment of taxpayers, marketing campaigns and various reward systems. This chapter will also determine whether the strategies that are identified have already been implemented in South Africa or, if not, whether South Africa could potentially benefit from the implementation of the identified strategies.

3.2. General tax reforms

The introduction of modern tax reforms is capable of improving tax morale as, according to Torgler (2005), the aim of tax reforms in general is to find an effective way to promote equity and efficiency and raise revenue from taxes, while at the same time ensuring that tax morale is also taken into account.

The study by Torgler and Murphy (2004) on Australia recognised that one of the possible reasons why tax morale improved in Australia was as a result of the tax reforms undertaken by the government in 1985. According to Torgler and Murphy (2004) the reforms occurred as a result of perceptions by the public that many people were successfully avoiding paying their taxes; this resulted in resentment towards the current income tax burden and resulted in the decrease in tax compliance. Torgler and Murphy (2004) explain that this perception, over time, became more widespread, especially with the publication of the "bottom of the harbour" schemes, where companies were successful in avoiding tax on their company profits. Furthermore, Torgler and Murphy (2004) explain that these reforms were to be introduced

over a number of years and they included, but were not limited to, a slight reduction in the investment allowance, the introduction of both a fringe benefits tax and capital gains tax, the lowering of personal income tax rates, increasing the company tax rate, a number of industry concessions were abolished, and certain concessions related to superannuation were curtailed. Torgler and Murphy (2004) claim that due to tax reforms being such a prominent issue in the minds of taxpayers at the time and the perception that the reforms introduced improved the fairness of Australia's tax system this resulted in the improvement of tax morale in Australia between 1981 and 1985.

The study by Martinez-Vazquez and Torgler (2009) on tax morale in Spain also found that the introduction of certain tax reforms had a positive impact on tax morale. Prior to the tax reforms tax morale was low in Spain as wealthy taxpayers were provided with a number of opportunities to evade tax, the majority of taxpayers were aware of the rampant fiscal fraud and that tax evasion was not even considered to be a criminal offense. The initial tax reforms, that started being implemented in 1983, aimed to modernise the tax system, which included the computerisation of services, setting up instruments to improve voluntary compliance and also to fight tax evasion. Another set of reforms was introduced in 1998 which focused on the lowering of rates, more emphasis on consumption taxes, and broadening of tax bases. Martinez-Vazquez and Torgler (2009) found that there was a steady increase in tax morale starting from when the initial tax reforms were implemented, up to 1995. They claim that this was a result of the strengthening of institutional structures, which included the reform of the tax administration and the tax system to make it more equitable, as well as the improvement in income opportunities for the population at the time. Taxpayers reacted favourably both to the economic and tax policy changes, which resulted in them having more trust in government and a more positive attitude with regard to the payment of their taxes throughout the years, resulting in an improvement in tax morale. There was, however, a slight decline in tax morale in the period after 1995, which Martinez-Vazquez and Torgler (2009) attribute to possibly the further tax reforms implemented that resulted in rates being reduced and the broadening of tax bases, which taxpayers potentially saw as being unfair. Therefore, when implementing tax reforms, the tax administration would want to take into account whether taxpayers will respond positively towards the reforms, if improving tax morale is a concern.

In addition to requiring a positive reception from taxpayers in order to have a positive impact on tax morale, the tax administrations of countries must also be capable of effectively implementing the tax reforms. Bird and de Jantscher (1992) found this to be the case with

regard to developing countries, as these countries attempted to adopt the complex tax structures present in developed countries when the capabilities of their tax administrations were far lower. Torgler (2005) similarly found that in Latin America radical tax reforms could not be implemented effectively as a result of the uneven income distribution in the various countries, as well as the political and financial power being attributed to a select number of individuals. This prevented the implementation of modern tax reforms, which aimed to introduce both property and personal income taxes.

In South Africa, Cummings *et al* (2006) made a number of observations regarding its tax system. It was found that, taking note that the study was analysing data from 1999, the personal income tax base consisted mainly of passive income from interest and dividends, as well as wages and salaries, and that the tax rate was 45%. At the present time of writing, capital gains tax also forms a part of personal income tax, capital gains tax having been introduced in 2001 in South Africa, and the maximum tax rate for an individual is 45%. In addition, Cummings *et al* (2006) noted that the tax system in South Africa was fairly sophisticated as both modern administration monitoring systems and computerised tax collections had been implemented in 1997, which serve to increase productivity and effectiveness while reducing human error within the system. It therefore does not appear that South Africa is in need of reforms similar to those seen in the past in Spain, as its system has already been modernised and it is unlikely that further changes would result in an improvement in tax morale.

Based on the findings in the previous chapter it appears that tax evasion may be increasing, and perceptions may be changing in South Africa. It may be that reforms similar to those that were implemented in Australia in the past could be implemented in South Africa. This is because the reforms in Australia had a positive impact on tax morale. The implementation of more strict measures to ensure tax compliance in South Africa, however, could result in tax morale declining rather than improving as this may be viewed as a lack of trust on the part of the government in its citizens and thus, in turn, taxpayers may lose trust in government.

Thus, with regard to general tax reforms, it does not seem advisable that the government of South Africa should implement the type of reforms discussed above in order to improve tax morale. It is possible, however, that more specific tax policies, discussed below, may result in the desired effect on tax morale.

3.3. Simplification of the tax system

The study by Bird and de Jantscher (1992) claimed that the simplification of the tax system could result in an improvement in tax administration as well as increase in tax compliance amongst taxpayers. Bird and de Jantscher (1992) state that the simplification of a tax system is most effective in developing countries, where reforms of the tax system are being implemented. The authors also found that in developing countries certain measures also served to improve tax compliance, as even small simplifications of tax policies could result in large improvements. Bird and de Jantscher (1992) state that such measures include a reduction in the number of income tax deductions, as this results in the elimination of a number of filing requirements for individual taxpayers, thus reducing their administrative burden.

Another possible area that Bird and de Jantscher (1992) identified for simplification is to simplify forms and tax returns. Bird and de Jantscher (1992) state that, whilst the tax system may need to be complex, this does not necessarily mean that a taxpayer needs to deal with sections that are irrelevant, and the authors suggest that forms should be carefully reviewed in order to eliminate such sections or at least separate them in other forms for those taxpayers for whom they are relevant. This may result in an improvement in tax morale, as Bird and de Jantscher (1992) explain that due to the complexity of forms that taxpayers need to fill in, at times they may not bother to fill in the forms because they are already aware that they will not complete them properly and that, in any event, their tax liabilities will need to be negotiated later.

SARS has attempted to simplify the tax system in various ways (SARS: 2014), such as by pre-populating tax forms that results in them being easier to fill in. Nonetheless SARS could investigate whether it could implement other methods to simplify its tax system.

3.4. Self-assessment

Torgler and Murphy (2004) explain that a self-assessment system is one where a taxpayer determines the amount that he or she owes in tax and then submits a tax return to the tax authorities reflecting the amount of tax due and the basis for the calculation. A payment is also submitted with the return for any outstanding tax that is calculated. The returns are not

subject to technical scrutiny and the claims and deductions on the return are taken at face value. Audits are conducted on some returns post-assessment in order to ensure their accuracy.

This differs from an assessment where the tax authorities determine the amount of tax due by a taxpayer and then send a notice of assessment to the taxpayer who then would pay the amount due and request reasons for the assessment should the taxpayer have any issues regarding it (SAICA, 2011). It would appear that a tax system of self-assessment places a greater burden on the taxpayer as he or she is now required to calculate his or her own tax liability and ensure the assessment is properly submitted to the tax authorities. This also adds an additional layer of complexity into the tax system for the taxpayers as, rather than simply being informed of the amount that they must pay, they are required to understand and calculate it for themselves. It may appear, therefore, that such a system could have a negative impact on tax morale, but a number of studies have found that the implementation of a system of self-assessment has, in fact, improved the tax morale of taxpayers.

In their study on Australia, Torgler and Murphy (2004) found that one of the potential reasons for the improvement in tax morale in Australia between 1981 and 1995 was due to the implementation of a system of self-assessment. The reason why this system was adopted was because it was found that the earlier traditional system that had been used was not cost effective and it had little effect when it came to the issue of taxpayer compliance. It was found that the new system of self-assessment was both a more cost-effective system as well as one which could be considered to be a self-regulatory system. Torgler and Murphy (2004) explain that when those who are being regulated, that is, the taxpayers, are allowed to self-regulate, this serves to improve their voluntary compliance in the long term. The reason for this is because self-regulation is important in order to establish and maintain trust between those who are regulated and the regulators. This thus leads to the conclusion that the more actions related to regulation are based on trust, the more likely that the tax administration will be able to establish a relationship of reciprocal trust with its taxpayers. Torgler and Murphy (2004) also note, however, that in order for such a system to be sustainable over the long term, measures also need to be in place to detect and punish taxpayers who attempt to cheat the system. In the case of Australia, the measures were the audits conducted post-assessment and penalties where there were illegitimate returns.

The study by Torgler (2004) found that the implementation of a system of self-assessment in Japan in 1949 had a similar positive effect of taxpayers having more trust in the tax administration, due to the administration signalling that it had trust in them. There were, however, problems with the initial implementation of the system as 70% of taxpayers who were required to fill in tax returns either made a mistake while filling it in or did not fill it in at all. Furthermore, tax delinquency at the time was greater than 40%. The reason for this was possibly due to the system being new at the time and taxpayers having little to no idea as to how to properly complete and file returns. Torgler (2004) notes that at present the tax administration of Japan has set up a number of initiatives to provide taxpayers with tax information and these efforts are probably part of the reason why Japan's taxpayers are able to properly make use of a system of self-assessment.

The study by Bird and de Jantscher (1992) found that, whether it was due to the costs associated with it, for political reasons, or even both, a number of countries have, in fact, opted to reduce the role of self-assessment in relation to income tax by pre-populating a return. That is, rather than a taxpayer filling in a return, the tax administration fills in most to all of the information necessary on a return, the main role of the taxpayer then being simply to sign and submit the return. Such a system was taken to the extreme in Singapore, as the system not only allows taxpayers to avoid having to fill in anything on their return, but the system also automatically debits the bank accounts of taxpayers with the amounts that it has calculated as being the tax owing to the government. Bird and de Jantscher (1992) note, however, that in a study conducted in Australia it was found that Australians would rather file returns that would generate a refund rather than to have less tax initially withheld by the tax authorities, and in Canada many people were willing to file even though no tax may be withheld.

It would seem that the main purpose of the pre-population of returns is in order to reduce compliance and administrative costs related to a self-assessment system. It is unlikely that the pre-population of certain pieces of data on a return form would lessen the positive impact that a system of self-assessment would have on tax morale. This cannot necessarily be said where pre-population reaches the extremes seen in Singapore, as it takes a large degree of responsibility away from taxpayers and could result in some taxpayers seeing it as a signal that government does not have trust in them, which in turn could result in them losing trust in government. This would then decrease the positive impact on tax morale that the implementation of a self-assessment system has or potentially even result in tax morale

deteriorating, as the focus of the system has completely become the reduction of compliance and administrative costs, and not the improvement of tax morale.

In South Africa, section 1 of the Tax Administration Act states that self-assessment is where the taxpayer determines the amount of tax he or she is liable for under a tax Act and submits a return that includes how the amount is determined or, where no return is required, paying the amount to the tax administration. However, this does not mean that a system of self-assessment has been fully implemented, as certain taxes, such as VAT, are administered by means of self-assessment, while income tax is not. Furthermore SARS (2014) does pre-populate electronic and physical return forms with information that it has on hand. This information includes both personal information, as well as information received from a taxpayer's employer or pension fund, such as the salary or income that a taxpayer has received. There are, however, a number of sections that SARS does not pre-populate, such as those related to local business or trade and professional income, and the system does not go to the same extreme as the one seen in Singapore where the tax administration automatically deducts tax from taxpayers' bank accounts.

Thus, South Africa has partially implemented self-assessment as a part of its tax system and may already be benefiting from the positive impact that it has on tax morale, although there is room for improvement. In addition, the self-assessment system appears to have a good balance with regard to the use of pre-population. This is because most of the information that is pre-populated is unlikely to change from return form to return form and thus saves time for taxpayers and administrative costs for the tax administration, while at the same time taxpayers are likely to continue to perceive that the government is placing trust in them, as they are still required to fill in certain information in order to calculate their tax liability for the relevant assessment period. Their trust in the government is likely to grow, which in turn has a positive effect on tax morale.

3.5. Tax amnesties

A tax amnesty is a law or rule that is introduced by government that allows a taxpayer to disclose any income or assets that he or she had previously failed to disclose, whether purposely or otherwise (SARS, 2017). In exchange for disclosing this information the government usually agrees not to pursue criminal prosecution for the tax offence that arose as a result of any previous defaults that have now been disclosed or to impose an understatement

or administrative non-compliance penalty on the taxpayer. Thus, a tax amnesty results in the government being provided with an additional inflow of revenue as a result of the newly disclosed income or assets and provides taxpayers with the benefit of being free from legal action due to failing to disclose certain information in their tax returns (Business Dictionary: Online). A tax amnesty is usually established for a specified period during which taxpayers can make their disclosures and disclosures can often be made for several previous years of assessment to which the amnesty will still apply. Where the period for the tax amnesty ends and taxpayers have failed to take advantage of the tax amnesty and properly disclose their tax liabilities, if their evasion is discovered in the future the taxpayers are likely to face severe punishment (Business Dictionary: Online).

The study by Torgler and Schaltegger (2005b) found that a number of governments were increasingly making use of tax amnesties. There was, however, uncertainty as to why there was greater political interest in tax amnesties, as overall the revenue received from a tax amnesty did not form a large part of total tax revenue. Furthermore, and perhaps more importantly, Torgler and Schaltegger (2005b) make note of the potential impact that the introduction of a tax amnesty may have on tax compliance in the long-term. They believe that honest taxpayers who are compliant in regard to the payment of their taxes will be upset should a tax amnesty be introduced, as the majority of taxpayers are tax compliant and the options that an amnesty grants is only applicable to a small group of taxpayers who are not tax compliant. The majority of taxpayers may feel that there has been a violation of equity.

Torgler and Schaltegger (2005b) caution that a government should be careful in its use of a tax amnesty as it is possible that implementing an amnesty could result in lower levels of tax compliance and thus lower tax morale. They state that, in general, taxpayers do not like tax amnesties even when given the chance to discuss and vote on whether a tax amnesty should be granted. Taxpayers would still want to refuse to give tax evaders the option of being granted a tax amnesty. Torgler and Schaltegger (2005b) state that the granting of a tax amnesty serves as a signal to taxpayers that tax evasion is high, which results in the taxpayers having the perception that other taxpayers have been able to successfully evade taxes while they have had to pay them, and honest taxpayers do not wish to grant an amnesty as it acts as a reward of sorts for those who have successfully evaded taxation. According to the study by Leonard and Zeckhauser (1987) taxpayers may also see the introduction of a tax amnesty as a signal that tax evasion is an act that is forgivable by the government, which could also make them feel as though they had paid far more in the past than other taxpayers who were only

now paying their taxes as a result of the tax amnesty. Furthermore, Leonard and Zeckhauser (1987) also believe that the introduction of a tax amnesty may result in honest taxpayers not paying their taxes as these taxpayers will now anticipate the possibility of more tax amnesties occurring in the future, which they would be able to participate in as a result of their tax evasion. The study by Alm, McKee and Beck (1990) found that individuals who are able to participate in a tax amnesty will expect that a similar tax amnesty will occur in the future, even in situations where they are told that there will be no future tax amnesty. They also found that this is because, in the eyes of the taxpayers, the government loses credibility and evasion has now become forgivable and taxpayers in turn are incentivised to wait for the implementation of more tax amnesties rather than to be tax compliant.

Torgler and Schaltegger (2005b), however, state that a tax amnesty is also capable of having a positive effect on tax morale. This is because a tax amnesty provides a way for those who have evaded tax to return to being honest taxpayers, which is especially important in complex tax systems where it is difficult to make a correct declaration. Leonard and Zeckhauser (1987) note that some taxpayers have, in the past, only evaded taxation by mistake. Torgler and Schaltegger (2005b) thus believe that, given the opportunity to avoid penalties and legal actions, these individuals will be willing to disclose their tax evasion and become honest taxpayers, thus resulting in an increase in tax compliance. With regard to individuals who purposely evade taxation, Fisher, Goddeeris and Young (1989) found that those taxpayers who are heavily involved in the evasion of tax are unlikely to take advantage of a tax amnesty. This is both because these individuals have higher costs associated with participating in the amnesty than other taxpayers and they probably fear that the information they provide will be used by the government for the purpose of deterrence activities. Considering that those who are heavily invested in tax evasion are unlikely to participate in a tax amnesty and the negative effect a tax amnesty may have on honest taxpayers' tax compliance, it cannot be said for certain whether simply implementing a tax amnesty would result in an improvement or deterioration of tax morale.

The study by Torgler and Schaltegger (2005b) found that where certain measures are taken a tax amnesty is capable of having a positive effect on tax compliance. One of these measures is that taxpayers need to be allowed to vote on whether a tax amnesty should be implemented or not.

The study by Torgler and Schaltegger (2005b) found that increased enforcement efforts after a tax amnesty do not increase tax compliance, compared to where there is no change in enforcement efforts. This contradicts the findings of Alm *et al* (1990), which suggested that increased enforcement efforts after the period of a tax amnesty have a positive effect on tax morale. In addition to this, it was also found that implementation of a second tax amnesty after the first with the same measures does not result in the same improvement in tax compliance after the conclusion of the tax amnesty, rather the association became negative, but this was not found to be statistically significant. Torgler and Schaltegger (2005b) state that this is due to multiple amnesties causing individuals to begin anticipating future amnesties, thus incentivising them not to be tax compliant and that multiple amnesties result in erosion of the credibility of the government in the eyes of taxpayers.

A study conducted by Junpath (2014) on tax amnesties in South Africa assessed the effect multiple tax amnesties would have on the tax compliance of taxpayers. It was found that if multiple tax amnesties were offered in South Africa this would result in a negative effect on the compliance levels of both compliant and non-compliant taxpayers, which would eventually result in compliance levels deteriorating. The respondents in Junpath's (2014) study believed that multiple tax amnesties would result in an increase in the number of tax offences committed, with the majority believing that multiple tax amnesties would result in a negative effect on tax compliance. Furthermore, respondents to Junpath's (2014) study believed that taxpayers who were compliant would become non-compliant as the respondents saw tax amnesties as a reward to tax evaders, which is unfair to compliant taxpayers. Junpath (2014) also believed that the introduction of multiple tax amnesties would result in non-compliant taxpayers choosing to remain non-compliant and wait for the implementation of a future tax amnesty in order for their non-compliance to be pardoned without penalty.

Junpath's (2014) research found that the negative effect on tax morale was not the only reason why SARS should avoid making use of multiple tax amnesties. Although no information related to the revenue generated by tax amnesties was provided by SARS, Junpath (2014) came to the conclusion that the implementation of multiple tax amnesties would not result in additional revenue being generated. The reason was because non-compliant taxpayers would continue to be non-compliant in anticipation of additional tax amnesties being implemented in the future.

With regard to the use of tax amnesties in South Africa there is, at the time of writing, an ongoing tax amnesty programme. This tax amnesty is the Voluntary Disclosure Programme (the VDP) that came into effect from 1 October 2012 (SARS, 2017b). The VDP appears to be an ongoing programme with no set end date. According to SARS the aim of the VDP is to encourage taxpayers to voluntarily make a disclosure so that their tax affairs are regularised with SARS. In exchange for taking part in this programme taxpayers can avoid having understatement or other administrative penalties imposed on them by SARS. There are certain requirements that need to be met in order for a taxpayer to qualify for the tax amnesty provided by the VDP, such as requiring that the taxpayer's application must not involve a default that has previously been disclosed in the prior five years. It therefore seems as though it would be difficult for a taxpayer to attempt to make use of the VDP more than once. Considering that the studies by Torgler and Schaltegger (2005b) specifically referred to a decline in tax morale where the same tax amnesty occurs more than once resulting in the anticipation by taxpayers that it will be offered again, it does not seem that it can be said for certain that the VDP with no set end date would have either a positive or a negative effect on tax morale.

Another tax amnesty has also, at the time of writing, just ended in South Africa. This tax amnesty was the Special Voluntary Disclosure Programme (the SVDP) which, unlike the VDP, appears to have been a traditional tax amnesty as it had a set period for which it was active (SARS, 2017b). The period for which the tax amnesty was active was 1 October 2016 to 31 August 2017. The aim of the SVDP was to get taxpayers to disclose their offshore assets and income so that their tax affairs could be regularised with SARS. In exchange the taxpayers would receive a number of benefits, such as SARS agreeing not to pursue legal action against taxpayers who make a disclosure, no understatement penalties being levied and relief with regard to other administrative non-compliance penalties. A similar tax amnesty took place in South Africa in 2003; the aim of this tax amnesty was to have South Africans disclose offshore assets and income to SARS so that it could regularise their affairs with the information obtained. Brunton (2017) states that the tax amnesties conducted in 2003 and 2017 are fundamentally similar and that the differences between them are inconsequential. Considering that these two tax amnesties were conducted for the same purpose and that the study by Torgler and Schaltegger (2005b) warned that multiple tax amnesties could result in citizens potentially anticipating further tax amnesties, this means that the SVDP could have had a negative effect on tax compliance. It should be noted that Torgler and Schaltegger (2005b) state that the anticipation that more tax amnesties will occur in the future develops

where multiple tax amnesties are conducted within short intervals, which does not necessarily appear to be the case with regard to the SVDP, as it was implemented 14 years after the first tax amnesty that related to the disclosure of offshore assets and income. Nonetheless, it cannot be concluded with certainty that no negative effect will occur, as Torgler and Schaltegger (2005b) do not explain what length of time could be considered a short interval.

A number of other tax amnesties have occurred in South Africa's history, but not to the point that they were fundamentally identical. The first of these tax amnesties was the tax amnesty conducted in 1994, the purpose being to encourage individuals who were previously not required to pay taxes to come forward and register as taxpayers. Another tax amnesty was conducted in 1996, which provided relief in relation to penalties, interest, certain taxes and additional taxes. Finally, there was a tax amnesty in 2006, which focused on allowing small businesses to regularise their affairs with SARS (Junpath, 2014).

It is clear that SARS often makes use of tax amnesties, although the reason why a tax amnesty is implemented is not necessarily always the same. SARS does not give taxpayers an opportunity to vote on whether a tax amnesty should be implemented. SARS also does not provide an opportunity for taxpayers to discuss or provide comments on how they feel about the implementation of a new tax amnesty, which may serve as a signal that SARS does not believe their opinions on the matter are important.

SARS announces the implementation of future tax amnesties, as was the case with the SVDP, where the tax amnesty was announced during the annual budget speech in 2016 (Steyn, 2016). It has also spread information through the media in order to inform taxpayers of the tax amnesty that was implemented in 2006 (Junpath, 2014). The study by Junpath (2014) found that SARS also launched a number of awareness campaigns in conjunction with the tax amnesty that was implemented in 2006 in order to better assist taxpayers who wanted to regularise their tax affairs with them. This awareness campaign did not prove to be successful as Junpath (2014) found that many taxpayers had only been made aware of the on-going tax amnesty as a result of tax seminars held by their audit firms, which meant that it was unlikely that those taxpayers who did not make use of an audit firm or similar service provider would have been aware of the tax amnesty. Junpath (2014) also conducted a questionnaire in South Africa with regard to how well-informed respondents were of the tax amnesty in 2006 as a result of the awareness campaigns. It was found that the majority of respondents felt that the awareness campaign was not sufficient with regard to promoting tax compliance. Junpath

(2014) found that respondents felt that SARS needed to ensure there was both sufficient advertising in place to inform taxpayers about programmes such as tax amnesties and that it also needed to provide taxpayers with adequate workshops in order to educate taxpayers in matters relating to tax compliance.

Based on the research conducted by Torgler and Schaltegger (2005b) it would seem that the current method of implementation of tax amnesties that SARS has in place, one that lacks both voting and discussion, is unlikely to result in a positive effect on tax compliance and could potentially have had a negative effect in the past. It therefore appears that SARS would need to make a number of changes to its system with regard to tax amnesties if it wishes to improve the tax morale in South Africa. The first potential change would be not to implement multiple tax amnesties that address the same issue. It does not appear as though SARS introduces new tax amnesties at short intervals, with the only tax amnesty that addressed the same issue as a prior one having been implemented 14 years after the prior one. Currently SARS does not appear to make frequent use of similar tax amnesties (Junpath, 2014) or at short intervals Torgler and Schaltegger (2005b).

Allowing South African taxpayers to vote on a tax amnesty is not a measure that SARS could introduce, due to financial and logistical constraints. But a measure that could result in an improvement in tax morale that SARS could implement is a system that allows taxpayers to discuss a tax amnesty in road shows across the country (as has been done with proposed legislation in areas other than tax). This would also raise awareness of the proposed amnesty and it is recommended that this should be implemented. According to Torgler and Schaltegger (2005b) taxpayers will feel that they are trusted by SARS and are being given a chance to take part in discussing tax policy. Torgler and Schaltegger (2005b) do not mention any disadvantages that the implementation of such a system may have, although it is likely to result in increased costs for SARS to implement it and there may be circumstances in which SARS would have to deal with a tax amnesty meeting with a negative response by taxpayers. Furthermore, SARS should improve the awareness campaigns that it conducts, as in the past they proved to be insufficient with regard to informing citizens that there was an ongoing tax amnesty.

3.6. Participation in decision-making

As noted above, Torgler and Schaltegger (2005b) state that the reason why being allowed to vote on whether a tax amnesty should be implemented has a positive effect on tax compliance is because the voting procedure creates a sense of civic duty in taxpayers as it makes them more aware of the importance and benefits of paying their taxes. In addition to this, individuals also value the right to participate as, according to Torgler and Schaltegger (2005b: 408), "it produces a kind of procedural utility as the opportunity set increases." Torgler and Schaltegger (2005b) go further to explain that allowing taxpayers to vote also has an effect on the psychological contract between taxpayers and tax authorities as the more taxpayers are allowed to participate in the political decision-making process, the more the psychological contract is based on trust, which in turn results in an improvement in tax morale. That is why taxpayers are more inclined to pay their taxes where they are given a chance to vote on how their taxes will be spent. Where taxpayers are not allowed to participate, on the other hand, they are likely to feel powerless and less satisfied with the system, which in turn may lead to lower tax compliance, such as that seen where there is no voting prior to a tax amnesty. It can thus be seen that the measure Torgler and Schaltegger (2005b) discussed was one which directly influenced one of the determinants of tax morale, this determinant being the trust that taxpayers have in the tax administration.

The other measure that Torgler and Schaltegger (2005b) found is necessary so that a tax amnesty will have a positive effect on tax morale is to allow taxpayers to have a chance to have a discussion about the tax amnesty prior to voting. Torgler and Schaltegger (2005b) state that the reason why this measure is necessary is because the chance for discussion allows taxpayers to exchange arguments and get a better understanding of whether or not a tax amnesty should be implemented. Taxpayers also become more aware of their fellow taxpayers' preferences and the moral cost associated with free-riding increases, which in turn has a positive impact on tax compliance. Bohnet and Frey (1994) appear to support this as they believe that interactions in face-to-face situations result in taxpayers being able to identify what the preferences of their fellow taxpayers are, which could also serve to make them more willing to accept the results of the voting. Torgler and Schaltegger (2005b) state that as individuals become more involved with the voting process through discussion they begin to feel responsible for the result of the vote and this sense of responsibility will also make them more willing to accept the decision reached by the vote. Furthermore, Torgler and Schaltegger (2005b) found that the sense of civic duty that the opportunity to vote creates is also enhanced by the chance to discuss the vote as it allows taxpayers to become further aware of how important it is to contribute towards the public good.

The study by Torgler and Schaltegger (2005b) conducted experiments on both Costa Rica and Switzerland in order to determine how effective allowing taxpayers to discuss and vote on whether a tax amnesty should be implemented would truly be. It was found for both countries that the association between tax compliance and where there is voting with discussion was, in all cases, both positive and that it appeared to be statistically significant. On the other hand, where there was only voting without any sort of discussion there was only a positive association in Costa Rica. In Switzerland the lack of discussion even resulted in the association being negative rather than positive. Torgler and Schaltegger (2005b) thus stated that fostering public communication prior to voting for a tax amnesty is favourable with regard to improving tax compliance. Furthermore, the study found that the tax compliance behaviour after the voting period for the tax amnesty was different from the behaviour prior to when the vote had taken place, the change being that there had been a positive impact on tax compliance.

With regard to South Africa, SARS (2016) explains that the process of preparing legislation involves the changes to tax policy for a particular year being made in the annual budget speeches. SARS and National Treasury then draft the legislation, the first of the process being the drafting of discussion papers (SARS, 2016). These discussion papers are circulated to allow for the public to comment on them before the drafting process itself begins. A set of draft documents are then circulated for a period of at least one week in order to allow for further comments from the public (SARS, 2016). A set of response documents is then usually issued after the various comments have been considered by the Standing Committee on Finance; however, it is also possible that these documents will be issued before the comments process has occurred (SARS, 2016). The final step involves the Bill itself, and any relevant Explanatory Memoranda, being drafted and tabled by the Minister of Finance in the National Assembly and, once they are approved by both the Standing Committee on Finance and the Select Committee on Finance, it is sent to the President for assent before being promulgated as an Act (SARS, 2016). Thus, with regard to allowing taxpayers to participate in decision-making in South Africa it can be observed that taxpayers have the opportunity to discuss and make their views known in regard to new tax legislation, but no form of voting whether or not the legislation should be implemented occurs. It would be impracticable to have a voting process for every legislative change, but SARS could investigate ways in which to create greater awareness of the process of commenting on proposed legislative changes and also encourage greater participation by the public in regard to legislative changes or tax policies,

such as tax amnesties. The country-wide road shows recommended with regard to proposed tax amnesties should also be considered by SARS for proposed tax changes. This would provide people with a better understanding of any future tax changes and potentially encourage them to hold a discussion amongst themselves about these changes.

3.7. Improved treatment of taxpayers

The study by Torgler and Schaltegger (2005) identified that the respectful treatment of taxpayers results in an increase in the trust that taxpayers have in government, one of the determinants of tax morale. The study by Bird and de Jantscher (1992) also states that the way a taxpayer is treated is important to ensure voluntary compliance. Bird and de Jantscher (1992) suggest that taxpayers should be treated as though they are clients of the tax administration, rather than as potential evaders. With regard to the actions a tax administration should take in order to treat taxpayers with respect and thus improve tax compliance, Bird and de Jantscher (1992) state that one of the ways that tax administrations can treat taxpayers with more respect is to improve the service that is provided to taxpayers, as well as third-party agents, such as by providing them with easy to understand forms, clear instructions of what they need to do on their part and assistance where it is necessary. This strategy is supported by Frey (2003) who states that respectful treatment of taxpayers involves there being transparency in regard to the procedures that the tax authorities have implemented. Frey (2003) further states that where a tax administration wishes to treat their taxpayers with respect it is necessary that the procedures it has in place are clearly and openly communicated to its taxpayers and that any decisions taken by the government and tax officials can be easily comprehended by taxpayers.

It is also necessary that compliance is monitored by the tax administration and Bird and de Jantscher (1992) state this should be done by making use of management information systems to monitor both taxpayers as well as other third-party agents who are involved in the tax system, such as banks, as well as the maintenance of the accounts of current taxpayers. According to Bird and de Jantscher (1992), in addition to these two measures, in order to improve tax compliance amongst taxpayers, measures aimed at detecting non-compliance and making effective use of penalties should also be implemented. Torgler and Schaltegger (2005) support the use of deterrence as this is necessary against taxpayers who are dishonest, in order

to ensure that those taxpayers who are honest are not exploited and end up feeling as though other taxpayers are effectively avoiding paying their taxes while they have to pay. This means that in order to ensure there is an improvement in tax compliance it is necessary to balance the respectful treatment of taxpayers and the use of measures aimed at reducing tax evasion (Torgler and Schaltegger, 2005).

The study by Torgler and Schaltegger (2005) claims that another factor important to treating taxpayers with respect is how taxpayers are treated personally by the members of government, especially tax officials. Torgler and Schaltegger (2005) found that tax compliance declined where taxpayers were treated as being inferior and with suspicion as if the tax administration was assuming in advance that they were tax evaders, while tax compliance would rise when taxpayers felt as though they were being treated as equals in the psychological contract present between themselves and the tax administration.

The effect that the respectful treatment of taxpayers has on tax morale can be seen in the study by Feld and Frey (2002), which found that the more respectful treatment of taxpayers resulted in a higher tax compliance. Furthermore Feld and Frey (2002) also found that tax evasion was lowest in cases where tax administrations did not treat minor mistakes that occurred in tax declarations as a delinquency, but crimes such as tax fraud continued to be punished severely. The study by Torgler (2004) on Asian countries appears to support Feld and Frey's findings as it obtained similar results with regard to the treatment of taxpayers for one of the countries that was part of the study, Japan. Torgler (2004) found that, in Japan, where taxpayers made errors that were clearly mistakes rather than an intentional attempt to evade taxation, these taxpayers are informed and the result of the examination explained to them so that they could understand the errors that they made and how to avoid them in the future. Torgler (2004) concluded that the use of such procedures indicates that the tax administration of Japan is attempting to be fair to its taxpayers and this in turn results in taxpayers' view the institution, as well as its procedures, as being fair and efficient, which in turn results in a positive effect on tax morale.

The study by Vythelingum, Soondram and Jugurnath (2017) conducted an assessment of the tax morale of taxpayers in Mauritius. With regard to the respectful treatment of taxpayers, the study found that this was one of the motivational factors that encouraged taxpayers to be tax compliant and that when respondents were asked whether they would voluntarily pay their taxes, the response was that they would if the tax authorities treated them with more respect.

Similarly, the study by Akan and Odita (2013) on Nigeria also found that respectful treatment of taxpayers enhanced the impression of fairness that taxpayers had of the system and that this resulted in an improvement in tax morale.

Therefore, it appears that the tax administration of a country can influence the tax morale of taxpayers by the manner in which it, and its officials, treat taxpayers on a personal level. With regard to South Africa, the study by Cummings *et al* (2006) notes that SARS often makes use of high profile cases related to tax in order to reinforce its image of being tough on enforcing laws. The study also revealed that the respect that citizens had at the time for the state was low compared to Botswana. This does not necessarily mean that SARS does not treat its taxpayers with respect, but there is nothing to indicate that they do. It appears that a potential strategy that SARS could adopt to improve tax morale is to focus on ensuring that its officials treat taxpayers in a respectful manner that emphasises that taxpayers are not considered to be inferior, but as equals in a psychological contract.

3.8. Marketing

The study by Saeed and Shah (2011) suggests that marketing tactics can be used to improve tax morale in a country. They state that the purpose of marketing is to create exchange as well as customer satisfaction and that the “Ps” used in marketing, that is product, price, place and promotion, can be partially adopted with regard to the collection of taxes.

A marketing tactic that Saeed and Shah (2011) discuss is one that seeks to show to consumers that the money that they use to pay for taxes is well spent. Saeed and Shah (2011) explain that where consumers pay higher prices for certain services or products they will naturally expect that the product or service is of a higher quality. This logic can be applied to taxes and where taxpayers are required to pay high taxes then they in turn, will expect that the services and products provided will be of an equally high quality. With regard to taxes, the product in question which taxpayers will be judging is government services.

Bird, Martinez-Vazquez and Torgler (2006) explain that in order to market a tax system it is necessary that both current and potential taxpayers are made to believe that the government services provided as a result of the payment of tax are considered by the taxpayers to be well worth the money that they had to pay to obtain them. Saeed and Shah (2011) add that taxpayers need to feel confident that the money they pay in the form of tax is being used for

their benefit and they need to know exactly how they are benefitting by paying taxes. This is why it is necessary that the government explicitly shows the public that the money they use to pay taxes is used for the purposes of various valuable public goods. Thus, Saeed and Shah (2011) recommend that signboards be erected near ongoing public works, such as road construction works, with the message on these boards clearly indicating that taxpayers' money is being used to fund the ongoing project, with slogans such as "tax money at work." Saeed and Shah (2011) explain that by adopting such measures the tax administration conveys a clear message to taxpayers, this message being that the money that has been collected from them in taxes is now being used for the purpose of bettering their welfare.

Another marketing strategy that Saeed and Shah (2011) suggest could be used to improve the tax morale in a country is one that focuses on the improvement of the image of the government. Saeed and Shah (2011) explain that such a strategy has merit as, when taxpayers believe that their tax money is not used in utility-maximising ways, they consider contributions that they make by way of taxes as though they are penalising themselves and they will be less willing to pay their due share of taxes. Saeed and Shah (2011) state that people are not willing to pay their taxes when they are aware that the money that they pay over to government will subsequently be wasted on either undesirable projects or used in order to provide benefits to corrupt government officials, rather than the people. Torgler and Schneider (2009) appear to agree with this, as they argue that taxpayers will feel cheated when they learn that their hard-earned money is not being used productively, that corruption is rampant in government, that there is a lack of accountability in government and that they are not being protected, which all serves as justification on their part as to why they should evade payment of their taxes. Saeed and Shah (2011) found that a number of studies point to tax morale decreasing as more grievances occur and these grievances take on a number of forms, such as corruption, meaningless politics and where various departments of government are run in inefficient ways.

Saeed and Shah (2011) conclude therefore that it is necessary that elected governments both carefully create and promote their agenda about removing corruption from government. The study by Levi (1989) appears to support this strategy as he states that governments are capable of increasing the possibility of both creating and promoting compliance amongst its citizens by providing them with some form of reassurance. Saeed and Shah (2011) explain that the creation of such pre-commitments together with the democratic rules that accompany them, results in a set of restraints being imposed upon the power of government, which in turn

serves as a signal to taxpayers that they are considered by government to be responsible citizens.

Saaed and Shah (2011) found that the negative effect that occurs as a result of either inefficiency in sectors of government in the provision of subsidies to poorly-managed corporations that are run by the government is fairly similar to that which is seen where corruption occurs. In regard to dealing with this issue, Saaed and Shah (2011) do not suggest some form of marketing tactics, but rather they found that there was evidence to indicate that the privatisation of such companies tended to result in increases in both profitability and efficiency of the organisations that were not a part of the public sector, the reason being that where the survival of the organisation is at stake and there is no government funding in place for the organisation to rely on then organisations are more likely to work efficiently. Therefore, the benefit of privatising companies previously owned by the government is likely to result in an improvement in tax morale. Another benefit also arises in that government is now able to save taxpayers' money and potentially apply it to other areas that could result in improvements to tax morale as well (Saaed and Shah, 2011).

According to Saaed and Shah (2011) another approach that the government can adopt in order to use marketing to improve tax morale is to make use of fear as an appeal to taxpayers to be tax compliant. Such a marketing strategy would require that the system currently in place respects taxpayers who pay their taxes while subjecting those who do not pay their taxes to heavy penalties. According to the study by Feld and Frey (2002) such a system can be seen in Switzerland, with authorities not being highly suspicious when taxpayers report a low income, but in cases where fraud is found, or tax declarations are not submitted then heavy penalties are imposed on the perpetrators.

Though the appeals to fear appear to have been effective in improving tax morale in Switzerland, Saaed and Shah (2011) nonetheless caution that such appeals need to be used carefully in marketing in order to effectively market the tax system and achieve the desired effect. The study by Tanner, Hunt and Eppright (1991) appears to agree as they argued that appealing to fear through marketing needs to be carefully balanced, as effective use of such an appeal requires reducing the fear that taxpayers may have, whilst at the same time retaining the same element of danger should a taxpayer fail to be tax compliant. The study also points to four factors that should be considered when designing marketing that specifically targets fear, these being: self-efficacy (better known as confidence), severity of threat, coping

response efficacy (belief as to whether an action one takes will actually be effective) and probability of occurrence.

The study by Williams, Preusser, Blomberg and Lund (1987) observed the effect of the use of marketing by the police department to encourage individuals to make use of seatbelts, which indicates how similar marketing would work in improving tax morale. In the study it was found that when the marketing appealed to citizens to use their seatbelts and this marketing was backed up by warnings and penalties such as fines, the results were far better than when the marketing solely relied on appealing to citizens to make use of their seat belts. Saaed and Shah (2011) state that, as the tax authorities have the ability to penalise, they would also be able to make effective use of marketing as it would be backed up by penalties. Saaed and Shah (2011) also cite another example of where penalties coupled with appeals to fear are utilised in order to ensure tax compliance in Pakistan, where the state makes use of advertising in order to aggressively threaten its taxpayers to ensure that they pay their vehicle and property taxes, the threat in question often being that either their property or their vehicles would be taken away and auctioned off should they fail to pay their taxes in time.

It would appear that the tax administration in South Africa has made use advertising that appeals to fear, as the study by Cummings *et al* (2006) noted that in South Africa tax evasion is treated as a serious crime and that SARS often exploits high profile cases, such as a newspaper story reporting that an influential individual was sentenced to a jail term for tax evasion, in order to reinforce the reputation that it has for being tough when it comes to enforcing tax law. A more recent example of an appeal to fear by SARS (2017c), at the time of writing, can be seen on SARS' Facebook page where a large image of a pair of handcuffs is shown at the top of the page, the first thing one sees upon opening the webpage, and a caption next to the handcuffs warns how the reader should disclose all their offshore assets before 31 August as otherwise they might end up wearing the handcuffs, that is, they will be sent to jail.

The study by Cotte, Coulter and Moore (2005) looked at the use of different subjects on which advertising can be based and found that advertising that makes use of an appeal that targets the guilt a taxpayer may feel, can also result in taxpayers forming a positive opinion with regard to either a product or service. Saaed and Shah (2011) state that the use of a guilt appeal in connection with taxation would attempt to make taxpayers feel guilty for not participating in the development of their country, which in turn could result in them adopting a more positive attitude with regard to the payment of tax.

With regard to the use of advertising for taxation as a whole, however, Saaed and Shah (2011) state that the use of advertising in order to increase tax revenue differs from other products that are advertised, as in this case the product is an idea. Furthermore, there are a number of different types of taxpayers, such as manufacturers, land and property owners, business owners and those taxpayers who fall into the salaried class, and it is necessary to devise different advertising methods for these different types of taxpayers. According to Saaed and Shah (2011), in some cases the use of opinion leaders to properly educate taxpayers about the benefits that arise should they pay their taxes and what duties they have as citizens of a country, could result in advertising improving tax revenue, while in other cases motivating taxpayers using fear in the advertising material could result in the collection of taxes becoming easier and more practical. Furthermore, Saaed and Shah (2011) identify another factor that must be managed to ensure that the use of advertising is both effective and manageable, this factor being that there must be a level of consistency present in the product that is being advertised and its related services. Saaed and Shah (2011) explained that one of the reasons why it is difficult to implement marketing to encourage the payment of taxes in the United States of America is due to tax policy in the country being under constant change, which results in it being difficult and challenging to effectively formulate an advertising and communication policy.

Another factor that Saaed and Shah (2011) identify as being important with regard to the use of advertising for the purpose of improving tax morale is that a proper media plan is required in order to effectively provide information to taxpayers. They state that even should the advertising end up being creative this will not matter if it is not communicated to taxpayers through the proper form of media, resulting in the intended message not being delivered to taxpayers. Saaed and Shah (2011) identify various forms of media that can be used for advertising, which include television, door-to-door sales, telemarketing, the use of text messages and e-mails and that the type of media used should be based on the demographic profile of the audience that it wants to reach. The way that one would want to reach an industrialist with advertising would differ from salary-paid office workers, due to different taxpayers having different media habits. Saaed and Shah (2011) further state that it is necessary that a good relationship be built between the media and the government as this plays a vital role in ensuring success for marketing. The study by Khodarahmi (2009) also states that establishing proper relationships with reporters and journalists would aid in creating a positive image for the organisation, in this case the government.

The benefits of using marketing to improve tax morale can be seen in the study by Torgler (2004) on Asian countries, specifically Japan. In Japan the tax administration makes extensive use of various forms of media, such as radio, television, newspapers and the internet in order to provide taxpayers with tax information. Although it is clear that this is mainly related to educating taxpayers, this is nonetheless done by making use of techniques that have been described above as marketing tactics.

Another study that looked at the use of marketing strategies to improve tax morale in a country was done by Saeed and Jan (2017) in Pakistan. The study found that all of the respondents felt that tax morale was dependent on the services provided by the government and that these services did not only relate to those provided by the tax administration, but also various other government institutions as well, which would mean that where citizens saw the government services as operating efficiently and to their benefit they in turn would be tax compliant. Furthermore, it was also found in the study by Saeed and Jan (2017) that the marketing strategies that were being utilised in Pakistan focused on delivering a threatening message to ensure that taxpayers were tax compliant. The majority of respondents in the study, however, recommended that a more benefit-oriented form of advertising, such as showing taxpayers who owned businesses the developmental projects that would result in their businesses benefiting, would result in them being more tax compliant. The study by Saeed and Jan (2017) also noted that although the tax administration in Pakistan makes use of some marketing strategies, it is not as effective as those seen in the private sector and thus it was suggested that a marketing department be established that focuses on the two most important factors related to marketing that improve tax morale identified in the study, these being customer orientation and customer satisfaction. Another issue that the study by Saeed and Jan (2017) identified, though it does not necessarily relate to a marketing strategy, is that respondents in the study cited tax evasion by taxpayers to be one of the largest de-motivating factors with regard to being tax compliant, with it even being explained that if political leaders do not set the example of paying taxes then how can they ask taxpayers to pay their own share of taxes? It is thus clear that tax evasion, and in turn other forms of corruption, would result in marketing strategies undertaken by the tax administration being less effective than they could be.

In South Africa, SARS (2016b) has made use of various forms of advertising in order to encourage people to be tax compliant. One of these advertising campaigns is the "touching

lives" campaign that seeks to inform taxpayers how their money is improving the lives of ordinary citizens and how these citizens are able to succeed precisely because people are paying their taxes. This campaign not only helps citizens to understand what their tax money is used for, but it also serves as an appeal to their conscience as taxpayers who do not pay their taxes may feel guilty for not contributing their fair share after learning how it changes other people's lives. Another campaign that SARS (2016b) used is the "everyone can be good at tax" campaign that focuses on teaching taxpayers how to make use of SARS eFiling using an assortment of tutorial videos. Such a campaign would focus on improving tax compliance by helping taxpayers to better understand how the SARS eFiling system works. Both campaigns, however, at time of writing, appear to have ended and it does not appear as though SARS has implemented any new campaigns to replace these, in order to improve tax morale.

It would therefore appear that with regard to the use of marketing tactics in South Africa, the tax administration should consider implementing advertising campaigns once again to encourage taxpayers to be tax compliant. The tax administration should also consider using other marketing strategies, possibly creating a department that is solely focused on implementing effective marketing strategies so that they may have an effect similar to those seen in the private sector. Furthermore, if the tax administration in South Africa wishes to make their current forms of marketing more effective, it appears that they should change, or at least decrease, their current use of threatening messages in their marketing, towards one which focuses more on providing taxpayers with an understanding of how paying taxes is beneficial for them.

It is submitted that certain advertising messages would be extremely difficult to put across in South Africa at present, given the constant stream of "bad press" concerning the government. This includes "state capture" reports, allegations of corruption in all spheres of government, reports of fruitless and wasteful expenditure and qualified audit reports for local government. Any attempt to use advertising to persuade the public that tax money is being used wisely, effectively and equitable by the government is likely to be met with extreme scepticism.

3.9. Rewards

The study by Feld, Frey and Torgler (2006) suggests that rather than making use of punishment to influence taxpayers into being tax compliant, tax administrations should instead consider providing honest taxpayers with rewards as a benefit for being tax compliant.

Feld *et al* (2006) state that rewards may even prove to be more effective at encouraging taxpayers to be tax compliant than the use of penalties and other punishment mechanisms, as rewards are perceived as being supportive of a specific type of behaviour.

Why the use of rewards may prove to be more effective than punishment is due, according to studies, to rewards and punishments being processed differently by individuals, which results in each having a different impact on an individual's behaviour (Gray, 1981). Feld *et al* (2006) explain that the theory of *crowding out* and *crowding in* effects could also explain why rewards can have a positive effect on tax compliance. Feld *et al* (2006: 6) state that "the theory suggests that outside interventions perceived to be controlling, such as deterrence, tend to crowd-out intrinsic motivation. On the other hand, actions perceived to be supporting tend to crowd-in intrinsic motivation." Feld and Frey (2002) state that punishments imposed on "good" taxpayers are likely to be considered by taxpayers as controlling, especially in situations where the punishment does not necessarily fully apply to the taxpayer. Feld and Frey (2002) found that where taxpayers are mistakenly accused of having evaded tax, it is likely that they will perceive the intervention by the tax administration to be controlling, which will result in intrinsic motivation being "crowded-out", which in turn will result in a decrease in tax morale. Feld *et al* (2006), however, explain that such "crowding-out" of tax morale is not expected to occur where honest taxpayers are of the belief that the stricter policy is being specifically directed towards those taxpayers who are dishonest. Such policies would focus on ensuring fairness and equity, which in turn results in the preservation of tax morale. Feld *et al* (2006) state that this effect is in contrast to the one that is expected from the use of rewards, as they state that the receipt of certain rewards will result in taxpayers perceiving it to be a form of support, which in turn will result in tax morale being bolstered.

A study that appears to support the positive influence of rewards is that of Falkinger and Walther (1991), which analysed whether cash rewards could be used as an incentive for taxpayers to be tax compliant. The study found that a system that utilized both penalties and rewards resulted in taxpayers feeling as though they were treated far more fairly than one that only used penalties, which in turn appeared to result in them being more tax compliant.

The study by Alm, Jackson and McKee (1992) supports the positive impact that the introduction of rewards has on tax compliance. The study made use of a variety of experiments in order to determine which types of rewards had the most effect on tax compliance. One of these experiments involved subjects being allowed to enter into a lottery,

but only when a subject had been tax compliant in the current and previous four rounds of the experiment. The prize from the lottery was the equivalent of the earnings a subject made over the entire session of the experiment (the earnings in the experiment were tokens that subjects received during the session and subjects would receive, on average, 50 tokens per session). The second experiment was one in which subjects who were tax compliant over the entire session were rewarded with two tokens (the average number of tokens earned in a session was 50). The third was one in which, rather than the reward being tokens, the reward for being tax compliant was a reduction in the probability of a tax compliant taxpayer being audited in the future. Alm *et al* (1992) found that in regard to all of the experiments, the use of rewards resulted in a positive effect on tax morale, but it was noted that, although the lottery experiment and the experiment that gave subjects two tokens for being tax compliant had the same expected value, the experiment that made use of the lottery had a greater effect on tax morale.

The study by Torgler (2003) conducted in Costa Rica looked at what effect certain factors, such as rewards and moral suasion, had on tax compliance, whilst holding certain other traditional factors constant. The experiment relating to rewards involved subjects being audited and where a subject was found to have been fully tax compliant they would receive a monetary reward. The study found that the highest compliance rate was found in the experiment involving the use of rewards, followed by the experiment involving moral suasion and finally one involving fiscal exchange (in exchange for paying taxes, taxpayers expect public goods and services that meet their standard/preferences). Torgler (2003) thus concluded that the more government provides taxpayers with public services that match their preferences in exchange for an adequate tax price, in addition to rewarding taxpayers for their honesty, the more likely it will be that taxpayers will be tax compliant. The study by Torgler (2003) therefore appears to support the study by Feld *et al* (2006), which claims that the introduction of rewards can serve as an effective instrument for the improvement of tax morale.

The study by Feld *et al* (2006) identified a number of cases, rather than experiments, in which rewards were being actively used to improve tax morale in a country. Feld *et al* (2006) found that Japan offered taxpayers an opportunity to have their photo taken with the Emperor where it was found that the taxpayer was tax compliant. They also found that the Philippines made use of a lottery system similar to the one used in the experiment in the study by Alm *et al* (1992), where taxpayers who were found to be tax compliant with regard to VAT had their

names entered into a lottery and were given a chance to win a prize. Finally, Feld *et al* (2006) found that in South Korea taxpayers who were tax compliant were rewarded with admission to airport VIP rooms, as well as awards or certificates and possibly being granted free parking at certain public parking facilities.

In South Africa it does not appear that the tax authority has implemented any form of reward for taxpayers who have been tax compliant (SARS, 2013). Considering that a number of studies have indicated that there has been a positive impact on tax morale whenever some form of reward has been offered to honest taxpayers and that this positive impact was also seen in a number of countries that made use of rewards to improve tax morale, it would seem that SARS should look into the possibility of implementing rewards to improve tax morale in South Africa. These rewards need not necessarily be in the form of a monetary reward, but some form of acknowledgement for being tax compliant could be effective.

3.10. Conclusion

This chapter has provided an overview of various strategies that could potentially be used in order to improve the tax morale of the citizens of a country. These strategies were identified from the literature available and a number of these strategies have been tested in various countries, either through actual implementation by the governments of those countries or by way of experiments conducted by various researchers, thus giving credence to their effectiveness in improving tax morale. Table 2 below summarises the various strategies, where these strategies have been tested or implemented, whether the strategy has already been implemented in South Africa and, in some cases, how effective it has it been.

Table 2: Strategies to improve tax morale

Strategy	Country in which it was either tested or applied	Does it seem viable to implement the strategy in South Africa or is it already in use?	If it is being used in South Africa is it proving to be effective?
General tax reforms	Australia, Spain, various countries in Latin America	As South Africa's tax system has already been substantially modernised, the strategy of modernising the tax system is unlikely to have a further positive effect on tax morale.	-

Simplification of the tax system	Developing countries	South Africa has simplified some aspects of the tax system.	There has not been a large degree of simplification, but what has occurred, such as the pre-population of tax forms, has proven to be effective.
Self-assessment	Australia, Japan, Canada, Singapore	Self-assessment has been partially implemented in South Africa.	The use of self-assessment to inspire trust in taxpayers is proving to be effective in South Africa. There are some areas of the tax system that are still capable of being converted into a system of self-assessment.
Tax amnesties	Costa Rica, Switzerland	South Africa does make use of tax amnesties.	The effectiveness of amnesties conducted in South Africa has been mixed. Although the previous amnesties were considered a success, there have been cases where taxpayers were unaware that there was an amnesty, even when SARS conducted a campaign to inform taxpayers. It therefore seems that some improvements can be made to tax amnesties conducted by SARS.
Participation in decision-making	Costa Rica, Switzerland	A form of discussion in regard to new tax policies is available in South Africa.	Studies have shown that discussion combined with the power to vote have positive effects on tax morale; however, in South Africa taxpayers are only able to discuss, but not vote on new legislation. Creating greater awareness and encouraging participation in the discussion process may result in a positive

			effect on tax morale.
Improved treatment of taxpayers	Japan, Nigeria, Mauritius	It does not appear that SARS has made an attempt to improve the manner in which its officials treat taxpayers.	-
Marketing	Switzerland, Pakistan	South Africa has made use of advertising in order to improve tax morale in the past.	No data are available that indicate whether the marketing campaigns SARS made use of were effective. Considering that past marketing campaigns have ended with no replacement, it does not appear as though it was that effective.
Rewards	Japan, Costa Rica, Philippines, South Korea	South Africa does not give rewards for tax compliance.	-

(Author's design)

It would appear that SARS has already implemented a number of strategies aimed at improving tax morale. A number of these strategies do not appear to have been implemented in a manner that results in them being as effective as they could be, such as the use of tax amnesties and the various forms of marketing it has implemented. Furthermore, there are still a number of strategies that it has not utilised, which gives SARS a number of options should it wish to improve the tax morale of South African citizens.

One of these strategies that SARS has yet to implement is improving the manner in which taxpayers are treated by SARS and its personnel. It is recommended that SARS should investigate how it could implement this strategy as it focuses on improving one of the determinants of tax morale, the trust that taxpayers have in the tax administration, and by extension the government. This is something that SARS should want to focus on as in recent years the trust that taxpayers have in SARS and the government has declined and so strategies focused on regaining this trust are likely to have a positive effect on tax morale.

CHAPTER FOUR: CONCLUSION

The goal of this thesis was to identify the various determinants of tax morale and how they appear to have affected South Africa's tax morale over the years. A further goal of this research was to identify policies, those discussed in literature as well as those implemented in various countries, which could potentially be implemented in South Africa in order to improve its tax morale.

4.1. Research findings

In order to identify the determinants of tax morale, Chapter Two reviewed the literature to determine the factors that authors have identified as having an influence on tax morale. It was found that the various determinants could be split into four categories, these being demographic factors, economic factors, social factors and government-related factors. Determinants that fell under demographic factors, such as age or gender, could not be directly influenced by an intervention of SARS and neither could the determinants that make up economic factors, such as the economic situation and employment status of its citizens. A number of factors that fell under social factors could not be directly influenced either, however a number of factors could be influenced, such as the trust that individuals have in the government. Of the two government-related factors that were identified only one, tax structure, could be directly influenced by a tax administration.

With regard to South Africa, it was found that a number of potential determinants of tax morale had improved in recent years, such as the overall population growing older or a greater number of individuals being in support of democracy. However, it was also found that a number of determinants had also deteriorated, such as the improvement in the economic situation of individuals, which could encourage them to evade taxation, and the decline in the trust that individuals have in government. It would appear that the overall effect of this is that the tax morale in South Africa has deteriorated since 2001, although it cannot be said by how much it has deteriorated.

Chapter Three then discussed possible strategies that could be used in order to improve the tax morale in a country. The strategies were identified from the literature that was available and a number of these strategies had also been utilised by various countries. The potential strategies that could be adopted in order to improve tax morale include general tax reforms,

implementing a system of self-assessment, the use of tax amnesties, involving the public in discussing tax reforms, including amnesties, the use of marketing, introducing rewards in order to incentivise taxpayers to be tax compliant, simplifying the tax system and improving the manner in which taxpayers are treated by the tax administration and its officials.

With regard to South Africa it was found that the implementation of general tax reforms was unnecessary, as this strategy has already been applied in order to modernise the country's tax system. South Africa already has a modern tax system. Furthermore, it was also found that a number of the strategies that had been identified had already been implemented by SARS in order to improve tax morale. These strategies included the implementation of self-assessment (It was however not completely implemented as some taxes are not self-assessed), simplification of the tax system, tax amnesties, involvement of citizens in tax decision-making and the use of marketing in order to encourage tax compliance. However, with regard to both the implementation of tax amnesties and marketing it was found that they did not appear to be as effective as expected, which could possibly be a result of poor implementation on the part of SARS.

A number of strategies were also identified that could still be implemented by SARS in order to improve tax morale. These strategies were the use of rewards and improving the manner in which taxpayers are treated by SARS and its officials. SARS should therefore investigate whether either of these two strategies could be implemented if they wish to improve tax morale. This is especially so with regard to the strategy related to the treatment of taxpayers, as this strategy focuses on improving the trust that taxpayers have in the tax administration, which is one of the determinants of tax morale that have declined over the years in South Africa.

4.2. Potential future research opportunities

A potential research opportunity for the future could therefore be researching and assessing how these two potential strategies to improve tax morale could be implemented in South Africa and how effective these two strategies could potentially be in improving South Africa's tax morale. Another research opportunity could be an investigation into why a number of strategies that SARS has implemented have proven not to be as effective as expected and what SARS could potentially do in order to remedy this.

4.3. Conclusion

Therefore, in conclusion, it appears that South Africa's tax morale has deteriorated in recent years, mainly owing to factors that are directly influenced by the actions of government and the tax administration. SARS has, however, attempted to implement strategies in order to improve South Africa's tax morale, but the results have so far been mixed with some strategies potentially being implemented inefficiently. Should SARS wish to continue to attempt to improve South Africa's tax morale they still have a number of strategies they could attempt to implement as well as the opportunity to improve the strategies that they have already implemented. It is submitted that the greatest threat to taxpayer morale in South Africa is the constant stream of media reports about government corruption and inefficiency, including “state capture”, adverse audit reports for semi-state organisations and local government and fruitless and wasteful expenditure at all levels of government. Until taxpayers are convinced that their tax payments are being spent wisely, effectively and efficiently, taxpayer morale in South Africa cannot improve and is likely to deteriorate.

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