


**Mphagahlele O. Ndlovu**  <https://orcid.org/0000-0003-4850-8834>

University of South Africa, South Africa, [ndlovmo@unisa.ac.za](mailto:ndlovmo@unisa.ac.za)

**Daniel P. Schutte**  <https://orcid.org/0000-0001-7283-247X>

North-West University, South Africa, [danie.schutte@nwu.ac.za](mailto:danie.schutte@nwu.ac.za)

# An Evaluation of Tax Knowledge Among Small Business Owners in Gauteng, South Africa

## Abstract:

The levels of tax knowledge influence the tax compliance behaviour of small business owners (SBOs). In turn, tax compliance has a direct impact on the growth and sustainability of small businesses and by default has an unequivocal effect on the country's sustainable development, employment creation, as well as the alleviation of poverty and inequality. The objective of this study is threefold: Firstly, to examine the levels of tax knowledge among South African SBOs; secondly, to explore the underlying reasons for any observed deficiencies in tax knowledge; and thirdly, to offer recommendations for enhancing tax knowledge among SBOs. Semi-structured interviews were utilised to obtain information from 25 SBOs and 22 tax practitioners in the Gauteng Province

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of South Africa. The study found that SBOs lack basic tax knowledge to be able to be compliant all by themselves. SBOs outsource tax compliance, leading to a lack of interest in understanding tax laws, which results in low tax knowledge. SARS's unfriendly approach and perceived complexity of the tax system further decreases SBOs willingness to learn. SBOs lack awareness of educational opportunities, which consequently worsens their tax knowledge levels.

**Keywords:** tax knowledge, small business, SME tax compliance, sustainable goals, unemployment

**JEL:** H20, H25, H71

## 1. Introduction

The United Nations Member States adopted the 2030 Agenda for Sustainable Development, which outlines the blueprint for peace and prosperity for people and the planet (United Nations, 2015). The Sustainable Development Goals 1, 8 and 10 call for an end to poverty in all its forms everywhere; the need to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all; and the requirement to reduce inequality within and among countries, respectively (United Nations, 2015).

Many countries, including South Africa, utilise taxation to alleviate the challenges associated with poverty and inequality (SARS, 2023). The living conditions survey undertaken in 2014/15 reported that approximately 17.3 million adults (49.2% of the adult population) in South Africa lived below the upper-bound poverty line (Statistics South Africa, 2019). The upper-bound poverty line represents the sum of the average amount of the food poverty line and the amount spent on non-food items by households whose food expenditure is equal to the food poverty line (Statistics South Africa, 2023). To counter the effects of poverty, approximately R374 billion of the government revenue budget was earmarked for social protection during the 2023/24 period (National Treasury, 2024). In this regard, taxation revenue enables the government to provide much-needed relief to millions of South Africans and businesses (SARS, 2023).

Furthermore, South Africa is facing high levels of unemployment, as well as low economic growth. The official South African unemployment rate is currently 32.1% (Statistics South Africa, 2024a), while the economy grew by 0.6% in 2023 (Statistics South Africa, 2024b). Therefore, South Africa, with its challenges of high poverty, unemployment, and inequality, as well as low economic growth, requires an intense focus on entrepreneurship. This is because entrepreneurship is regarded as a key driver of economic growth as it contributes meaningfully to job creation, innovations, and the stimulation of competition and competitiveness (Stoica, Roman, Rusu, 2020). Entrepreneurs, through their small businesses, are instrumental in bringing the balance needed in the consumer market by adapting quickly to changes in consumer demand (Juraev, Xolmirzayev, 2020).

Oftentimes, the terms *entrepreneur* and *small business* are used interchangeably; however, strictly speaking, not all small businesses are entrepreneurial (Priya, 2021). On the other hand, entrepreneurial ventures start as small businesses (Priya, 2021). Small businesses are therefore utilised as vehicles for entrepreneurship (Thurik, Wennekers, 2004).

The state is compelled by legislation to procure a substantial amount of goods and services from tax-compliant small businesses (Preferential Procurement Policy Framework Act, 5 of 2000 – see: Republic of South Africa, 2000). Furthermore, more and more corporations in the private sector select to enter business dealings only with tax-compliant businesses (Moodaley, 2015). Additionally, in a developing country such as South Africa, tax compliance improves the likelihood of gaining access to credit facilities (Coolidge, Ilic, Kisunko, 2009). In the interest of growth and sustainability, small businesses ought to remain tax compliant. Therefore, in a South African environment, tax compliance has a direct impact on the growth and sustainability of small businesses and, by default, has an unequivocal effect on the country's sustainable development, the creation of jobs, as well as the alleviation of poverty and inequality.

The extant literature has demonstrated the importance of tax knowledge in tax compliance (Aladejebi, 2018; Newman et al., 2018; Remali et al., 2018; Inasius, 2019; Twum et al., 2020). Furthermore, the extant literature has established that there are low levels of tax knowledge among SBOs (see Coolidge, Ilic, Kisunko, 2009; Kirchler, Alm, Muehlbacher, 2012; Susyanti, 2014). However, there is a dearth of literature that pertains to what may be the cause of low levels of tax knowledge among SBOs, as well as what can be done to rectify the situation.

Developing countries are characterised by low tax-to-GDP ratios, attributable to a substantial share of economic activity occurring within the informal sector, which often remains untaxed or proves difficult to tax (Besley, Persson, 2014). This research holds significant importance within the context of developing countries, where the administrative and enforcement capacities of several tax authorities are regarded as inadequate (Youssef, 2019). Given constrained resources, tax administrators may opt to prioritise those taxpayers deemed most likely to contribute significant tax revenues to the state budget, such as large corporations. In this context, it is imperative to achieve high levels of voluntary compliance among small businesses, and such compliance is dependent upon sufficient tax knowledge (Setyorini, 2016).

Therefore, the objective of this study is threefold: Firstly, to examine the levels of tax knowledge among South African SBOs; secondly, to explore the underlying reasons for any observed deficiencies in tax knowledge; and thirdly, to offer recommendations for enhancing tax knowledge among SBOs. This is with the understanding that increased tax knowledge among SBOs may lead to increased tax compliance, subsequently leading to an increase in the growth of small businesses and more tax revenue for the state. Increased growth and tax revenue will then lead to progress in the achievement of sustainable development goals 1, 8 and 10; that is, an end to poverty, inclusive, sustained economic growth, more employment, and reduced levels of inequality.

In this regard, to reach the stated objective of this study, the researchers formulated the following research questions: 1) What is the extent of tax-related knowledge among SBOs in South Africa? 2) What might be the fundamental causes of any identified inadequacies

in tax knowledge? 3) In what ways can the tax knowledge of SBOs be improved? The remainder of the article is structured as follows. Section 2 demarcates the topic of tax knowledge within the context of the existing literature. In Section 3, the researchers discuss the research methodology employed to answer the research question, thereby achieving the objective of this study. Section 4 presents the findings and discusses their implications. The study concludes in Section 5 by offering concluding remarks as well as recommendations for policy and practice.

## 2. Literature Review

There is no single definition of what constitutes a small business in South Africa. The South African National Development Plan employs three broad categories to define a small business: a survivalist enterprise (such as a home-based or street vendor with little to no capital), a lifestyle enterprise (a home-based or single-office business with a particular skill such as accountants and lawyers); and entrepreneurs (have the intention to expand their business or market share, invent new products or processes) (Hellberg, 2019).

However, the National Small Enterprises Act (29 of 2004) defines a small business using two criteria: total full-time equivalent of paid employees and total annual turnover (National Small Enterprises Act, 29 of 2004 – see: Republic of South Africa, 2004). A small business can be any enterprise with a minimum of 11 total full-time equivalent paid employees and a maximum of 50 employees (National Small Enterprises Act, 29 of 2004). As it pertains to annual turnover, the thresholds vary depending on the sector (for instance, the threshold for community, social, and personal services is  $\leq$  R5.0 million and  $\leq$  R80.0 million for wholesale) (National Small Enterprises Act, 29 of 2004).

The Income Tax Act, on the other hand, defines a small business as: ‘a) any person that qualifies as a micro-business as defined in paragraph 1 of the Sixth Schedule of the Income Tax Act, or (b) any person that is a small business corporation as defined in section 12E (4).’ These will be businesses, among other requirements, with an annual turnover of up to R20 million. The current study adopted the definition of the Income Tax Act.

Tax compliance encompasses the accurate reporting of income and deductions in line with tax legislation (Alm, 1991). In this regard, tax compliance entails the extent to which taxpayers file tax returns and make tax payments on time according to tax laws (Oladipupo, Obazee, 2016; Ndlovu, Schutte, 2024). Moreover, tax compliance symbolises the degree to which taxpayers are willing to pay taxes (Kirchler, 2007).

Bornman and Ramutumbu (2019) argued that the concept of tax knowledge is usually utilised in a broad sense and that it is not clearly defined in tax compliance research. As a result, there is no one definition of what constitutes tax knowledge. Fauziati et al. (2016) defined tax knowledge as a general understanding of a country’s tax policies. Oladipupo and Obazee (2016), as well as Twum et al. (2020), defined tax knowledge as the level of awareness by taxpayers

of the country's tax laws. Oladipupo and Obazee (2016) further emphasised that taxpayers' level of formal general education is an important attribute that contributes positively to understanding tax laws.

Bornman and Ramutumbu (2019) proposed a framework for tax knowledge that should include general tax knowledge, legal tax knowledge, and procedural tax knowledge. General tax knowledge entails the understanding by ordinary people of what constitutes taxation (Kirchler, 2007). Legal tax knowledge, on the other hand, includes an extensive understanding of the legal jargon in tax laws, as well as the ability to apply these specific tax laws in the determination of one's tax obligations (Bornman, Ramutumbu, 2019), whereas procedural tax knowledge entails the ability to understand tax compliance procedures, which encompasses, among others, interactions with tax authorities (Bornman, Ramutumbu, 2019). In the current study, however, tax knowledge is considered to include the understanding by SBOs of the requirements laid down in the tax legislation regarding the different types of tax that exist, the timing of filing tax returns and payments thereof, the basic understanding of how to calculate the tax liability, mindfulness of fines imposed on non-compliance as well as awareness of the existence of dispute resolution processes.

Many factors contribute positively to levels of tax knowledge, including formal education (Cuccia, 1994; Newman et al., 2018). Atawodi and Ojeka (2012) disagree with the assertion that education levels increase tax knowledge, citing that SBO owners are knowledgeable about taxes regardless of their low levels of education. Regarding the factors that influence tax knowledge negatively, McKerchar (1995) argues that SBOs are busy and, for this reason, would rather focus on profit maximisation and spend less time on taxation. Additionally, lower levels of tax knowledge are exacerbated by constant changes in tax legislation coupled with complexity (Bornman, Ramutumbu, 2019).

The extant literature on the influence of tax knowledge on tax compliance behaviour shows mixed results. Twum et al. (2020) conducted a study among 130 small business managers in Ghana who previously participated in an educational campaign by the Ghana Revenue Authority with the objective of examining the effect of dimensions of tax knowledge on compliance. The same study found, among others, that tax knowledge about taxpayer rights and responsibilities, as well as awareness of sanctions, positively influenced tax compliance, while tax knowledge of business income did not (Twum et al., 2020).

Utilising 105 usable responses from SBOs in Selangor, Malaysia, Remali et al. (2018) revealed a positive significant relationship between tax knowledge and tax compliance. Moreover, other studies have confirmed that tax knowledge plays an important role in tax compliance among SBOs (Aladejebi, 2018; Newman et al., 2018; Inasius, 2019), and taxpayers in general (Kwok, Yip, 2018). Although studies show that tax knowledge leads to tax compliance, Newman et al. (2018) emphasised that improving tax knowledge among SBOs must be accompanied by other measures such as reducing corruption and ensuring that tax rates are reasonable, noting that tax knowledge in itself is not sufficient in this regard.



In contrast, Fauziati et al. (2016) conducted a quantitative study that included 237 SBOs in Kota Padang, Indonesia; their findings reveal that tax knowledge has no impact on tax compliance. In his study, Maseko (2014) also found no correlation between tax knowledge and tax registration among small and medium enterprises in Zimbabwe. Kassa (2021) found tax knowledge to have a positive effect on tax evasion. However, Kamleitner, Korunka and Kirchler (2012) argued that although the results regarding the impact of tax knowledge on tax compliance are contradictory, the type of knowledge matters. The authors concluded that general knowledge and tax-specific knowledge can both be used to comply with or evade tax legislation (Kamleitner, Korunka, Kirchler, 2012). General knowledge is used to comply as often as it is used to evade, while specific tax knowledge usually leads to an increase in compliance (Kamleitner, Korunka, Kirchler, 2012).

In this regard, tax-specific knowledge is critical for compliance, more so in an environment of self-assessment. Self-assessment shifts the responsibility to accurately establish a tax liability from the tax authorities to taxpayers (Bornman, Ramutumbu, 2019). As a result, the self-assessment system imposes even greater responsibility on taxpayers to be able to calculate taxes due correctly, in accordance with applicable tax legislation (Inasius, 2019). To fulfil the requirements of the self-assessment system, SBOs must be familiar with tax laws in terms of when tax returns are due for submission and payment, how the tax liability ought to be computed, and how to accurately complete these returns.

Tax knowledge has been argued to be a key determining factor of compliance in a self-assessment system (Chen Loo, Mckerchar, Hansford, 2009). Furthermore, tax knowledge is contended to be of the utmost importance in jurisdictions where voluntary compliance is encouraged (Newman et al., 2018). The lack of tax knowledge often leads to unintentional non-compliance (McKerchar, 2002). Webley (2004) found that VAT non-compliance in the United Kingdom resulted mainly from a tax knowledge deficit and was, therefore, unintentional. Consequently, non-compliance may lead to penalties (Ndlovu, Schutte, 2022; Tax Administration Act, 28 of 2011 – see: Republic of South Africa, 2011).

Despite the importance of tax knowledge on tax compliance behaviour, Susyanti (2014) argues that SBOs lack awareness of how to fulfil tax obligations. Kamleitner, Korunka and Kirchler (2012) further documented that the tax knowledge of SBOs is below that of business students. In a study conducted by Coolidge, Ilic, and Kisunko (2009), it was found that of the respondents who reported that they had outsourced tax compliance activities in South Africa, 78% did so because ‘tax is a specialised field.’

This study is based on the theory of information asymmetry. Information asymmetry occurs when there is an imbalance between two parties engaged with the subject matter or the substance of information, as it pertains to both quantity and quality (Watts, Zimmerman, 1986; Sá, Alves, 2020). Information asymmetry is particularly important in a small business environment; this is because small businesses often possess lower levels of knowledge compared to larger businesses (Lin, Sun, 2006; Lin et al., 2023). Small businesses face challenges in obtaining sufficient information as a result of limited resources and/or unskilled managers (Beck Beck, Demirguc-Kunt, 2006; Wang, Zhang, Zhao, 2019; Lin et al., 2023).

The theory of information asymmetry is studied in external financing, supply chain management, public policy and very little in small business tax compliance (Lin et al., 2023). This is particularly concerning given that tax systems are often complex and confusing (Chen, Lin, 2017), thus creating an information asymmetry in their tax burden (Mukherjee, Singh, Zaldokas, 2017).

The issue at hand is whether the government should allocate resources towards alleviating any observed deficiencies in tax knowledge among SBOs. As mentioned, a better understanding of the tax system can lead to increased compliance (Twum et al., 2020). Conversely, an increased understanding of tax regulations might result in more aggressive tax planning (Murphy, 2004). Nevertheless, this phenomenon is more prevalent among corporations that employ skilled tax professionals (Murphy, 2004). In summary, reducing information asymmetry in a small business environment can lead to enhanced long-term performance. The next section outlines the research methodology employed to achieve the objectives set for this study.

### 3. Research Methodology

The study employed a qualitative research methodology in the form of semi-structured interviews. An interpretive phenomenological research design was utilised to understand the day-to-day lived experiences of SBOs regarding tax compliance. According to Creswell and Poth (2018), phenomenology is suitable in situations where the researcher wants to understand and describe the essence of the lived experience of a phenomenon. Interpretive phenomenology emphasises the significance of context in qualitative research findings, which are produced through a co-construction between the participant and researcher (Guba, Lincoln, 1994; Frechette et al., 2020), this allows the researchers to modify their approach when necessary to better capture participants' nuanced experiences.

The target population for the study was first SBOs with a turnover of up to R20 million and operating their businesses in the Gauteng province of South Africa. Second, the target population included tax practitioners who service small businesses that have a turnover of up to R20 million situated in different parts of the Gauteng Province of South Africa. The threshold of R20 million is derived from the definition of a small business as stated in the Income Tax Act (Income Tax Act, 58 of 1962). Furthermore, approximately 32% of all Small, Medium and Micro Enterprises (SMMEs) are situated within the Gauteng Province, establishing it as the province with the highest proportion of SMMEs among the nine provinces in South Africa (SEDA, 2024). The Gauteng Province encompasses approximately 864,344 SMMEs (SEDA, 2024); however, there is no dependable database that offers information on how many of these SMMEs have a turnover of up to R20 million.

The study employed purposive and snowball sampling techniques to select the participants. The use of the aforementioned sampling techniques was considered appropriate as participants in a phenomenological study must be selected cautiously to be individuals who have all experienced the phenomenon under investigation (Creswell, 2007). The purposive sampling

technique is prevalently employed in phenomenological research owing to its capability to implement a specific sampling criterion (Prabaw, Claramita, Pramantara, 2018). In this context, individuals are deliberately chosen to embody distinct predefined characteristics or conditions (Dukes, 1984; Luborsky, Rubinstein, 1995).

The sample size for a phenomenological study may vary between six and ten participants (Haase, 1987; Morse, 1994). Precisely, sample sizes for interpretive phenomenological studies are usually small, with ten being the most frequently used size (Groenewald, 2004). In this study, the sample size comprised 25 SBOs and 22 tax practitioners. This is because new meanings and rich data continued to emerge even after the first ten interviews, from both SBOs and tax practitioners.

Max van Manen's guidelines were followed to thematically present the findings of this study (Van Manen, 1997; Chagadama, 2018). The analysis process followed these four phases: (i) elucidation of thematic elements, which entailed the meticulous preparation of the interview transcript to ensure accuracy; (ii) isolating thematic statements which involved assigning codes through holistic and line-by-line coding, using an inductive approach to ensure that the data speaks for itself and amplifies the voices of the participants; (iii) composing linguistic transformations; and (iv) gleaning thematic descriptions. Composing linguistic transformations and gleaning thematic descriptions involved developing themes from the first cycle codes through ongoing dialogue and engagement, wherein these codes were reorganised and reconfigured to generate categories, which were subsequently grouped to form sub-themes, then themes. The themes are discussed in the upcoming section. An ethical clearance certificate (NWU-00616-20-A4) was obtained from the North-West University's Economic and Management Sciences Research Ethics Committee prior to the start of the main data collection. Furthermore, informed consent was obtained from participants prior to the commencement of the interviews.

## 4. Findings

The following four themes originated from the data analysis process outlined in the previous section: (i) SBOs exhibit a deficiency in fundamental tax knowledge; (ii) the absence of fundamental tax knowledge leads to unintended tax non-compliance; (iii) fundamental causes of identified inadequacies in tax knowledge; and (iv) recommendations to improve the level of basic tax knowledge among SBOs. Each theme addresses the research questions formulated by the researchers, as delineated in Section 1 above. The discussion of each theme is undertaken in Sections 4.1 to 4.4.



#### 4.1. Sbos Exhibit a Deficiency in Fundamental Tax Knowledge

A common theme among SBOs was that they were not aware of their basic tax compliance responsibilities. The SBOs expressed an inability to fulfil all tax compliance responsibilities by themselves due to a lack of basic tax knowledge. To affirm the assertions made by the SBOs, all the tax practitioners (22) raised similar concerns regarding the level of basic tax knowledge among their SBO clients. In this regard, tax practitioners indicated that many of their SBO clients outsource the tax compliance functions because of this lack of basic tax knowledge.

The first theme agrees with the findings of Coolidge, Ilic, and Kisunko (2009). The authors found that of the respondents who reported having outsourced tax compliance activities in South Africa, 78% did so because 'tax is a specialised field.' In addition, the current theme is aligned with Susyanti (2014), who argues that SBOs lack the skills to fulfil tax obligations. Kirchler, Alm, and Muehlbacher (2012) also found that the tax knowledge of SBOs is below that of business university students. Furthermore, the lack of basic tax knowledge often leads to unintended tax non-compliance, as discussed in the next section.

#### 4.2. The Absence of Fundamental Tax Knowledge Leads to Unintended Tax Non-Compliance

SBOs, at the commencement of their business activities, are not always aware of what is expected from them, they tend to learn about their tax compliance responsibilities later in their business life. A lack of basic tax knowledge can sometimes result in SBOs deducting expenses that are prohibited by tax legislation. Similarly, tax practitioners 7 and 18 argued that there is a need for SARS to intensify its education campaigns if it wants to reduce unintentional tax non-compliance and encourage voluntary compliance.

This theme supports the findings of McKerchar (2002) and Webley (2004), who both argue that the lack of basic tax knowledge often leads to unintentional non-compliance. The Tax Administration Act, 28 of 2011 levies administrative non-compliance penalties (such as when tax returns are not submitted on time), late payment penalties, and understatement penalties, among others. As such, unintentional tax non-compliance may lead to SBOs incurring penalties. Therefore, Ndlovu and Schutte (2022) advocated for the imposition of penalties to be accompanied by awareness, education, and training initiatives in order to prevent the recurrence of penalties. In the next section, the researchers discuss the reasons put forward by the SBOs and tax practitioners for low levels of tax non-compliance.

### 4.3. Fundamental Causes of Identified Inadequacies in Tax Knowledge

The researchers made an effort to solicit responses from SBOs and tax practitioners on what may be the reasons behind the low levels of basic tax knowledge. The responses and realities of the participants suggest that there are diverse reasons behind the lack of basic tax knowledge. The reasons include: (i) outsourcing the tax compliance functions; (ii) unfriendly posture of the SARS office; (iii) a lack of awareness of education opportunities and the absence of educational facilities; and (iv) the perception that the subject of taxation is complex.

Firstly, outsourcing the tax compliance functions to a tax professional often leads SBOs not to invest time and effort to learn about their tax compliance responsibilities; this is the sentiment from SBOs 4, 20, 21 and 25. Coolidge, Ilic, and Kisunko (2009) found that small businesses tend to rely heavily on external help at the early stages of their business activity.

Secondly, the unfriendly posture of the SARS office further contributes to the low levels of basic tax knowledge. This perspective is shared by SBOs 4, 23 and 24. Over the years, SARS office may have exhibited an unfriendly posture toward the taxpaying community, which negatively impacts the capability of SBOs to learn more about their tax compliance responsibilities. Such a posture may be necessary to discourage non-compliance. However, it becomes problematic if the same posture drives taxpayers away in the sense that they may be afraid to approach the SARS office to seek assistance.

Acquiring an understanding of the tax system may involve the potential for errors during the learning process. However, these errors may prove to be costly because it appears that there is no room for mistakes when it comes to the SARS office; this is the view put forward by SBO 23. SBO 23 indicated that the hard approach adopted by SARS might discourage SBOs from trying to comply by themselves for fear of making costly mistakes.

The unfriendly posture of SARS office can lead to negative attitudes toward it and negatively influence the desire of SBOs to learn more about tax compliance. The perception of SBO4 is that SARS is an organisation that 'takes and takes.' Therefore, over time, negative attitudes develop that result in a lack of interest in educating oneself about taxation and the functions of SARS.

Thirdly, the lack of awareness of educational opportunities plays a role in perpetuating low levels of basic tax knowledge among SBOs. SARS hosts workshops, seminars, and webinars on tax compliance. However, some of the SBOs are not aware of these. SBOs 2, 15, and 22 noted how the individual tax season is fervently advertised on different media platforms. However, the same eagerness is not applied to tax compliance matters that impact SBOs. To increase awareness, SBOs 2, 8, 12, and 24 encouraged greater visibility on the ground. These SBOs would like to see more of SARS in the marketplace. SBO 2 compared SARS with the Companies and Intellectual Property Commission (CIPC) and asserted that the latter is more visible.

SBOs 8 and 17 encouraged SARS to conduct activations and roadshows to improve awareness about tax compliance responsibilities. Improving visibility may imply that SARS may need to open branches in townships or have mobile offices in rural areas. SBO 8, who manages an advertising agency, believes that SARS is not doing enough to educate SBOs with regard to their tax compliance responsibilities. In addition, he argues that there is a lack of educational facilities.

Tax practitioners concurred with the views put forward by the SBOs regarding the lack of awareness of educational opportunities. As a result, tax practitioners argue that although SARS embarks on education campaigns, in many instances SBOs are not aware of these. Tax practitioners 3 and 7 suggested that SARS promote these initiatives more to increase awareness. Tax practitioners understood the challenges faced by SARS, acknowledging that it would be impractical to reach every SBO. In this context, tax practitioners noted that there is a need for SARS to collaborate with different partners. These partners may include Small Enterprise Development Agencies (SEDAs), business hubs, and tax practitioners.

Fourthly, there is a perception that the subject of taxation is complex. This perception discourages SBOs from attempting to educate themselves about tax compliance. Some SBOs maintain the belief that they completely lack the comprehension of the subject of taxation. SBOs 4 and 10 attribute the lack of basic tax knowledge to the perception or notion that tax is complicated. Consequently, SBOs lacking formal taxation education exhibit a reluctance to engage in the acquisition of such knowledge.

The perception of complexity by SBOs is supported by tax practitioners. Tax practitioners 1, 3, 11, and 13 indicated that the SARS guides are complex and suitable only for tax experts. These tax practitioners (1, 3, 11, and 13) urged SARS to ensure that the guides focus on the basics. Tax practitioners argue that tax education should not only focus on the technical aspects of taxation. Increased awareness of the importance and benefits associated with tax compliance is equally important. These are the sentiments shared by tax practitioners 1, 3, 4, 7, and 8. The educational initiatives are important regardless of whether some SBOs outsource their tax compliance functions. This is because SBOs are still required to have a high-level understanding of their tax compliance obligations; ultimately, as representatives, the responsibility of tax compliance rests with them.

The findings of this study on the impact of complexity on low levels of tax knowledge agree with the views presented by Bornman and Ramutumbu (2019). According to Bornman and Ramutumbu (2019), lower levels of tax knowledge are exacerbated by constant changes in tax legislation coupled with complexity. In addition, Coolidge, Ilic, and Kisunko (2009) stated that many of the SBOs who outsource tax compliance activities do so because taxation is a specialised field. The next section explores the last theme that focusses on recommendations to improve the levels of basic tax knowledge among SBOs.

#### 4.4. Recommendations to Improve the Level of Basic Tax Knowledge Among SBOs

SBOs, together with tax practitioners, suggested three measures to improve the tax knowledge of SBOs. The three measures include the timing of interventions, different techniques and platforms to cater to diverse SBO communities, and attention to the level at which the interventions are pitched. Each of the three measures is elaborated on below.

Firstly, many SBOs do not go to school to study business and entrepreneurship; they learn some business etiquette along the way. In a South African environment characterised by high levels of unemployment, some of the SBOs interviewed indicated that the reason they went into business was because they were struggling to find employment. The official South African unemployment rate is currently 32.1% (Statistics South Africa, 2024a). However, other SBOs entered business because they identified opportunities, not necessarily because of a lack of employment. Regardless of the reasons for the establishment of a small business, SBOs are not always educated on how to run a business. Although the SBO may be proficient in a particular trade, he/she may still lack fundamental tax knowledge. The phenomenon of a lack of basic tax knowledge cuts across, and it does not only impact less educated SBOs.

The preceding discussion suggests that early educational interventions are crucial. In this regard, SARS and the National Treasury may need to intensify conversations with the Department of Basic and Higher Education to explore the possibility of introducing tax education at that level. SBO 10 would have loved to be educated on tax matters before his company was formally registered with the CIPC. There may be an opportunity for SARS to introduce a compulsory course for registered representatives (a person who is appointed with full rights to act on behalf of another legal entity). SBO 20 suggested that SBOs receive a toolkit upon registration. Furthermore, he recommended that SARS make learning the contents of the toolkit mandatory and provide a way to monitor progress. Tax practitioners 4, 6, and 17 concurred with the SBOs and emphasised the importance of educating SBOs about their tax compliance responsibilities as early as possible. Early educational interventions are critical to ensure that SBOs are aware of their tax compliance responsibilities sooner rather than later.

Secondly, to improve the levels of basic tax knowledge among SBOs, SARS should consider different techniques and platforms to cater to a diverse SBO community. It is important to use different methods to reach a wider audience. SBO suggestions ranged from workshops, the use of social media, the SARS website, and e-tutorials, among others. SBOs 7, 10, 11 and 18 suggested the use of workshops to improve taxpayer knowledge and awareness. SBO 18 also recommended that the workshops be part of a larger conference, which means that SARS may need to forge relationships with the organisers of the events.

SBO 11 went a step further to suggest that, during the workshops, SBOs must be able to consult and get assistance with their existing tax compliance issues, implying that the tax workshop should be accompanied by a mobile tax unit. SBO 10 expressed a preference for face-to-face workshops rather than reading manuals or listening to videos. Furthermore, SBO 7 experienced the SARS workshops in a positive way. On the other hand, SBO 12 spoke against workshops, noting that SBOs have their hands full and may not have time to attend workshops. The preceding discussion emphasises the importance of utilising various methods to educate SBOs. SBO 21 recommended that SARS introduce an interactive programme such as TaxTim (an online service that helps South Africans complete and submit their income tax returns). Additionally, SBO 9 recommended the use of e-tutorials as one of the ways in which SARS can reach out to SBOs.

Furthermore, SBO 4 believes that the use of influencers may appeal to younger SBOs and bode well for tax compliance. SARS has a website that contains most of the information taxpayers need to know to be compliant, including a site dedicated to small businesses. However, SBOs 2 and 8 do not think that a website is sufficient. They are adamant that SARS must go where the SBOs are and educate them about tax matters and not rely on the website. SBOs 9, 11, 14, 16, 19 and 24 visited the SARS website and found it complex, not user-friendly, or intimidating.

Thirdly, educational initiatives should be presented at a level that is easily understood. SARS must be able to communicate effectively with SBOs. SBOs must be able to understand what is being communicated to them. Therefore, the type of language used is important. SBOs 11, 16, and 19 claimed that it is difficult for them to go through the SARS information material due to the type of language used. SBO 5, a business owner with accounting background, noted that the tax concepts that are relevant to SBOs can be simplified. Therefore, when educating SBOs, the focus should be on the basics that are relevant to them.

The preceding discussion illustrated the importance of using the right tools and selecting the right time to educate SBOs about their tax compliance responsibilities. SARS is encouraged to take the first step to inspire SBOs to learn about their tax compliance responsibilities. The next section offers concluding remarks.

## 5. Concluding Remarks

This study aimed to understand the reasons behind the low levels of tax knowledge among SBOs and provide recommendations on how this incongruity can be rectified. The study found that SBOs lack basic tax knowledge, often leading to unintentional non-compliance with tax laws. Many SBOs outsource tax compliance functions to tax practitioners. Outsourcing the tax compliance functions to tax practitioners often means that SBOs may not bother trying to understand the tax laws. Therefore, apathy sometimes lies behind the low levels of tax knowledge. Additionally, the unfriendly posture of the SARS office further contributes to the low levels of basic tax knowledge among SBOs. As a result, SBOs have formed negative attitudes toward SARS, which hinder their willingness to learn more about tax compliance. Furthermore, SBOs are not aware of the availability of educational opportunities. Lastly, the perception that the subject of taxation is complex exacerbates the low levels of tax knowledge among SBOs.

Regarding the recommendations for policy and practice, many SBOs do not go to school to study business and entrepreneurship; they learn some business etiquette along the way. As a result, early interventions are needed to educate SBOs or potential SBOs about tax compliance. Education in tax compliance must be part of basic and higher education. SARS and the National Treasury should consider the need to introduce a mandatory course for registered representatives. Different modes and methods of delivering tax education interventions should be employed to cater for a diverse SBO community.



One key limitation associated with interpretive phenomenology is its inherently subjective nature, which can result in interpretations of researchers being shaped by personal biases and preconceived notions (Gyollai, 2020). To partially address this limitation, the research team included an independent coder who coded the data separately from the researcher. The second limitation of interpretive phenomenology is the failure to control the measures, randomise the population, and small sample sizes. For this reason, the results of this study may not be generalised to the entire population of SBOs. Therefore, regarding the recommendations for future studies, since the current study employed qualitative research methods to understand the day-to-day lived experiences of SBOs and tax practitioners regarding tax compliance, a quantitative analysis can be performed to confirm the results of this study. Furthermore, since the study was carried out in the Gauteng province of South Africa, more research may be carried out in other regions of South Africa, as well as other countries. In addition, more studies can be carried out to determine the extent and effectiveness of educational interventions carried out by SARS.

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## Ocena wiedzy podatkowej właścicieli małych firm w prowincji Gauteng w Republice Południowej Afryki

### Streszczenie:

Poziom wiedzy podatkowej wpływa na zachowanie właścicieli małych firm w zakresie przestrzegania przepisów podatkowych. Z kolei przestrzeganie przepisów podatkowych ma bezpośredni wpływ na wzrost i zrównoważony rozwój małych firm, co przekłada się na zrównoważony rozwój kraju, tworzenie miejsc pracy, a także zmniejszanie ubóstwa i nierówności. Cel przedstawionego badania jest potrójny: po pierwsze – ocena poziomu wiedzy podatkowej właścicieli małych firm w RPA, po drugie – zbadanie przyczyn leżących u podstaw wszelkich zaobserwowanych braków w wiedzy podatkowej i po trzecie – przedstawienie rekomendacji dotyczących zwiększenia wiedzy podatkowej wśród właścicieli małych firm. W celu uzyskania informacji od 25 właścicieli małych firm

i 22 doradców podatkowych w prowincji Gauteng w Republice Południowej Afryki wykorzystano wywiady półstrukturalne. Badanie wykazało, że właściciele małych firm nie mają podstawowej wiedzy podatkowej, aby móc samodzielnie przestrzegać przepisów. Właściciele małych firm zlecają sprawy związane ze stosowaniem się do przepisów podatkowych firmom zewnętrznym, co prowadzi do braku zainteresowania zrozumieniem przepisów podatkowych i skutkuje niską wiedzą podatkową. Nieprzyjazne podejście urzędów podatkowych w RPA i złożoność systemu podatkowego jeszcze bardziej zmniejszają chęć właścicieli małych firm do nauki. Nie są też oni świadomi możliwości edukacyjnych, co w konsekwencji pogarsza ich poziom wiedzy podatkowej.

**Słowa kluczowe:** wiedza podatkowa, małe firmy, zgodność podatkowa MŚP, cele zrównoważonego rozwoju, bezrobocie