



# SMMEs' business mindset on tax compliance in North West: Perceptions and challenges



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**Background:** The economic development of South Africa heavily relies on small, medium and micro-enterprises (SMMEs), which face significant difficulties in meeting tax obligations because of their perceived complexity of regulations and a decline in trust towards government institutions.

**Aim:** This study seeks to identify the fundamental motivations behind both adherence and resistance to tax regulations by SMME owners and managing directors in the North West Province of South Africa.

**Setting:** The research concentrated on owners and managing directors of SMMEs located in the North West province of South Africa.

**Methods:** This study adopts a qualitative phenomenological lens, utilising semi-structured interviews to highlight the lived experiences of eight stakeholders within the SMME sector. Data analysis employed thematic analysis techniques to identify recurring patterns and themes.

**Results:** Five primary themes emerged from the analysis: compliance motivators and strategies, systemic challenges stemming from knowledge gaps and communication deficits, government perception, resource limitations and compliance costs and enforcement effectiveness. The findings revealed that deterrence factors, such as penalties and imprisonment, rather than moral obligations, primarily drove tax compliance. The complexity of tax systems, inadequate communication from authorities and perceived governmental inefficiencies significantly impacted compliance behaviours.

**Conclusion:** Fostering voluntary tax compliance among SMMEs necessitates the enhancement of tax education, the improvement of communication with authorities and the resolution of perceived inefficiencies within government operations.

**Contribution:** The research enhances the understanding of elements influencing tax compliance among SMMEs in the North West province of South Africa, offering practical recommendations for policymakers and tax authorities to improve compliance strategies while supporting small business development.

**Keywords:** tax compliance; SMME; small-, medium- and micro-enterprises; tax morale; tax system; government trust and transparency; compliance motivators; resource limitations; tax education.

## Introduction

The challenges that most small businesses face in understanding and adhering to tax regulations significantly impact their financial stability and growth potential, which in turn affects their crucial contribution to economic development and job creation (Abdul-Azeez, Ihechere & Idemudia 2024:327). The perceived complexity of tax regulations poses a challenge for small-, medium- and micro-enterprises (SMMEs), resulting in varying levels of compliance and hindering their ability to effectively support the economy (Sibiya, Van der Westhuizen & Sibiya 2023:5). According to Appiah, Domeher and Agana (2024:5), SMMEs' tax compliance largely hinges on their perception of the system's fairness and the amount of bureaucratic obstacles they encounter. For SMMEs to grow and thrive, policymakers must recognise and deal with these key challenges, thereby creating an environment that encourages voluntary compliance while supporting these SMMEs' vital economic functions.

Small-, medium- and micro-enterprises play a vital role in South Africa's economy by promoting growth, combating unemployment and alleviating poverty. South Africa faces significant challenges in achieving sustainable development and equitable wealth distribution because of its status as one of the most unequal countries in the world (World Bank 2023). The economic strategy prioritises the growth and sustainability of SMMEs.

Acknowledging the significance of SMMEs in addressing these challenges has been pivotal in formulating national policy. The National Development Plan (NDP) 2030 serves as a comprehensive framework for sustainable growth, emphasising the enhancement of SMMEs and outlining specific objectives and strategies to tackle inequality and unemployment. The plan ensures a holistic approach to national development by incorporating evidence-based policies and stakeholder consultations (National Planning Commission 2013). The government's proactive stance in embedding these measures within the plan underscores its commitment to fostering the growth of SMMEs and, consequently, addressing economic disparities.

Small-, medium- and micro-enterprises contribute significantly to South Africa's economy, accounting for 40% of GDP and generating over R2.9 trillion annually. The majority of SMMEs (84%) operate in the personal services or wholesale or retail sectors, with limited value-addition opportunities. Notably, 54% of SMMEs function informally, with only 37% registered with the Companies and Intellectual Property Commission (CIPC) and other government agencies and a mere 30% registered for taxation. These enterprises play a crucial role in employment generation, providing 87% of job opportunities, of which 20% comprise business owners (Department of Small Business Development 2023:666).

According to statistics published by Statistics South Africa (Stats SA) (Stats SA 2020), approximately one-fifth of total business turnover is generated by SMMEs. These statistics show that South African formal business sector industries generated a total turnover of R10.5 trillion during the 2019 financial year. As a result of the information provided by Stats SA, SMMEs are responsible for generating R2.3 trillion (or 22%) of the R10.5 trillion generated in the formal economy (Arteiro & Potter 2021).

The South African Revenue Service (SARS) projected a net shortfall after compliance efforts of R29.1 billion in the 2023/2024 tax year (SARS 2023). The actual results for 2023/2024 SARS exceeded expectations and closed the gap that resulted in a surplus for 2023/2024 (SARS 2023).

The tax collection for 2024/2025 was revised to be R22.3bn, lower than estimated in February 2024. The key issues contributing to the shortfall include lower salary adjustments, slower capital project growth, reduced fuel consumption and declining imports. South African Revenue Service experienced a 23.6% reduction of R9.3bn in debt

compliance, year on year, because of rising taxpayer challenges that prompted more requests for deferred payments and final demands despite an increase in resolved cases (SARS 2024b). According to SARS (2024c), the SMME segment contributed R466bn of the R1.741 trillion tax collected in the previous year, which amounts to 28% of the total collection (SARS 2024c). This represents a 10.8% year-on-year increase for registered SMMEs, leaving the informal SMMEs out of the equation.

Many SMMEs avoid formal registration because of compliance costs, reducing potential tax contributions. By the conclusion of 2023's fourth quarter, the North West province reported 43 000 registered SMMEs, accounting for 6% of the total number nationwide. In contrast, the province's informal small businesses, which are significantly more prevalent, reached 87 000, or 5% of the national total. Consequently, the total number of small businesses in the province stood at 130 000 at the end of 2023 (TIPS 2024).

For this reason, it is critical to comprehend how SMME taxpayers view tax compliance. Any nation must understand the factors influencing citizens' tax compliance or non-compliance. Global studies consistently connect SMMEs' perspectives to compliance behaviour. Research conducted in Uganda associates perceptions of fairness, complexity and benefits with the willingness to comply (Mausa & Safina 2024). In New Zealand, legal, economic and psychological elements such as trust and fairness play a significant role (Yong & Freudenberg 2020:70). Indonesia highlights tax morale and justice as crucial factors influencing compliance (Timothy & Abbas 2021:170).

The decline in revenue substantially affects the government's capacity to deliver public goods and services to its population (Oluka, Chiwawa & Kader 2021:455). Increasing tax collection and promoting a more equitable and efficient tax system will enable countries to resume economic growth, reduce poverty and contribute to climate action (World Bank Group 2024).

According to Mebratu (2024:2), five basic theoretical models can be used to explain tax compliance behaviour. The Theory of Planned Behaviour proposes that attitudes towards the tax system, subjective norms and perceived behavioural control influence individuals' intentions to comply with tax laws, ultimately influencing their behaviour. In the Social Influence Theory or Comparative Treatment Theory, it is posited that an individual's compliance behaviour is influenced by the behaviours and attitudes of those in his or her social network or reference group. Their compliance can be impacted depending on how a person is treated by their social group. The Political Legitimacy Theory highlights a crucial point: when citizens have confidence in their government and the political framework, they tend to fulfil their tax obligations more readily. The Fiscal Exchange Theory emphasises that taxpayers expect to receive adequate value for their contributions. They are more inclined to pay

taxes if they perceive that they are receiving equitable public services in exchange. The Economic Deterrence Theory examines the influence of tax audits and penalties on taxpayer behaviour, suggesting that individuals are less likely to evade taxes if they believe they might be caught and face significant repercussions. These concepts provide insight into the tax-related decisions made by SMME owners.

## Purpose of the study

This study examines the factors that influence the tax compliance perspectives and actions of SMME owners and managing directors in the North West province, focusing on understanding their business mindset to meet tax responsibilities. Analysing existing literature alongside data evaluation revealed compelling trends in business owners' attitudes and behaviours towards taxation. The results underscore important factors supporting or impeding compliance with tax regulations. The article offers practical suggestions to streamline business tax compliance based on these observations. Additionally, it recognises the research's limitations and encourages future studies by other academics.

## Literature review

### Classification of small-, medium- and micro-enterprises

The *National Small Business Act 102 of 1996* establishes the legal criteria for categorising SMMEs in South Africa. On 15 March 2019, Minister Lindiwe Zulu released an updated definition in a government gazette. This document characterises a 'Small Enterprise' as a distinct business entity, which may consist of branches or subsidiaries and classifies them based on employee count: Micro-enterprises have a maximum of 10 employees, small enterprises range from 11 to 50 employees and medium enterprises have between 51 and 249 employees. Understanding this classification is essential for analysing the impact of SMMEs across various economic sectors (Department of Small Business Development 2019:110). The classification uses two proxy indicators: the number of paid employees and annual turnover, while the previous criterion of total gross asset value has been removed. Small, medium and micro-enterprises refer to small businesses, irrespective of their legal registration or tax status and include any entity or individual involved in small business activities aimed at profit generation across different industries (Bvuma & Marnewick 2020).

The framework emphasises that micro and small enterprises, which employ up to 50 people, function with limited resources, rendering them susceptible to various risks. Research indicates that over 70% of SMMEs in South Africa cease operations within the first 5 years to 7 years, and there remains a lack of agreement among academics and professionals regarding the causes of this trend (Bushe 2019:1).

The research conducted by Buthelezi (2023) reveals that tax compliance challenges significantly contribute to SMME failures in South Africa. The distinct challenges that SMMEs

encounter, such as elevated compliance costs and intricate tax regulations, play a role in their failure. The analysis showed that both SMMEs and tax professionals recognise the significant role that tax compliance burdens play in affecting SMMEs' failure, operational success and growth opportunities (Buthelezi 2023).

### Understanding tax compliance in the small, medium and micro-enterprise sector

Small, medium and micro-enterprises are tax compliant when adhering to legal requirements, which are influenced by tax morale (intrinsic motivation) and behaviours such as compliance, avoidance and evasion. Understanding how certain factors influence SMME business mindsets is crucial for effective policy formulation and sustainable business practices.

### The scope of tax compliance

'Compliance' means adhering to or obeying laws or regulations (Makhura 2021:19). This statement exemplifies a sense of confidence in and acceptance of the laws and the legislators. The goal of tax compliance is to conduct oneself lawfully. It means paying all taxes due at the end of the tax year by declaring all taxable income, making deductions only for actual expenses and paying all taxes due on time (Van Raaij 2016).

Being tax compliant comes at a cost. Eichfelder and Vaillancourt (2014:15) note that these expenses can be categorised into external, internal and psychological (subjective) costs. Internal costs consist of the time and effort SMMEs dedicate to ensuring compliance, while external costs pertain to the fees paid to external advisers for compliance assistance. Psychological or subjective costs reflect the willingness of SMMEs to incur expenses to mitigate the discomfort linked to completing tax returns (Choi & Kleiman 2024:1261). Tax compliance is fundamentally shaped by the tax behaviour demonstrated by the taxpayer (Du Preez & Stoman 2020:458).

### Relationship between tax morale and tax behaviour

Tax compliance is significantly influenced by the interrelated concepts of tax morale and tax behaviour, which shape individuals' and entities' attitudes towards taxation. Tax morale refers to how an individual perceives and values taxes and the individual's intrinsic motivation for paying taxes. Several studies have found that tax morality is crucial in determining whether an organisation perceives tax as a burden (Alm & McClellan 2012:15; OECD 2019; Timothy & Abbas 2021:171). Companies with low tax morality and those who view taxes as a burden are likelier to engage in tax evasion (Timothy & Abbas 2021:171). The OECD (2019) also explains that businesses with low tax morale are more likely to avoid taxes, which may lead to companies exiting the market. To survive in today's competitive market, small firms can declare fewer sales, reduce investments or enter the informal sector (OECD 2019).

As individuals make decisions within firms, various factors that affect these individuals can also impact the firms, particularly in the case of small businesses (OECD 2019). The tax morale environment and the factors predicting the outcomes of being tax compliant or non-compliant are best described in Figure 1.

The level of tax morale predicts tax behaviour. As a result, the tax behaviour of individuals as owners or managing directors of SMMEs is determined by their willingness to comply with tax legislation. The intrinsic motivation for individuals to participate in a tax revolt can be increased by attitudes and perceptions regarding the unfairness of the tax system (Du Preez & Stoman 2020:458). Tax morale indicates the intrinsic willingness or motivation to contribute to tax payments, whereas tax behaviour refers to the specific measures that taxpayers implement to fulfil their tax obligations (OECD 2019).

A strong sense of tax morale correlates with increased tax compliance and reduced tax evasion, implying that people intrinsically motivated to pay taxes are likelier to show compliant behaviour regarding their tax responsibilities (Horodnic 2018:869). In South Africa, tax compliance issues contribute to delays in the collection process and have a detrimental effect on revenue collection (Mishi & Tshabalala 2023:2). Tax morale determines, to a greater extent, the level of tax compliance (Irawan & Khoirunurrofik 2019:452).

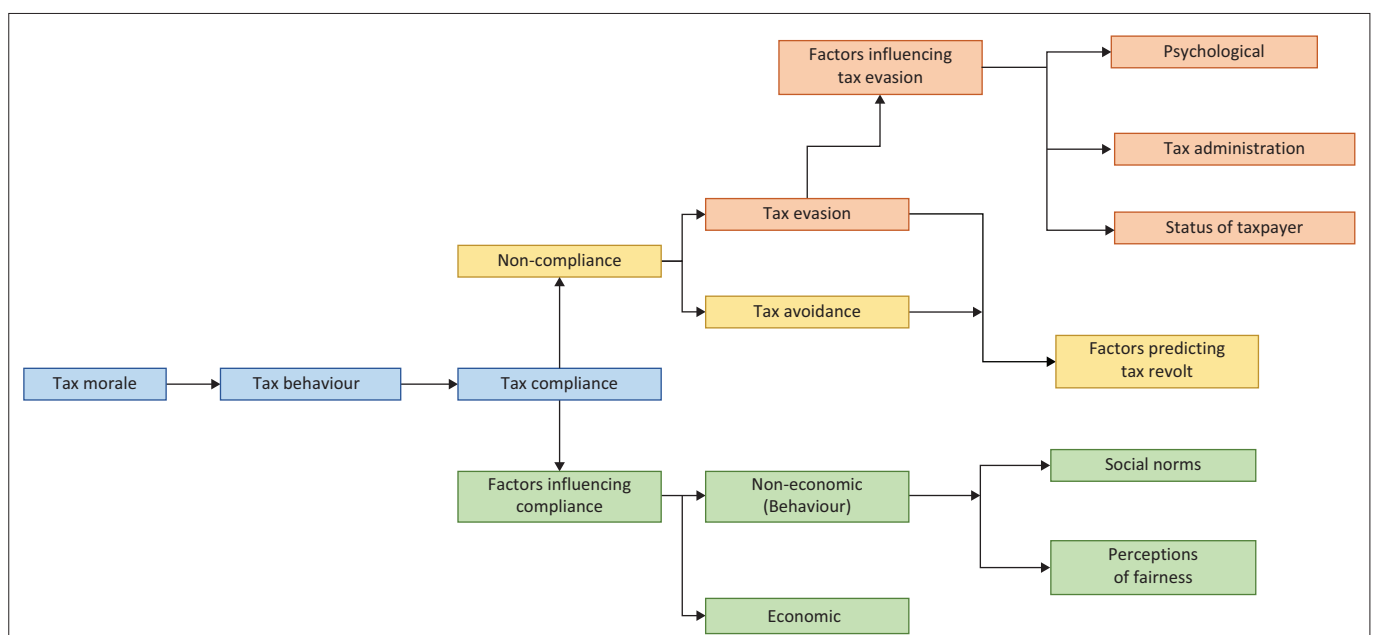
### Anatomy of tax compliance decisions

As stated above, taxpayer actions related to fulfilling tax obligations are referred to as tax behaviour, which can be segmented into three key areas: compliance with tax regulations, avoidance of excessive taxation and evasion of tax responsibilities.

Tax compliance denotes the readiness of individuals to fulfil their tax obligations willingly and in alignment with legal requirements.

Tax avoidance refers to using lawful techniques to minimise tax obligations while adhering to legal regulations. It encompasses a legal method of lowering taxes by exploiting loopholes in tax law. The term 'tax avoidance' refers to tax behaviour conducted according to the letter of the law but not following its spirit. As a result, taxpayers, tax inspectors and authorities may have disagreements, negotiations and conflicts (Van Raaij 2016). The practice of tax avoidance consists of reducing one's tax liability through legal means (Du Preez & Molebalwa 2021:456). Gaps in tax legislation, known as tax loopholes, allow individuals to sidestep tax laws, simplifying the process of lowering their tax payments. However, these loopholes distinguish between lawful tax avoidance and unlawful tax evasion (Goss n.d).

Tax evasion encompasses unlawful actions that individuals or entities undertake to avoid fulfilling their tax obligations. Tax evasion is fraud, such as, for instance, not declaring all taxable income, deducting costs not actually incurred or simply not registering for the prescribed taxes. An individual or business that evades taxes does so intentionally, dishonestly and illegally. It means defrauding the government by not declaring all taxable income or claiming expenses not actually incurred (Van Raaij 2016). Tax evasion means illegally structuring one's tax affairs to pay the least tax possible (Du Preez & Molebalwa 2021:456). Studies have revealed that tax evasion is motivated by extrinsic, monetary reasons (such as tax rates, fines, audit probability and enforcement) and intrinsic, non-monetary incentives (Dwenger et al. 2016:204).



Source: Adapted from Du Preez, H. & Stoman, J., 2020, 'An analysis of current tax revolt factors in South Africa', *Meditari Accountancy Research* 28(3), 455–483. <https://doi.org/10.1108/MEDAR-04-2018-0327>

FIGURE 1: Tax morale environment summary.



Tax revolt and tax evasion share a close relationship, originating from the concept that taxpayers feel compelled to pay taxes with which they disagree. Tax evasion can be seen as a revolt against taxes, attempting to transform tax resistance behaviour into an active protest against the tax system (Du Preez & Molebalwa 2021:456). Even though they refer to different concepts, 'tax revolt' and 'tax resistance' are commonly used interchangeably. Passive non-compliance can lead to tax resistance, generally occurring in cases of tax evasion or tax avoidance (Oberholzer & Stack 2013:1).

### Drivers of tax compliance

Tax compliance is shaped by various drivers influencing how businesses navigate regulatory obligations and contribute to economic growth. These drivers include the following.

### Resource limitations and compliance costs

It is essential to recognise that tax compliance represents a critical juncture between economic growth, regulatory obligations and entrepreneurial potential (Slemrod 2018:917). Small, medium and micro-enterprises often perceive the tax registration and compliance process as costly and burdensome, which deters them from entering the formal economy (Junpath, Kharwa & Stainbank 2016:100). It is not only businesses that are negatively impacted by this resistance but also the tax base of the nation and the economy as a whole.

Small, medium and micro-enterprises are vital to a healthy economy but face many risks (Hayes 2022). South African SMMEs are particularly vulnerable, with many struggling to stay afloat because of the costs and resources associated with tax compliance. As a result, many smaller businesses remain unregistered for taxation, seeing it as an expensive and burdensome regulation (Dlamini 2021).

### Government trust and transparency

Trust and transparency are essential elements in the relationship between taxpayers and tax authorities. Tax compliance and evasion are ongoing challenges, as many individuals tend to resist the idea of paying taxes. There is a long history of distrust, policing and control between taxpayers and tax authorities (Van Raaij 2016).

In the context of a psychological tax contract, punishing taxpayers discourages exploitation, but the primary determinant of tax morale is taxpayer satisfaction with their interactions with the government. This satisfaction involves more than just the trade of goods and services for tax payments; it is also shaped by the fairness of the processes that produce political outcomes and how the government treats taxpayers. Building a genuine relationship requires mutual respect and reciprocity (Feld & Frey 2019).

A short time after being appointed Commissioner for SARS, Commissioner Edward Kieswetter predicted a 'tax revolt'

among taxpayers. It suggests the withholding of tax payments and an increase in tax avoidance and fraud levels would occur. In his statement, he explained that such action would result from years of corruption experienced by taxpayers and the lack of trust in government spending of taxes collected by the SARS (SAIT 2020).

### Complexity of the tax system

Small, medium and micro-enterprises, as well as other larger businesses, are primarily responsible for meeting the needs and wants of consumers. By doing so, they provide job opportunities and generate revenue that contributes to the economy's vitality. However, several obstacles threaten the continuity and growth prospects of SMMEs. The complexity of the regulatory landscape, particularly regarding tax compliance, represents a significant challenge (Junpath et al. 2016:100).

Because of the tax system's complexity, SMMEs face several obstacles and challenges. Complying with tax regulations and paying taxes can be challenging for these small businesses. Additionally, accountants and external advisers charge incredibly high fees for compliance assistance (Smulders 2013). Although SARS offers a variety of tax awareness programmes, empirical research has indicated that a lack of tax knowledge is still an obstacle to compliance with tax laws in the country as well as elsewhere in the world. South African tax laws and provisions confuse most South Africans (Naape 2023:15).

### Enforcement

The SARS uses a tiered approach to enforce tax compliance. It applies lenient measures for minor violations and imposes strict penalties for intentional non-compliance. The South African Revenue Service is enhancing its data and intelligence systems to identify problems leading to non-compliance early. Individuals who do not comply will receive an opportunity to correct their actions before incurring penalties, which are structured to exceed any potential advantages of non-compliance (SARS 2024d). The compliance programme leverages data, artificial intelligence and machine learning algorithms to combat criminal activities and deliberate non-compliance effectively. These technologies also guarantee that legitimate refunds are processed while blocking unauthorised and fraudulent claims (SARS 2024a). The South African Revenue Service has several punitive provisions to enforce compliance with tax laws. Non-compliance with tax laws can result in monetary and criminal sanctions (SAIT 2020).

Tax enforcement approaches differ greatly among global economies. After the 2008 financial crisis, developed countries such as the United States and the United Kingdom enhanced their enforcement efforts, with the US targeting unreported foreign accounts and the UK introducing 'significant crackdown' initiatives to raise an additional £5bn in revenue (Slemrod 2018:917). Conversely, developing

countries encounter more basic enforcement obstacles, often lacking essential administrative skills and resources (IMF 2015). The IMF acknowledges this gap while emphasising that tax compliance has emerged as a global priority although nations utilise various tools and capabilities to address it.

## Methodology

### Research design and approach

This study uses an inductive mono-method qualitative research approach, utilising semi-structured interviews and thematic analysis to explore the tax compliance behaviours of SMME owners or managing directors in the North West Province of South Africa. Qualitative research refers to a broad spectrum of viewpoints and approaches seeking to understand how people comprehend, experience, interpret and shape the social world (Sandelowski & Barraso 2007).

Semi-structured interviews with open-ended questions were conducted to determine the tax compliance mindset of the interviewed SMME owners or managing directors. This adaptability is effective for obtaining rich data and achieving a comprehensive understanding of a phenomenon (Hall & Liebenberg 2024:3). It was considered appropriate as the study is attempting to gain a deeper understanding of what motivates SMME owners or managing directors to either comply with tax laws, partially comply with them or not comply with them at all.

This rationale allows for flexibility of data collection, as open-ended questions allow participants to express their views freely (Patton 2015); it allows the researchers to probe deeper into emerging themes and insights (Rubin & Rubin 2011) and offers a collection of rich contextual data that a quantitative method might not capture (Seidman 2013).

This research adopted a phenomenological interpretivism approach to comprehend participants' lived experiences and subjective insights (Smith & Osborn 2015:41). The philosophical basis of the study aligns with the intention to understand how SMME business owners and managing directors perceive and respond to tax compliance requirements.

A qualitative design is appropriate because it addresses emotionally sensitive topics that are difficult to study. Researchers can facilitate conversations about complex issues that traditional research methods often miss by directly engaging with individuals and immersing them in their environments. This method proves particularly useful for examining sensitive topics and intricate challenges that reflect people's experiences in today's complex world (Creswell & Creswell Báez 2021). In qualitative research, the aim is to collect perspectives from a small group of participants based on their viewpoints (Wiid & Diggins 2013).

The research design is meticulously organised to ensure coherence among the research objectives, theoretical

framework, data collection techniques and data analysis approaches. According to Morse et al. (2002:17), this coherence is vital for improving the methodological integrity of the research, which is necessary for yielding valuable insights into the sensitive topic of tax compliance. By harmonising all components of the research design, the study enhances its ability to generate trustworthy and impactful findings.

### Data collection and procedure

A systematic process involving direct engagement with business owners was used in this study to collect data. A qualitative descriptive phenomenology approach was used for the data collection. In qualitative descriptive research, various data collection techniques are employed to explore the characteristics of phenomena, including the participants involved, the context and the events. While semi-structured, in-person interviews are the predominant method for gathering data, researchers also utilise focus groups, telephone interviews and online methods (Doyle et al. 2020:447). Following the acquisition of ethics clearance, the researcher reached out to participants who were owners or directors of SMMEs located in the North West province.

Small, medium and micro-enterprises were selected by employing a random sampling method from the business directory. Each participant was approached using the business contact numbers provided or personal cell phones to assess their interest in participating in the study. After verbal permission had been obtained, participants received a research request letter, a participant information leaflet, a consent form to participate in qualitative interviews and the interview questions by email. Having been provided with telephone numbers by the participants, subsequent communication regarding interview dates was handled via telephone messaging. Afterwards, the participants agreed on the date, time and setting necessary for the interview.

The interviews constituted a cross-sectional investigation conducted between April and July 2024. A total of eight interviews were held. Six of the eight interviews were conducted one on one at a location of the participant's choice, while the remaining two were conducted online. All the interviews were recorded. Flexibility and convenience for participants were prioritised in an attempt to enhance the quality and depth of the collected data as far as possible. The recordings were systematically downloaded and securely stored in a personal folder on OneDrive, protected by a password, to maintain the confidentiality and anonymity of each participant.

### Data analysis

The study adopted a mono-method qualitative approach, utilising a single technique for data collection along with one or more analytical methods (Saunders, Lewis & Thornhill 2009). The primary analytical tool was thematic analysis, which focuses on the specific content captured during data collection (Creswell & Poth 2018). This method emphasises

identifying and interpreting recurring patterns or themes within the dataset, often resulting in new insights and enhanced understanding. Researchers must remain vigilant to prevent their assumptions from clouding their ability to recognise significant themes (Naeem et al. 2023:2). According to Jowsey, Dweng and Weller (2021:472), thematic analysis entails categorising data into distinct codes, organising these codes into broader themes and identifying patterns and relationships among those themes.

Qualitative research involves an interpretive approach, where the researcher personally interprets the information. By utilising open-ended research questions and generating text data, the researcher must analyse the data, categorise it and assign code labels that accurately reflect the content of the text (Creswell & Creswell Báez 2021).

Codes and themes clearly started repeating themselves after transcribing and analysing the first six interviews. Two more interviews were conducted to confirm that no new codes or themes emerged, resulting in a sample size of eight participants. According to Rahimi and Khatooni (2024:5), this saturation is known as code or thematic saturation, also called category saturation. Following the established qualitative research guidelines set by Lincoln and Guba (1985), the researcher implemented thorough measures to uphold the quality and trustworthiness of the study (Nowell et al. 2017:4).

The analysis consisted of four primary stages. Initially, the raw data files were prepared by transcribing each of the eight interviews into a narrative report using Otter.ai. The raw data (recordings) were uploaded to Otter.ai, where the programme transcribed each interview according to its understanding. The programme allowed the researcher to read the transcription while listening to the recording and making corrections where the programme did not transcribe the words correctly. While the transcription was being done, the researcher made notes of potential patterns and repetitive codes. Each interview was saved after the researcher had gone through the full transcription and made corrections where necessary.

Following the transcription, a thorough examination of every narrative report was conducted. Each transcription was meticulously reviewed by the researcher to familiarise herself with the content and to identify patterns in the text, highlighting the quotes that addressed the research objectives. A list of identified codes and quotations was compiled in Excel, and the researcher grouped related codes and quotations into categories. Each category underwent a thorough evaluation to detect opposing viewpoints and to discover novel insights.

Ensuring that preconceived notions did not interfere with the detection of important themes, the transcriptions were submitted to a qualitative data analyst who was proficient in ATLAS.ti for a thorough analysis of the interviews. A final analysis was done using Julius.ai to ensure the researcher had identified all themes and avoided bias.

This analytical approach normally utilises various sources, methods, researchers and theories to validate evidence (Creswell & Poth 2018). Investigator triangulation entails multiple researchers examining a common data set independently. Each researcher contributes distinct insights and expertise, which helps to minimise personal biases and attain a more objective understanding of the data. This method proves especially beneficial in extensive or intricate research endeavours (Oberoi 2024).

In qualitative research, triangulation serves as a common standard for ensuring rigour. Researchers use data triangulation to identify consistency among data gathered from different methods and sources, including observation field notes and interview transcriptions. This approach helps reduce potential errors or biases and improves the accuracy of the data collected and the analysis that was done (Johnson, Adkins & Chauvin 2020:143). The analysis returned 20 distinct codes that were categorised into five overarching themes and 10 sub-themes that closely align with the study's research question and objectives.

## Ethical considerations

Ethical clearance to conduct this research study was obtained from the Economic and Management Sciences Research Ethics Committee (EMS-REC) at North-West University (No. NWU-01957-23-A4). The researchers ensured that all small business owners granted clear permission before starting any work. Each participant signed a consent form prior to their interview, indicating their understanding and agreement to participate. To maintain the safety and privacy of all information, the researchers strictly complied with South Africa's *Protection of Personal Information Act (POPIA)*. The recordings from the interviews were securely stored by immediately saving each interview in a password-protected OneDrive folder with only the researcher who has access to the folder.

## Results

In addressing the research question, 'What factors shape the tax compliance mindset and behaviours of small business owners, influencing their willingness to adhere to or ignore tax laws?' the analysis of the gathered data from owners and managing directors of SMMEs in the North West province of South Africa revealed five primary themes. Each identified theme is supported through sub-themes and codes from the data collected in the eight interviews. This study primarily aimed to examine the business attitudes of SMMEs regarding their intentions, the elements that influence their decisions and their actions related to meeting tax obligations.

The study focused on various small business types, such as sole proprietorships, private companies and close corporations in various industries based in different geographical areas within the North West province. The research aims to assess the owners or managing directors of

SMMEs in the North West province as larger businesses possess the resources to meet their tax requirements. Each participant employed fewer than 50 full-time staff, qualifying them as small enterprises, according to the Department of Small Business Development (2019). All enterprises at the time of the research had been operating for more than 2 years, establishing a strong basis of stability and practical experience. The researchers sought a diverse sample, ensuring participants varied significantly in key characteristics (Bryman et al. 2014).

The study employed a non-probability sampling method known as purposive sampling. This technique aims to strategically select cases or participants that are relevant to the research question. The decision to adopt a purposive strategy was based on the assumption that, in relation to the study's objectives, particular individuals may hold unique and important perspectives on the issues and ideas being examined, which necessitated their inclusion in the sample (Campbell et al. 2020:654).

A total of eight individuals participated in the interviews. The researcher achieved saturation with the sixth participant and conducted two further interviews to ensure no new or relevant information came to the fore. In qualitative research, data saturation represents the point where researchers find that participants have exhausted their ability to offer new information (Saunders et al. 2009).

Morse (2000:4) proposes that phenomenological studies require at least six participants. Alternatively, researchers can collect a wealth of data from each participant by conducting several interviews involving six to 10 participants. Creswell and Poth (2018) further suggested that phenomenological studies should consist of five to 25 interviews (Table 1).

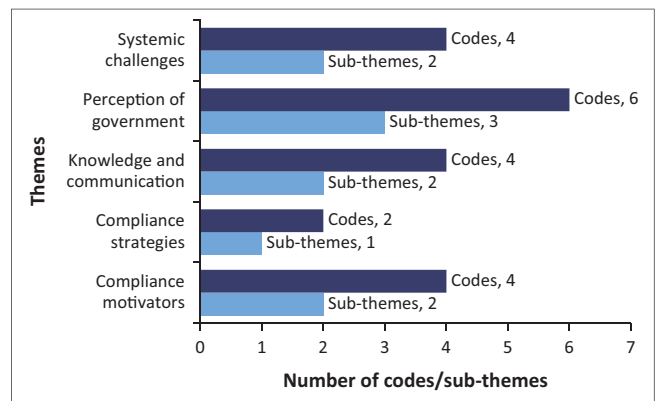
The examination of the interviews conducted revealed five unique themes, as presented in Figure 2 and Table 2.

Figure 2 outlines the key themes and enumerates the sub-themes and codes linked to these primary themes. The analysis of the eight interview results in Table 2 provides an extensive overview of the identified themes, sub-themes and corresponding codes.

Table 2 illustrates a comprehensive overview of the themes, sub-themes and codes that emerged from the analysis of the eight interviews.

**TABLE 1:** Participant information.

Identifier 1	Identifier 2 (Age range)	Identifier 3 (Years in business)	Identifier 4 (Industry)
Participant 1 (P1)	30–39 years	14 years	Law
Participant 2 (P2)	40–49 years	19 years	Information technology
Participant 3 (P3)	50–59 years	20 years	Manufacturing
Participant 4 (P4)	40–49 years	20 years	Hospitality and tourism
Participant 5 (P5)	30–39 years	10 years	Food and retail
Participant 6 (P6)	40–49 years	17 years	Recycling
Participant 7 (P7)	50–59 years	5 years	Renewable energy
Participant 8 (P8)	50–59 years	16 years	Personal care



**FIGURE 2:** Identified themes, sub-themes and codes.

**TABLE 2:** Summary of themes.

Themes	Sub-themes	Codes
Compliance motivators	Fear of legal consequences	Fear of SARS Avoid fines and penalties
	Ethical and moral considerations	Moral obligation Do the right thing
Compliance strategies	Availability of tax loopholes	Use of legal loopholes Underreporting cash transactions
Knowledge and communication	Education and awareness	Need for tax education Lack of awareness of tax laws
	Communication with tax authorities	Difficulty communicating with SARS Long wait times for appointments
Systemic challenges	Complexity of the tax system	Complex tax laws Need for professional help
	Cost of compliance	High compliance costs Financial burden on small businesses
Perception of government	Perception of fairness and equity	Unfair tax system Corruption concerns
	Quality of public services	Poor public services Lack of visible benefits
	Transparency in government spending	Need for transparency Perceived misuse of funds

SARS, South African Revenue Service.

## Discussion of findings

### Compliance motivators and strategies

The evidence from the interactions with the SMME owners suggests that there are two specific factors related to taxation compliance. According to Prof Sharon Smulders of Unisa's College of Accounting Sciences (Van der Merwe 2018), the financial burden of meeting tax obligations is not the only consideration; some South African taxpayers face a psychological challenge, often described as the 'fear factor'. Throughout the interviews, all participants highlighted the 'fear factor', indicating that most would prefer to avoid penalties or even incarceration:

'... I do not want to be harassed by SARS. Because at the end of the day, if you are not tax-compliant, you can go to jail.' (P2)

'... [T]he only thing that's making me comply. Going to jail. Yes, going to jail to get fines for not submitting. So that is what's driving me.' (P3)

'... I try to stay within the law. I do not want to get a fine or go to jail.' (P6)



In response to questions about tax morale and the ethical or moral influences on their tax compliance, none of the participants identified positive or moral-ethical motivations, except for participant P3, who said:

‘... Morally or ethical, I know it’s something that I must do. So, I think if I don’t do it, I will feel bad about it. Because in the Bible, they say you must ...’

Participant P4 also noted, ‘I believe it’s the right thing to do. It’s how we are raised and the things we need to do to support the country and it’s against the law’. Nevertheless, each participant’s ethical and moral viewpoints stem from their concern about potential legal repercussions. Several participants indicated that their compliance is motivated by legal obligations or fear of repercussions rather than moral beliefs:

‘... [O]ther than the above (penalties, tax audits, prosecution sometimes and it’s mandatory), not really....’ (P1)

‘The law requires us to do it, so we have to do it.’ (P8)

According to Ndlovu and Schutte (2024:8), many small business owners are committed to ethical practices. Although this commitment is vital for tax compliance decisions, it does not ensure they will comply, especially in the case of small business owners. The reason for this is that the impact of their intention to act ethically in their tax compliance behaviour is likely to be more pronounced when they have substantial control over their actions.

The insights gathered from the participants indicate their understanding of certain deficiencies within the tax system, particularly highlighting cash transactions as the most apparent loophole, of which they take advantage by omitting some cash transactions from their declarations. Participant P1 articulated that they manage large financial commitments by distributing them across different tax periods, facilitating an even allocation of taxable expenses and avoiding abrupt spikes in tax liabilities during individual periods:

‘When it comes to expenses, we distribute large expenses over tax periods in order to have equal distribution of taxable expenses over tax periods, not having a taxable expense spike in each period so we distributed between the periods so that we can get those... tax returns distributed evenly.’

This approach emphasises the importance of optimising tax efficiency instead of exploiting loopholes.

Participant P2 made it clear that they were leveraging tax loopholes, especially when bringing in electronic technologies and conducting untraceable financial transactions. The participant articulated that when importing electronic technologies, they utilised:

‘[A]ccounts that are not registered in South Africa and [a] way of moving currency from normal Rands to Cryptos. And from those Cryptos, you can move it to other accounts, like Wise accounts or PayPal accounts, then you can pay for equipment that you import through those accounts. And it’s untraceable.’

This implies a purposeful tactic designed to decrease or circumvent tax liabilities.

Upon being asked whether they felt justified in capitalising on these loopholes or opportunities, the same participant shared a somewhat ambiguous viewpoint regarding the moral aspects of these practices, noting:

‘... It’s a difficult one, purely because at the end of the day, taxes are there for a reason and it should be paid. But if you look at the constant situation, is we pay taxes and where’s our tax money going? So it becomes a question of how moral are you towards the tax regulations....’

Participant P5 articulated that small enterprises had to prioritise their longevity and viability, thereby rationalising the utilisation of available tax loopholes and opportunities:

‘Yes. Given the current dissatisfaction with the government’s service delivery, I believe small business owners need to ensure their survival and sustainability.’

When posed the question of whether small businesses would comply more readily with regulations if loopholes were removed, the general view was that:

‘there will always be loopholes, even though if they do take the cash away....’ (P4);

implying that small enterprises may continue to seek methods to reduce their tax obligations despite efforts to eliminate current loopholes.

The interpretation of ‘loopholes’ is often distorted, leading to misunderstandings of what loopholes mean. The complexity inherent in the tax framework causes many business owners to mistakenly view the omission of cash transactions as a loophole when, in reality, it is a clear instance of tax evasion. This misperception generally originates from a lack of understanding of tax legislation principles.

### **Lack of knowledge and communication leading to systemic challenges**

Many individuals who own small businesses do not understand the complexities associated with tax compliance, registration and regulatory frameworks. Insufficient educational initiatives and poor governmental communication result in confusion and a lack of compliance among the populace.

Researchers such as Ramharak (2016) and Sithebe (2022) have extensively explored the connection between tax knowledge and compliance. This exploration is crucial because tax knowledge significantly influences tax compliance. Taxpayers often hesitate to file their tax returns and pay their tax liabilities when they lack a clear understanding of various tax types, laws and administrative procedures (Naape 2023:15).

Small business owners often struggle to understand tax laws, highlighting the necessity for improved education and increased support from tax authorities. Many of them feel unprepared to deal with the tax system without professional assistance. According to the insights shared by the participants, the majority exhibit insufficient knowledge regarding the intricacies of the tax system and its legislative framework.

Participant P3 highlighted their struggles comprehending the tax system:

'... I struggle with it. It's a system for which I'm afraid of...I'm afraid I'm doing something wrong....'

The participants articulate dissatisfaction with the taxation framework, highlighting its inaccessibility for small enterprises and the substantial tax obligations that hamper profitability and business expansion:

'... [T]he complexity of the tax laws, frequent changes in regulations and the high costs associated with hiring professionals to manage tax compliance are significant challenges.' (P5)

'... SARS regulations, it's not just easy for anyone to understand. So you do need assistance with it.' (P7)

'I own a small business, so it's difficult because it's a small income and then you have to be taxed on a small income. So your profit margin is low,... got to pay your rent, your electricity, your overheads are very high. And then on top of it, you've got to be taxed on that as well. So it makes it a bit difficult.' (P8)

Many small business owners still opt to go to SARS branches rather than engage with online platforms. This choice arises from worries about the staff at SARS, who frequently demonstrate insufficient knowledge of their products, poor communication abilities and subpar customer service (Ndlovu & Schutte 2024:10). According to Kamleitner, Korunka and Kirchler (2012:344), the provision of initial support enhances the trust dynamic between tax authorities and taxpayers.

In the opinion of participant P3, SARS appeared 'out of space', and they indicated that they:

'[N]ever receive any communication on how I can improve my compliance or better my business...'

Participants believe that people are not being educated enough to comply with their tax obligations and that: '... SARS should do more one-to-one's with businesses' (P4).

Participant P5 confirmed that there was a lack of awareness among small business owners regarding initiatives by SARS to assist with their compliance status by noting that there was a:

'... Lack of effective communication from the government and limited outreach programmes targeted at small businesses.'

The necessity to '... please hire professionals...' was underscored by the insights of participant P7.

In response to enquiries about how SARS might boost awareness of governmental efforts to help small business owners fulfil their tax duties, several participants pointed out the necessity to:

'... [I]ncrease communication...' (P4), '... set up programmes for small businesses and make the businesses aware...' (P8) and '... educational informing small business owners...' (P1).

Small business owners require improved tax law education and increased assistance from tax authorities. Many struggle to manage the tax system independently and often seek professional help. The intricate nature of the tax system, along with the time and financial costs of compliance, poses significant challenges. As a result, many owners feel pressured to delegate tax-related responsibilities to professionals such as accountants, which further strains their finances.

Although SARS has established several tax awareness programmes, the lack of tax knowledge still acts as a barrier to tax compliance in South Africa and globally. Many South African citizens do not understand the various tax laws and provisions set by the government, leading them to engage tax consultants, which results in additional financial burdens (Naape 2023:15).

Many small businesses hire external professionals for their tax-related duties because tax regulations can be quite complex, they may lack the necessary expertise, and they must meet legal obligations. This situation emphasises the vital importance of expert support in achieving compliance. Frequently, small businesses do not have the required knowledge and resources to navigate complex tax compliance independently, which drives them to seek external help to ensure they meet all regulations.

Unlike the other participants, who handle part of their data recording themselves and seek additional help from external tax professionals, Participant P1 benefits from having an internal bookkeeper to support financial data management. The fees for these outsourced services can range from R12 000.00 to more than R100 000.00 annually, based on the volume of work they performed for different businesses.

Businesses view compliance as a financial burden that affects their operations, hampering their ability and willingness to remain tax compliant.

## Perception of government

A recurring theme among participants was their perception of the government. Most people view SARS and the government as interconnected, despite SARS being a state organ within public administration and an institution distinct from the public service.

In one previous study by Suliman (2022), more than half of the respondents believed that taxes are collected to fund politicians and a corrupt government, while just fewer than half of respondents believed that SARS was disorganised, corrupt, non-responsive, unreasonable, sometimes used for political reasons, ineffective and poorly managed, and that the mismanagement of funds was political, unfair, fraudulent and burdensome. While the investigation primarily examined taxpayers' attitudes towards SARS from 2009 to 2017, the insights obtained from the eight participants suggest that some of these attitudes remain significant.

The analysis reveals significant worries about fairness and corruption within the tax system. Participants frequently express a shared belief in systemic unfairness, with one individual explicitly noting, 'If I think the system is fair, I'm more willing to pay. If it's unfair, it's discouraging and currently it feels quite unfair' (P6). Participants reported that '... corruption goes unchecked...' (P7) and '... mismanagement and corruption within the government...' (P5) are of great concern.

Findings from the study demonstrate a robust correlation between subpar public service delivery and attitudes towards tax compliance. Participant P4 emphasised the evident infrastructure failures, remarking, '... there's no public services, the infrastructure is gone, the healthcare system is gone'. Participant P3 provided practical examples, such as needing to '...fix the potholes in front of your business...' despite meeting tax obligations for those services. Additionally, participant P3 highlighted the disconnect between tax payments and visible benefits, stating that they '... donate bricks to a school...' while still paying taxes for educational infrastructure.

Ndlovu and Schutte (2024:12) mention the psychological tax contract between the state and the taxpayer. They further elaborate that this contract means that it is essential for the state to facilitate the effective provision of public goods. When government institutions deliver services effectively, it fosters higher tax morale and compliance among citizens. In contrast, poor service delivery can lead citizens to explore other avenues for redistribution. This is notable from numerous concerns that emerged about the government's lack of accountability and improper use of tax funds. One participant pointed out, 'Business owners are audited on minor discrepancies. However, there seems to be no accountability on how the government spends or misuses tax money' (P1). Participants have shown frustration over perceived misallocation of funds, as one participant highlighted, 'If I knew my money is going where it is supposed to, I would have no problem paying taxes' (P3).

## Recommendations

The findings from this research hold important implications for the practical application and policy development surrounding tax compliance in SMMEs. The research highlights the need for tailored support initiatives that address SMMEs' challenges in managing tax obligations. This strategy should include providing accessible resources and training to improve their understanding and compliance abilities.

The research indicates that simplifying tax laws and reducing administrative hurdles encourage compliance. Policymakers could consider implementing tax incentives and streamlining processes to make compliance easier for small businesses. Establishing partnerships between tax authorities and SMMEs can also improve trust and compliance. Regular communication, feedback processes and advisory committees can facilitate this improvement.

The findings from this research contribute to a better understanding of the factors influencing tax compliance and offer practical recommendations to improve compliance rates among SMMEs, thereby promoting economic growth and development. Implementing these recommendations can help establish a framework that supports SMMEs, improving their compliance with tax regulations and fostering economic growth.

## Post-interview observations

A significant concern emerged regarding the reliability of the collected data when the participants disclosed their tax avoidance strategies after the interview recordings stopped, showing a clear gap between their official answers and actual practices. After the formal interview, this open discussion highlights the topic's sensitivity and underscores the challenges in obtaining reliable data. These challenges present valuable opportunities for future research to address these gaps and build on existing evidence.

## Limitations

The investigation into tax compliance among SMMEs offers significant insights, but it also faces multiple challenges. The research concentrates on the North West province in South Africa and includes a small number of participants, which limits the ability to apply the findings to a broader population. From a technical perspective, focusing on the formal sector and using English-only interviews may have restricted the depth and range of participant responses.

The study encounters limitations as it focuses solely on the views of SMME owners and managers, disregarding the perspectives of taxation authorities and policymakers. This limited approach could cause the research to miss crucial insights from significant stakeholders in the tax ecosystem, thereby restricting a more complete understanding of the issues.

## Conclusion

This study explored the complex relationship between SMMEs and tax compliance, focusing primarily on understanding the business mindset that shapes compliance behaviours. The investigation of SMME owners' lived experiences, motivations and challenges has yielded valuable insights that addressed the research objectives comprehensively.

Fear of penalties and imprisonment drives SMME owners to comply with tax regulations more than moral or ethical considerations. Small, medium and micro-enterprise owners primarily comply with tax regulations because they fear penalties and imprisonment rather than for moral or ethical reasons. Many business owners use tax loopholes by engaging in cash transactions and utilising international financial services such as Wise and PayPal to minimise their tax liabilities. They often believe that tax loopholes will



always exist, allowing them to lower their tax obligations even if current loopholes are closed.

Small, medium and micro-enterprise owners often find it challenging to understand the tax system's complexity and related legislation. The perceived lack of effective educational programmes and poor communication from tax authorities significantly influence tax compliance issues. As a result, many SMME owners seek professional assistance with managing their tax responsibilities, adding to the financial pressure on their businesses.

Many SMME owners perceive the tax system as unfair, pursued by corruption and poor management of public resources. The lack of adequate public services, as well as the gap between tax payments and received benefits, greatly influences their negative views on the effectiveness of government. The overall belief in unfairness and administrative inefficiency discourages business owners from voluntarily complying with their tax obligations.

These findings highlight the importance of improving tax education, ensuring clearer communication from tax authorities and addressing perceived injustices and inefficiencies in government operations to promote tax compliance among SMME owners.

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### Authors' contributions

J.M. contributed to the conceptualisation, methodology, formal analysis, investigation, writing, visualisation, project administration, resources and writing. D.S. contributed to visualisation, validation, writing and supervision. J.M. conducted the research as part of her Masters studies, under the supervision of D.S.

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### Data availability

The data that support the findings of this study are available from the corresponding author, D.S., upon reasonable request.

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