Review of Tax Research and Identifying Priority Research of Tax in South Africa

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This presentation (and the framing paper)

- Types of tax analysis
- Some existing South African tax research
  - "Traditional" economic analysis
  - Work on compliance costs, rights, and procedures
- Future research areas
Areas of tax research

• Incidence (who bears the economic burden of tax)
  – Very little work in S-A, perhaps due to lack of reforms

• Distribution of taxes and benefits across households
  – Also between groups of people
Areas of tax research, cont’d

• Causal impacts of taxes on taxpayer behaviour
  – Need to have exogenous variation in tax treatments
  – E.g. Difference-in-differences, bunching
  – Combined most often with large administrative taxpayer-level data sets
Areas of tax research, cont’d

• Work on tax systems
  – Impacts of other features of the tax system apart from rates and bases
  – Administrative procedures, enforcement, audits

• Taxes as a corrective device
  – (Environmental) externalities and internalities (sin taxes)
S-A tax studies: Individual income tax

• Kemp (2017): studies the elasticity of taxable income using "bracket creep"; elasticity 0.25

• Papers on ETI utilizing either individual (Ranchhod and Finn 2015) or firm-level (Ebrahim et al 2017) data

• Incidence analysis along the lines of CEQ approach by Inchauste et al. (2015)
Indirect taxes

• van Oordt (2018): compares direct transfers and zero rating in the VAT using a consumption demand system

• Alton et al. (2014) a CGE analysis of a carbon tax

• Work on sugar tax (Manyema et al., 2014) and tobacco tax (Koch and Steven, 2018)
Corporate income tax

• Boonzaaier et al. (2018): responses of firms to SBC regime probably due to tax planning

• Lediga et al. (2018): Impact of enforcement (merging of tax and business registers)
  – Positive impact of tax-paying firms, but the new firms continued to report lower sales

• Work on determining the scope of international tax planning by multinationals (Reynolds and Wier, 2016; Wier 2018)
Sandford et al (1995); Evans et al (2014): The studies suggested that the VAT is the most burdensome of all business taxes.

VAT Compliance costs tend to be disproportionately high e.g. unpaid helper’s time, tax practitioners’ fees and incidental costs.

Improving compliance and VAT revenues using legal designs and administrative remedies e.g. using technological solutions that support electronic invoicing.

Woellner et al (2001): Consider studying other compliance costs e.g. psychological costs in meeting their tax obligations.

Erero & Gavin (2015): Used computable general equilibrium model to investigate the impact of dividend tax increase on the South African economy.

Pope (2018): The favourability of tax concessions for the small business sector and how it assist them to manage their businesses enhanced quality and accuracy of record keeping and access to better knowledge of financial affairs.


Smulders et al. (2007): This study on turnover tax and cost of compliance.

- It was estimated that it took small businesses on average of 255 hours per year to comply with tax legislation.
- Turnover tax respondents spent just under two thirds of the time (155 hours) to comply with their tax obligations compared to similar businesses not registered for this tax.
- The mean gross tax compliance cost for small businesses is R63 328 per year (R53 356 internal plus R9 882 external tax service provider costs).
Corrective Taxation, tax mix and tax simplification

- Alton et al. (2014): The impact of the introduction of carbon tax and its impact to emission reduction, employment and welfare distribution.

- Manyema et al. (2014): Using consumption data to test the impact of taxing sugary drinks and its impact to societal wellbeing.

- De Wet et al. (2005): Determine whether a mix between direct and indirect tax can be linked to optimal growth and prosperity.
  - The scope of government to directly influence economic growth through taxes is limited.

  - Tax system, tax law, taxpayer communication and tax policy.
Taxpayer Rights in South Africa

Fritz (2018): South African 'pay now, argue later' rule unreasonably and unjustifiably limits a taxpayer's right of access to the courts.
A comparison with Nigeria

Keulder (2015): A taxpayer that is faced with a situation where an assessment is raised by SARS, which does not provide the grounds for raising the assessment
Income tax-related search-and-seizure provisions
Using subjective discretion to conduct warrantless searches
Taking Stock

- Literature on SA tax expanding
- Much of the work very recent, also because new data sets available
- Few papers published in peer-reviewed journals
  - Many will have good chances in getting published
Thoughts on Future Tax Research.

- **Tax Incidence studies**
- *Distributional impacts of the fiscal system* to policy reforms, taking into account *dynamic impact*.
- *Causal analyses of the impacts of taxation* on *informal sector activities*
- Behavioural responses to taxes and tax incentives by sole proprietors and partnerships
- Impacts of *tax incentives on small and medium-sized firms (SMEs)*
Thoughts on Future Tax Research.

- Microsimulations for taxation of firms and their owners.
- Taxation of the digital economy
- Tax compliance costs for SME’s
- Tax system complexity and simplification
- The role of behavioural economics in tax compliance
- Measuring tax gap
- Evaluation of compliance interventions, including audits.
- Tax administrative efficiency of local governments
- International best practices
- Using randomized controlled trial to measure the effectiveness of interventions
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