



# 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.
- Calitz & Jansen (2016): Considers the impact of VAT zero-rating on the poor and tax revenue collection.

## Compliance and Corporate Income Tax (CIT)

- 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
- Boonzaaier et.al. (2018): The consequences of Small Business Tax Regime for behaviour of target group firms using the bunching approach to determine response to the incentive.
- 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.
- Steyn & Stiglingh (2016): Experience of tax simplification/ complexity in South Africa
  - 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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